

CACI INTERNATIONAL INC /DE/
Form 10-Q
February 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2016

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 001-31400

CACI International Inc

(Exact name of registrant as specified in its charter)

Delaware 54-1345888
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

1100 North Glebe Road, Arlington, VA 22201

(Address of principal executive offices)

(703) 841-7800

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No .

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock, as of January 31, 2017: CACI International Inc Common Stock, \$0.10 par value, 24,393,563 shares.

CACI INTERNATIONAL INC

	PAGE
PART I: <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Operations (Unaudited) for the Three Months Ended December 31, 2016 and 2015</u>	3
<u>Consolidated Statements of Operations (Unaudited) for the Six Months Ended December 31, 2016 and 2015</u>	4
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Six Months Ended December 31, 2016 and 2015</u>	5
<u>Consolidated Balance Sheets (Unaudited) as of December 31, 2016 and June 30, 2016</u>	6
<u>Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended December 31, 2016 and 2015</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	27
PART II: <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	28
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 3. <u>Defaults Upon Senior Securities</u>	28
Item 4. <u>Mine Safety Disclosures</u>	28
Item 5. <u>Other Information</u>	29
Item 6. <u>Exhibits</u>	29
<u>Signatures</u>	30

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

CACI INTERNATIONAL INC

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(amounts in thousands, except per share data)

	Three Months Ended December 31,	
	2016	2015
Revenue	\$1,057,530	\$830,437
Costs of revenue:		
Direct costs	705,321	547,140
Indirect costs and selling expenses	253,822	213,144
Depreciation and amortization	18,132	14,670
Total costs of revenue	977,275	774,954
Income from operations	80,255	55,483
Interest expense and other, net	12,325	8,180
Income before income taxes	67,930	47,303
Income taxes	25,510	16,851
Net income	\$42,420	\$30,452
Basic earnings per share	\$1.74	\$1.26
Diluted earnings per share	\$1.69	\$1.23
Weighted-average basic shares outstanding	24,387	24,246
Weighted-average diluted shares outstanding	25,069	24,786

See Notes to Unaudited Consolidated Financial Statements

CACI INTERNATIONAL INC

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(amounts in thousands)

	Six Months Ended December 31,	
	2016	2015
Revenue	\$2,130,810	\$1,652,879
Costs of revenue:		
Direct costs	1,433,542	1,084,564
Indirect costs and selling expenses	511,160	418,844
Depreciation and amortization	36,195	29,481
Total costs of revenue	1,980,897	1,532,889
Income from operations	149,913	119,990
Interest expense and other, net	24,814	17,362
Income before income taxes	125,099	102,628
Income taxes	46,016	37,544
Net income	\$79,083	\$65,084
Basic earnings per share	\$3.25	\$2.69
Diluted earnings per share	\$3.16	\$2.63
Weighted-average basic shares outstanding	24,363	24,227
Weighted-average diluted shares outstanding	24,998	24,754

See Notes to Unaudited Consolidated Financial Statements

CACI INTERNATIONAL INC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(amounts in thousands)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net income	\$42,420	\$30,452	\$79,083	\$65,084
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(6,424)	(3,337)	(10,126)	(7,747)
Change in fair value of interest rate swap agreements, net of tax	10,045	3,832	12,899	798
Other comprehensive (loss) income, net of tax	3,621	495	2,773	(6,949)
Comprehensive income	\$46,041	\$30,947	\$81,856	\$58,135

See Notes to Unaudited Consolidated Financial Statements

CACI INTERNATIONAL INC

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(amounts in thousands, except per share data)

	December 31, 2016	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$72,650	\$49,082
Accounts receivable, net	717,721	803,817
Prepaid expenses and other current assets	69,679	68,939
Total current assets	860,050	921,838
Goodwill	2,571,297	2,585,343
Intangible assets, net	254,481	275,372
Property and equipment, net	86,406	81,362
Supplemental retirement savings plan assets	88,721	89,937
Accounts receivable, long-term	7,393	8,330
Other long-term assets	28,817	25,159
Total assets	\$3,897,165	\$3,987,341
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$67,456	\$53,965
Accounts payable	39,293	95,270
Accrued compensation and benefits	212,480	228,362
Other accrued expenses and current liabilities	179,705	187,579
Total current liabilities	498,934	565,176
Long-term debt, net of current portion	1,292,348	1,402,079
Supplemental retirement savings plan obligations, net of current portion	80,685	76,995
Deferred income taxes	261,956	248,458
Other long-term liabilities	67,283	87,320
Total liabilities	2,201,206	2,380,028
COMMITMENTS AND CONTINGENCIES		
Shareholders' equity:		
Preferred stock \$0.10 par value, 10,000 shares authorized, no shares issued	—	—
Common stock \$0.10 par value, 80,000 shares authorized; 41,828 shares issued and 24,393 outstanding at December 31, 2016 and 41,758 shares issued and 24,323 outstanding at June 30, 2016	4,183	4,176
Additional paid-in capital	565,106	558,324
Retained earnings	1,741,031	1,661,948
Accumulated other comprehensive loss	(38,310)	(41,083)
Treasury stock, at cost (17,435 and 17,435 shares, respectively)	(576,186)	(576,187)
Total CACI shareholders' equity	1,695,824	1,607,178
Noncontrolling interest	135	135
Total shareholders' equity	1,695,959	1,607,313

Total liabilities and shareholders' equity	\$3,897,165	\$3,987,341
--	-------------	-------------

See Notes to Unaudited Consolidated Financial Statements

6

CACI INTERNATIONAL INC

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(amounts in thousands)

	Six Months Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$79,083	\$65,084
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	36,195	29,481
Amortization of deferred financing costs	2,252	1,152
Loss on disposal of fixed assets	975	—
Stock-based compensation expense	10,557	8,473
Deferred income tax expense	5,081	12,045
Equity in earnings of unconsolidated ventures	(103)	(98)
Changes in operating assets and liabilities, net of effect of business acquisitions:		
Accounts receivable, net	71,080	35,216
Prepaid expenses and other assets	1,649	(7,170)
Accounts payable and other accrued expenses	(58,873)	11,870
Accrued compensation and benefits	(15,339)	(16,998)
Income taxes payable and receivable	(391)	(2,768)
Supplemental retirement savings plan obligations and other long-term liabilities	3,184	(647)
Net cash provided by operating activities	135,350	135,640
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(21,826)	(7,642)
Cash paid for business acquisitions, net of cash acquired	(5,605)	(15,578)
Proceeds from net working capital refund of acquired business	13,619	—
Proceeds from equity method investments	4,681	—
Other	1,051	(684)
Net cash used in investing activities	(8,080)	(23,904)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings under bank credit facilities	240,500	154,488
Principal payments made under bank credit facilities	(338,991)	(228,982)
Proceeds from employee stock purchase plans	2,262	1,577
Repurchases of common stock	(2,243)	(1,689)
Payment of taxes for equity transactions	(3,632)	(2,560)
Other	—	451
Net cash used in financing activities	(102,104)	(76,715)
Effect of exchange rate changes on cash and cash equivalents	(1,598)	(1,388)
Net increase in cash and cash equivalents	23,568	33,633
Cash and cash equivalents, beginning of period	49,082	35,364
Cash and cash equivalents, end of year	\$72,650	\$68,997
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for income taxes, net of refunds	\$41,273	\$28,237
Cash paid during the period for interest	\$22,512	\$16,362
Non-cash financing and investing activities:		

Accrued capital expenditures	\$1,482	\$266
------------------------------	---------	-------

See Notes to Unaudited Consolidated Financial Statements

7

CACI INTERNATIONAL INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of CACI International Inc and subsidiaries (CACI or the Company) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and include the assets, liabilities, results of operations, comprehensive income and cash flows for the Company, including its subsidiaries and ventures that are majority-owned or otherwise controlled by the Company. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading. All intercompany balances and transactions have been eliminated in consolidation.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and amounts included in other current assets and current liabilities that meet the definition of a financial instrument approximate fair value because of the short-term nature of these amounts. The fair value of the Company's debt outstanding as of December 31, 2016 under its bank credit facility approximates its carrying value. The fair value of the Company's debt under its bank credit facility was estimated using Level 2 inputs based on market data of companies with a corporate rating similar to CACI's that have recently priced credit facilities. See Notes 6 and 12.

In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments and reclassifications (all of which are of a normal, recurring nature) that are necessary for the fair presentation of the periods presented. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's latest annual report to the SEC on Form 10-K for the year ended June 30, 2016. The results of operations for the three and six months ended December 31, 2016 are not necessarily indicative of the results to be expected for any subsequent interim period or for the full fiscal year.

2. Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-01, Clarifying the Definition of a Business, which revises the definition of a business and provides guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance is effective for the fiscal year, and interim periods within that fiscal year, beginning after December 15, 2017. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for share-based payments, including income tax consequences and classification on the statement of cash flows. Under the new standard, all excess tax benefits and tax deficiencies will be recognized as income tax expense or benefit in the income statement as discrete items in the reporting period in which they occur. Additionally, excess tax benefits will be classified as an operating activity on the statement of cash flows. In regards to forfeitures, the entity can make an accounting policy election to either recognize forfeitures as they occur or estimate the number of awards expected to be forfeited. The guidance in ASU 2016-09 is effective for the fiscal year, and interim periods within that fiscal year, beginning after December 15, 2016. Early adoption is

permitted in any interim or annual period, with adjustments reflected as of the beginning of the fiscal year of adoption. The Company early adopted this standard during the fourth quarter of FY16, and therefore reported the impact as though the ASU had been adopted on July 1, 2015.

Upon adoption, the Company recognized excess tax benefits of \$0.1 million and \$0.9 million during the three and six months ended December 31, 2015 as a reduction to tax expense in the Consolidated Statements of Operations, as though ASU 2016-09 had been in effect since the beginning of FY16. Consequently, this resulted in an increase in net income, an increase in earnings per share and a decrease in the annual effective tax rate. In addition, the excess tax benefits that were previously presented as a financing activity on the Consolidated Statements of Cash Flows are now presented as an operating activity, with periods prior to FY16 retrospectively adjusted. With respect to forfeitures, the Company will continue to estimate the number of awards expected to be forfeited in accordance with our existing accounting policy.

CACI INTERNATIONAL INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

In February 2016, the FASB issued ASU No. 2016-02, Leases, which amends the existing guidance on accounting for leases. The new standard requires lessees to put virtually all leases on the balance sheet by recognizing lease assets and lease liabilities. Lessor accounting is largely unchanged from that applied under previous guidance. The amended guidance is effective for the fiscal year, and interim periods within that fiscal year, beginning after December 15, 2018, and requires a modified retrospective approach. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. On July 9, 2015, the FASB approved a one-year deferral of the effective date of ASU 2014-09 to annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2017, using either a full retrospective approach or a modified approach. Early adoption up to the original effective date is permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and has not yet determined the method by which the Company will adopt the standard.

3. Acquisitions

NSS Acquisition

On February 1, 2016, the Company acquired 100 percent of the outstanding shares of L-3 National Security Solutions, Inc. and L-3 Data Tactics Corporation (together, "NSS"). NSS is a prime mission partner to the U.S. Department of Defense (DoD), U.S. government intelligence agencies, and U.S. federal civilian agencies. The acquisition will expand CACI's opportunities in many of our key market areas and expand our current customer base. CACI financed the acquisition by borrowing \$250.0 million under its existing revolving facility and by entering into an eighth amendment and first incremental facility amendment to its credit facility to allow for the incurrence of \$300.0 million in additional term loans.

The initial purchase consideration paid at closing to acquire NSS was \$550.0 million plus \$11.2 million representing a preliminary net working capital adjustment. Subsequent to closing, CACI received a refund of \$13.6 million for the final net working capital adjustment and is expecting an additional \$5.7 million refund for tax-related adjustments.

CACI is in the process of finalizing its valuation of all the assets acquired and liabilities assumed. As the amounts recorded for certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained about the facts and circumstances that existed at the acquisition date. The final determination of fair values of certain assets and liabilities will be completed within the measurement period of up to one year from the acquisition date as permitted under GAAP. The NSS acquisition could necessitate the need to use the full one year measurement period to adequately analyze and assess a number of factors used in establishing the asset and liability fair values as of the acquisition date, including receivables and deferred revenue, contractual obligations, income tax

obligations, and certain reserves. Any potential adjustments made could be material in relation to the preliminary values presented in the table below.

During the six months ended December 31, 2016 we continued to obtain information to refine estimated fair values. As a result of the additional information, the Company recorded measurement period adjustments that increased other current assets, receivables and other accrued expenses by \$2.6 million, \$1.2 million and \$0.6 million, respectively, reduced the purchase consideration by \$5.5 million and reduced goodwill by \$8.6 million.

CACI INTERNATIONAL INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Based on the Company's preliminary valuation, the total estimated consideration of \$541.9 million has been allocated to assets acquired and liabilities assumed as follows (in thousands):

Cash and cash equivalents	\$2,596
Accounts receivable	211,055
Prepaid expenses and other current assets	14,628
Property and equipment	21,320
Intangible assets	110,500
Goodwill	359,088
Other long-term assets	437
Accounts payable	(57,616)
Accrued compensation and benefits	(38,953)
Other accrued expenses and current liabilities	(38,116)
Deferred income taxes	(37,796)
Other long-term liabilities	(5,280)
Total estimated consideration	\$541,863

The goodwill of \$359.1 million is largely attributable to the assembled workforce of NSS and expected synergies between the Company and NSS. The estimated fair value attributed to intangible assets, which consists of customer contracts and related customer relationships, is being amortized on an accelerated basis over approximately 15 years. 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. Of the value attributed to goodwill and intangible assets, \$47.7 million is deductible for income tax purposes.

Other Acquisition

On October 1, 2016, CACI Limited acquired a business in the United Kingdom that provides outsourced database managed services and associated database segmentation and analytics for large corporate customers. The purchase consideration for this business is approximately \$2.8 million, which includes initial cash payments, deferred consideration and contingent consideration to be paid upon achieving certain metrics.

4. Intangible Assets

Intangible assets consisted of the following (in thousands):

June 30,

	December	
	31,	
	2016	2016
Customer contracts and related customer relationships	\$635,004	\$635,826
Acquired technologies	28,436	28,074
Covenants not to compete	3,278	3,321
Other	1,535	1,551
Intangible assets	668,253	668,772
Accumulated amortization:		
Customer contracts and related customer relationships	(383,327)	(363,412)
Acquired technologies	(26,147)	(25,693)
Covenants not to compete	(3,231)	(3,245)
Other	(1,067)	(1,050)
Less accumulated amortization	(413,772)	(393,400)
Total intangible assets, net	\$254,481	\$275,372

Intangible assets are primarily amortized on an accelerated basis over periods ranging from one to fifteen years. The weighted-average period of amortization for all customer contracts and related customer relationships as of December 31, 2016 is 14.1 years, and the weighted-average remaining period of amortization is 11.6 years. The weighted-average period of amortization for acquired technologies as of December 31, 2016 is 9.6 years, and the weighted-average remaining period of amortization is 6.1 years.

CACI INTERNATIONAL INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Expected amortization expense for the remainder of the fiscal year ending June 30, 2017, and for each of the fiscal years thereafter, is as follows (in thousands):

Fiscal year ending June 30,	Amount
2017 (six months)	\$ 19,383
2018	36,208
2019	31,551
2020	27,088
2021	23,896
Thereafter	116,355
Total intangible assets, net	\$ 254,481

5. Goodwill

The changes in the carrying amount of goodwill for the year ended June 30, 2016 and the six months ended December 31, 2016 are as follows (in thousands):

	Domestic	International	Total
Balance at June 30, 2015	\$ 2,108,768	\$ 81,048	\$ 2,189,816
Business acquisitions	378,380	29,939	408,319
Foreign currency translation	—	(12,792)	(12,792)
Balance at June 30, 2016	2,487,148	98,195	2,585,343
Business acquisitions	(8,635)	2,220	(6,415)
Foreign currency translation	—	(7,631)	(7,631)
Balance at December 31, 2016	\$ 2,478,513	\$ 92,784	\$ 2,571,297

6. Long-term Debt

Long-term debt consisted of the following (in thousands):

	December 31, 2016	June 30, 2016
Bank credit facility – term loans	\$ 1,019,341	\$ 1,032,833
Bank credit facility – revolver loans	355,000	440,000

Principal amount of long-term debt	1,374,341	1,472,833
Less unamortized debt issuance costs	(14,537)	(16,789)
Total long-term debt	1,359,804	1,456,044
Less current portion	(67,456)	(53,965)
Long-term debt, net of current portion	\$1,292,348	\$1,402,079

Bank Credit Facility

The Company has a \$1,981.3 million credit facility (the Credit Facility), which consists of an \$850.0 million revolving credit facility (the Revolving Facility) and a \$1,131.3 million term loan (the Term Loan). The Revolving Facility has subfacilities of \$100.0 million for same-day swing line loan borrowings and \$25.0 million for stand-by letters of credit. At any time and so long as no default has occurred, the Company has the right to increase the Revolving Facility or the Term Loan in an aggregate principal amount of up to the greater of \$400.0 million or an amount subject to 2.75 times senior secured leverage, calculated assuming the Revolving Facility is fully drawn, with applicable lender approvals. The Credit Facility is available to refinance existing indebtedness and for general corporate purposes, including working capital expenses and capital expenditures.

The Credit Facility was amended during the third quarter of FY16 in connection with the Company's acquisition of NSS (see Note 3). CACI financed the transaction by borrowing \$250.0 million under its existing Revolving Facility and by entering into an eighth amendment and first incremental facility amendment to its Credit Facility to allow for the incurrence of \$300.0 million in additional Term Loans.

CACI INTERNATIONAL INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The Revolving Facility is a secured facility that permits continuously renewable borrowings of up to \$850.0 million. As of December 31, 2016, the Company had \$355.0 million outstanding under the Revolving Facility, no borrowings on the swing line and an outstanding letter of credit of \$0.4 million. The Company pays a quarterly facility fee for the unused portion of the Revolving Facility.

The Term Loan is a five-year secured facility under which principal payments are due in quarterly installments of \$13.5 million through June 30, 2018 and \$27.0 million thereafter until the balance is due in full on June 1, 2020. As of December 31, 2016, the Company had \$1,019.3 million outstanding under the Term Loan.

The interest rates applicable to loans under the Credit Facility are floating interest rates that, at the Company's option, equal a base rate or a Eurodollar rate plus, in each case, an applicable rate based upon the Company's consolidated total leverage ratio. As of December 31, 2016, the effective interest rate, including the impact of the Company's floating-to-fixed interest rate swap agreements and excluding the effect of amortization of debt financing costs, for the outstanding borrowings under the Credit Facility was 3.22 percent.

The Credit Facility requires the Company to comply with certain financial covenants, including a maximum senior secured leverage ratio, a maximum total leverage ratio and a minimum fixed charge coverage ratio. The Credit Facility also includes customary negative covenants restricting or limiting the Company's ability to guarantee or incur additional indebtedness, grant liens or other security interests to third parties, make loans or investments, transfer assets, declare dividends or redeem or repurchase capital stock or make other distributions, prepay subordinated indebtedness and engage in mergers, acquisitions or other business combinations, in each case except as expressly permitted under the Credit Facility. As of December 31, 2016, the Company was in compliance with all of the financial covenants. A majority of the Company's assets serve as collateral under the Credit Facility.

All debt issuance costs are being amortized from the date incurred to the expiration date of the Credit Facility.

Cash Flow Hedges

The Company periodically uses derivative financial instruments as part of a strategy to manage exposure to market risks associated with interest rate fluctuations. The Company has entered into several floating-to-fixed interest rate swap agreements for an aggregate notional amount of \$900.0 million which hedge a portion of the Company's floating rate indebtedness. The swaps mature at various dates through 2022. The Company has designated the swaps as cash flow hedges. Unrealized gains are recognized as assets while unrealized losses are recognized as liabilities. The interest rate swap agreements are highly correlated to the changes in interest rates to which the Company is exposed. Unrealized gains and losses on these swaps are designated as effective or ineffective. Realized gains and losses in connection with each required interest payment are reclassified from accumulated other comprehensive income or loss to interest expense. The Company does not hold or issue derivative financial instruments for trading purposes.

The effect of derivative instruments in the consolidated statements of operations and accumulated other comprehensive loss for the three and six months ended December 31, 2016 and 2015 is as follows (in thousands):

Three Months Ended	Six Months Ended
-----------------------	---------------------

Edgar Filing: CACI INTERNATIONAL INC /DE/ - Form 10-Q

	December 31,		December 31,	
	2016	2015	2016	2015
Gain (loss) recognized in other comprehensive income	\$7,920	\$1,440	\$8,525	\$(4,016)
Amounts reclassified to earnings from accumulated other				
comprehensive loss	2,125	2,392	4,374	4,814
Net current period other comprehensive income	\$10,045	\$3,832	\$12,899	\$798

CACI INTERNATIONAL INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The aggregate maturities of long-term debt at December 31, 2016 are as follows (in thousands):

Twelve months ending December 31,	
2017	\$67,456
2018	80,947
2019	107,930
2020	1,118,008
Principal amount of long-term debt	1,374,341
Less unamortized debt issuance costs	(14,537)
Total long-term debt	\$1,359,804

7. Commitments and Contingencies

The Company is involved in various lawsuits, claims, and administrative proceedings arising in the normal course of business. Management is of the opinion that any liability or loss associated with such matters, either individually or in the aggregate, will not have a material adverse effect on the Company's operations and liquidity.

Government Contracting

Payments to the Company on cost-plus-fee and time-and-materials contracts are subject to adjustment upon audit by the Defense Contract Audit Agency (DCAA) and other government agencies that do not utilize DCAA's services. The DCAA is currently nearing completion of its audits of the Company's incurred cost submissions for the year ended June 30, 2011 and an intelligence agency is nearing completion of its audit of direct costs on selected contracts through our fiscal year ended June 30, 2012. DCAA audits of our incurred cost submissions for the year ended June 30, 2012 have commenced, and an intelligence agency has commenced audits of direct costs on selected contracts through our fiscal year ended June 30, 2015. In the opinion of management, adjustments that may result from these audits and the audits not yet started are not expected to have a material effect on the Company's financial position, results of operations, or cash flows as the Company has accrued its best estimate of potential disallowances. Additionally, the DCAA continually reviews the cost accounting and other practices of government contractors, including the Company. In the course of those reviews, cost accounting and other issues are identified, discussed and settled.

On March 26, 2012, the Company received a subpoena from the Defense Criminal Investigative Service seeking documents related to one of the Company's contracts for the period of January 1, 2007 through March 26, 2012. The Company has provided documents responsive to the subpoena and is cooperating fully with the government's investigation. The Company has accrued its current best estimate of the likely outcome within its estimated range of zero to \$3.9 million.

On April 9, 2012, the Company received a letter from the Department of Justice (DoJ) informing the Company that the DoJ is investigating whether the Company violated the civil False Claims Act by submitting false claims to receive federal funds pursuant to a GSA contract. Specifically, the DoJ is investigating whether the Company failed

to comply with contract requirements and applicable regulations by improperly billing for certain contracting personnel under the contract. The Company has not accrued any liability as based on its present knowledge of the facts, it does not believe an unfavorable outcome is probable.

We are also pursuing appeals at the ASBCA of determinations and demands made by the DCMA associated with questioned direct costs from DCAA audits of our incurred cost submissions for our fiscal years ending June 30 2006, 2007, and 2008. The Company has accrued its current best estimate of the likely outcome within its estimated range of zero to \$1.0 million.

Virginia Sales and Use Tax Audit

The Company is under audit for sales and use tax related issues by the Commonwealth of Virginia. The Company has accrued its current best estimate of the likely outcome within its estimated range of \$1.0 million to \$2.5 million.

CACI INTERNATIONAL INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

8. Stock-Based Compensation

Stock-based compensation expense recognized, together with the income tax benefits recognized, is as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Total stock-based compensation related to RSUs included in				
indirect costs and selling expense	\$5,660	\$4,835	\$10,557	\$8,473
Income tax benefit recognized for stock-based compensation				
expense	\$2,125	\$1,734	\$3,883	\$3,177

Under the terms of its 2016 Amended and Restated Incentive Compensation Plan (the 2016 Plan), the Company may issue, among others, non-qualified stock options, restricted stock, RSUs, SSARs, and performance awards, collectively referred to herein as equity instruments. The 2016 Plan was approved by the Company's stockholders in November 2016 and amended and restated the 2006 Stock Incentive Plan (the 2006 Plan) which was due to expire at the end of the ten-year period. Previous grants were made under the 2006 Plan, and equity instruments granted prior to approval of the 2016 Plan continue to be governed by the terms of the 2006 Plan. During the periods presented all equity instrument grants were made in the form of RSUs. Other than performance-based RSUs (PRsUs) which contain a market-based element, the fair value of RSU grants was determined based on the closing price of a share of the Company's common stock on the date of grant. The fair value of RSUs with market-based vesting features was also measured on the grant date, but was done so using a binomial lattice model.

Annual grants under the 2016 Plan, and previously the 2006 Plan, are generally made to the Company's key employees during the first quarter of the Company's fiscal year and to members of the Company's Board of Directors during the second quarter of the Company's fiscal year. With the approval of its Chief Executive Officer, the Company also issues equity instruments to strategic new hires and to employees who have demonstrated superior performance.

In September 2014, the Company made its annual grant to key employees consisting of 180,570 PRsUs. The final number of such PRsUs that are earned by participants and vest is based on the achievement of a specified earnings per share (EPS) for the year ended June 30, 2015 and on the average share price of Company stock for the 90 day period ending September 23, 2015, 2016 and 2017 as compared to the average share price for the 90 day period ended September 23, 2014. The specified EPS for the year ended June 30, 2015 was met and the average share price of the Company's stock for the 90 day periods ending September 23, 2015 and September 23, 2016 exceeded the average share price of the Company's stock for the 90 day period ended September 23, 2014, resulting in an additional 26,957 RSUs earned by participants.

In September 2015, the Company made its annual grant to key employees consisting of 208,160 PRsUs. The final number of such PRsUs that are earned by participants and vest is based on the achievement of a specified EPS for the

year ending June 30, 2016 and on the average share price of Company stock for the 90 day periods ending September 18, 2016, 2017 and 2018 as compared to the average share price for the 90 day period ended September 18, 2015. The specified EPS for the year ended June 30, 2016 was met and the average share price of the Company's stock for the 90 day period ending September 18, 2016 exceeded the average share price of the Company's stock for the 90 day period ended September 18, 2015, resulting in an additional 11,811 RSUs earned by participants.

In September 2016, the Company made its annual grant to its key employees consisting of 193,420 PRSUs. The final number of such PRSUs that are earned by participants and vest is based on the achievement of a specified EPS for the year ended June 30, 2017 and on the average share price of Company stock for the 90 day period ending September 30, 2017, 2018 and 2019 as compared to the average share price for the 90 day period ended September 30, 2016. If EPS for the year ending June 30, 2017 exceeds the specified EPS and the average share price of the Company's stock for the 90 day period ending September 30, 2017, 2018 and 2019 exceeds the average share price of the Company's stock for the 90 day period ended September 30, 2016 by 100 percent or more, then an additional 193,420 could be earned by participants. This is the maximum number of additional RSUs that can be earned related to the September 2016 annual grant. In addition to the performance and market conditions, there is a service vesting condition which stipulates that 50 percent of the earned award will vest on October 1, 2019 and 50 percent of the earned award will vest on October 1, 2020, in both cases dependent upon continuing service by the grantee as an employee of the Company, unless the grantee is eligible for earlier vesting upon retirement or certain other events.

The total number of shares authorized by shareholders for future grants under the 2016 Plan was reset in November 2016 to 1,200,000. The aggregate number of grants that may be made may exceed this approved amount as forfeited SSARs, stock options, restricted stock and RSUs, and vested but unexercised SSARs and stock options that expire, become available for future grants. As of December 31, 2016, cumulative grants of 8,056 equity instruments underlying the shares authorized in the 2016 Plan have been awarded, and none of these instruments have been forfeited.

CACI INTERNATIONAL INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Activity related to RSUs during the six months ended December 31, 2016 is as follows:

	RSUs
Outstanding, June 30, 2016	873,854
Granted	223,108
Vested	(106,977)
Forfeited	(22,130)
Outstanding, December 31, 2016	967,855
Weighted-average grant date fair value for RSUs	\$ 101.52

As of December 31, 2016, there was \$45.4 million of total unrecognized compensation costs related to RSUs scheduled to be recognized over a weighted-average period of 2.8 years.

9. Earnings Per Share

ASC 260, Earnings Per Share (ASC 260), requires dual presentation of basic and diluted earnings per share on the face of the income statement. Basic earnings per share excludes dilution and is computed by dividing income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock but not securities that are anti-dilutive, including stock options and SSARs with an exercise price greater than the average market price of the Company's common stock. Using the treasury stock method, diluted earnings per share include the incremental effect of SSARs, stock options, restricted shares, and those RSUs that are no longer subject to a market or performance condition. The PRSUs granted in September 2016 are excluded from the calculation of diluted earnings per share as the underlying shares are considered to be contingently issuable shares. These shares will be included in the calculation of diluted earnings per share beginning in the first reporting period in which the performance metric is achieved. The chart below shows the calculation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months		Six Months Ended	
	Ended December 31, 2016	2015	December 31, 2016	2015
Net income	\$42,420	\$30,452	\$79,083	\$65,084
Weighted-average number of basic shares outstanding				
during the period	24,387	24,246	24,363	24,227
Dilutive effect of SSARs/stock options and RSUs after	682	540	635	527

application of treasury stock method

Weighted-average number of diluted shares outstanding

during the period	25,069	24,786	24,998	24,754
Basic earnings per share	\$ 1.74	\$ 1.26	\$ 3.25	\$ 2.69
Diluted earnings per share	\$ 1.69	\$ 1.23	\$ 3.16	\$ 2.63

10. Income Taxes

The Company is subject to income taxes in the U.S. and various state and foreign jurisdictions. Tax statutes and regulations within each jurisdiction are subject to interpretation and require the application of significant judgment. The Company's total liability for unrecognized tax benefits as of December 31, 2016 and June 30, 2016 was \$0.4 million for both periods. The \$0.4 million unrecognized tax benefit at December 31, 2016, if recognized, would impact the Company's effective tax rate.

CACI INTERNATIONAL INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

11. Business Segment Information

The Company reports operating results and financial data in two segments: domestic operations and international operations. Domestic operations provide information solutions and services to its customers. Its customers are primarily U.S. federal government agencies. Other customers of the Company's domestic operations include state and local governments and commercial enterprises. The Company places employees in locations around the world in support of its clients. International operations offer services to both commercial and non-U.S. government customers primarily within the Company's business systems and enterprise IT markets. The Company evaluates the performance of its operating segments based on net income. Summarized financial information concerning the Company's reportable segments is as follows (in thousands):

	Domestic	International	Total
Three Months Ended December 31, 2016			
Revenue from external customers	\$1,024,025	\$ 33,505	\$1,057,530
Net income	38,732	3,688	42,420
Three Months Ended December 31, 2015			
Revenue from external customers	\$793,542	\$ 36,895	\$830,437
Net income	26,741	3,711	30,452
Six Months Ended December 31, 2016			
Revenue from external customers	\$2,062,916	\$ 67,894	\$2,130,810
Net income attributable to CACI	72,374	6,709	79,083
Six Months Ended December 31, 2015			
Revenue from external customers	\$1,579,220	\$ 73,659	\$1,652,879
Net income attributable to CACI	58,676	6,408	65,084

12. Fair Value of Financial Instruments

ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants in an orderly transaction. The market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received or minimizes the amount that would be paid. Fair value is based on assumptions market participants would make in pricing the asset or liability. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

The Company's financial assets and liabilities recorded at fair value on a recurring basis are categorized based on the priority of the inputs used to measure fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

Level 1 Inputs – unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs – unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3 Inputs – amounts derived from valuation models in which unobservable inputs reflect the reporting entity's own assumptions about the assumptions of market participants that would be used in pricing the asset or liability.

16

CACI INTERNATIONAL INC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The Company's financial instruments measured at fair value included interest rate swap agreements and contingent consideration in connection with business combinations. The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and June 30, 2016, and the level they fall within the fair value hierarchy (in thousands):

Description of Financial Instrument	Financial Statement Classification	Fair Value Hierarchy	December	
			31, 2016 Fair Value	June 30, 2016
Contingent consideration	Other accrued expenses and current liabilities	Level 3	\$3,569	\$—
Contingent consideration	Other long-term liabilities	Level 3	\$11,449	\$15,171
Interest rate swap agreements	Other long-term assets	Level 2	\$5,852	\$—
Interest rate swap agreements	Other accrued expenses and current liabilities	Level 2	\$345	\$—
Interest rate swap agreements	Other long-term liabilities	Level 2	\$5,844	\$21,609

Changes in the fair value of the interest rate swap agreements are recorded as a component of accumulated other comprehensive income or loss.

Various acquisitions completed during FY16 contained provisions requiring that the Company pay contingent consideration in the event the acquired businesses achieved certain specified earnings results during the two and three year periods subsequent to each acquisition. The Company determined the fair value of the contingent consideration as of each acquisition date using a valuation model which included the evaluation of the most likely outcome and the application of an appropriate discount rate. At the end of each reporting period, the fair value of the contingent consideration was remeasured and any changes were recorded in indirect costs and selling expenses. During the three and six months ended December 31, 2016, this remeasurement resulted in a change to the liability recorded of \$0.4 million and \$0.8 million, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

There are statements made herein which do not address historical facts and, therefore, could be interpreted to be forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such statements are subject to factors that could cause actual results to differ materially from anticipated results. The factors that could cause actual results to differ materially from those anticipated include, but are not limited to, the following: legal, regulatory, and political change as a result of transitioning to a new presidential administration that could result in economic uncertainty; changes in U.S. federal agencies, current agreements with other nations, foreign events, or any other events which may affect the global economy; regional and national economic conditions in the United States and globally; terrorist activities or war; changes in interest rates; currency fluctuations; significant fluctuations in the equity markets; changes in our effective tax rate; failure to achieve contract awards in connection with re-competes for present business and/or competition for new business; the risks and uncertainties associated with client interest in and purchases of new products and/or services; continued funding of U.S. government or other public sector projects, based on a change in spending patterns, implementation of spending cuts (sequestration) under the Budget Control Act of 2011 (BCA), or any legislation that amends or changes discretionary spending levels under that act; changes in budgetary priorities or in the event of a priority need for funds, such as homeland security; government contract procurement (such as bid protest, small business set asides, loss of work due to organizational conflicts of interest, etc.) and termination risks; the results of government audits and reviews conducted by the Defense Contract Audit Agency, the Defense Contract Management Agency, or other governmental entities with cognizant oversight; individual business decisions of our clients; paradigm shifts in technology; competitive factors such as pricing pressures and/or competition to hire and retain employees (particularly those with security clearances); market speculation regarding our continued independence; material changes in laws or regulations applicable to our businesses, particularly in connection with (i) government contracts for services, (ii) outsourcing of activities that have been performed by the government, and (iii) competition for task orders under Government Wide Acquisition Contracts (GWACs) and/or schedule contracts with the General Services Administration; the ability to successfully integrate the operations of our recent and any future acquisitions; our own ability to achieve the objectives of near term or long range business plans; and other risks described in our SEC filings.

Overview

The following discussion and analysis of our financial condition and results of operations is provided to enhance the understanding of, and should be read together with, our unaudited consolidated financial statements and the notes to those statements that appear elsewhere in this Quarterly Report on Form 10-Q.

We derived 93.8 percent and 93.5 percent of our revenue during the six months ended December 31, 2016 and December 31, 2015, respectively, from contracts with U.S. government agencies. These were derived through both prime and subcontractor relationships. We also provide services to state and local governments, commercial customers, and through our international operations, to non-U.S. government agencies. We provide our services and solutions to our customers in the following market areas:

Business Systems – CACI business systems solutions enable efficiency, innovation, and compliance by applying focused federal domain expertise, combined with best-fit technology solutions, all integrated, implemented, and operated to improve the organizational performance of our customers. Our solutions in financial management, human capital management, asset and materials management, and administrative management help customers improve their efficiency. We supported over 100 federal military, intelligence, and civilian organizations implement crucial enterprise business solutions. CACI is a full-service federal systems integrator, implementing the foundational system solutions for both mission and business support, and providing the consulting assistance and business intelligence/analytics that convert data into actionable information to support smart decisions.

-

Command and Control (C2) – CACI develops, integrates, sustains, and operates agile and flexible C2 solutions, consisting of hardware, software, and interfaces that enhance our customer’s situational awareness, planning, execution, and assessment. CACI’s solutions enable network-centric operations to generate decision advantage in the most demanding environments. Contextually aware applications provide tailored knowledge to support planning, decision-making, and execution at strategic, operational, and tactical levels. “Power-to-the-Edge” principles enable dynamic and distributed operations. We enhance shared battlespace awareness, speed of command, and alerting based on mission objectives and commander’s intent in order to realize greater degrees of synchronization. Our approach to delivering Quick Reaction Capabilities (QRC) and integrating those capabilities into legacy systems has proven essential to shortening the “threat-to-fire” timeline. We provide agile, flexible, mission-focused software development for assured multi-domain operations. With affordability at the forefront, we enable rapid innovation and capability insertion while providing cyber security solutions for mission assurance.

18

Communications – CACI’s broad-based solutions offer communications capabilities for soldier systems, mobile platforms, fixed facilities, and the enterprise. We leverage our expertise to design, develop, integrate, and provide field support to deliver rapidly deployable communications solutions when they are required anywhere in the world. CACI develops and integrates solutions that deliver secure multi-level unified communications from the enterprise directly to and from the tactical edge. We rapidly tailor and implement our products, services, and solutions to fit the specific missions and operating contexts of our customers. Our solutions aid users in collaboratively planning, fusing information, and making essential decisions. Our top mission areas are communications and network integration (both satellite and terrestrial), including quick reaction systems, mobility, cellular and engineering support services.

Cyber Security – CACI cyber security solutions combine years of cyber and electronic warfare experience with cutting-edge signals intelligence and radio frequency (RF) expertise. We help protect vulnerable platforms – including airplanes, cell phones, weapons systems, and unmanned aerial vehicles – from cyber attacks, and provide comprehensive cyber support to a number of federal customers and the Intelligence Community (IC). We also have a world-class cyber team that provides tailored support to the IC and Department of Defense (DoD). CACI’s full spectrum cyber security capabilities span platform defense and exploitation, advanced network operations, and cyber engineering of resilient systems. Our rapid research and development, prototyping, and integration capabilities enable us to combat shifting, emerging threats. Our expertise, technologies, and proven cyber experience provide solutions that support the protection of our customers’ vital information and our nation’s critical infrastructure. Our analytics address network and platform exploitation, and provide customers with signals collection, processing, and exploitation capabilities spanning the electromagnetic spectrum.

Enterprise IT – CACI’s Enterprise IT market connects IT with our customers’ missions. Our experts secure operational IT environments in the defense, intelligence, homeland security, and civilian communities. We provide tailored, end-to-end, enterprise-wide information solutions and services for the design, development, integration, deployment, operations and management, sustainment, and security of our customers’ IT solutions. Our solutions are focused in six primary areas: XaaS and cloud-powered solutions; performance-based service management; DevOps and mobility; defensive cyber; end-user services; and infrastructure services. We support customers in the adoption of virtualized cloud services and mobile solutions that are revolutionizing the efficiency, reliability, and cost-effectiveness of IT services. We provide managed services and workforce augmentation that enhance efficiency, improve mission uptime, and reduce costs. Our operational, analytic, consulting, and transformational services use industry leading-edge practices, standards, and innovations to enable and optimize the full lifecycle of the enterprise IT environment. Through our robust framework of best practices, we bring together a variety of industry standards, including Information Technology Infrastructure Library (ITIL) and Capability Maturity Model Integration (CMMI). In addition to encompassing the full extent of today’s enterprise IT environment, CACI’s solutions and services are modular and configurable, vendor and technology neutral, and implemented by fully certified and experienced personnel. We provide rapid, cost-effective, and low-risk implementation of next-generation capabilities.

Health – CACI supports federal civilian and military health missions to improve healthcare delivery systems, integrate electronic health records, improve health outcomes for communities, and enhance the speed and efficiency of emergency responsiveness. To improve cost efficiencies in healthcare, we use data analytics to better predict clinical, financial, and operational needs to reduce financial waste and fraud. We solve challenges in bio-surveillance, outbreak detection, disease prevention systems, health systems security, medical supply logistics and rapid disaster/emergency response. We provide capabilities that evolve with the evolving healthcare regulations and establish more efficient and interoperable healthcare delivery systems through program management, strategic planning, software engineering, operation and maintenance, and IT facility support.

Intelligence Services – CACI’s intelligence specialists support our customers’ mission to convert data collected from all information sources into knowledge that enables event forecasting and empowers decisions. We deliver cyber analytics, counterintelligence, and other services to help disrupt terrorist activities and counter the proliferation of weapons of mass destruction. Our support is provided at the strategic and tactical levels, and consists of intelligence analysis, operations and planning, policy, doctrine, and security support. We also provide informational systems operations, maintenance, and sustainment globally. Our analytical toolsets and products leverage all sources of information to enhance situational awareness, inform mission planning, anticipate activities, forecast societal events,

establish ground truth, and support decision-makers. We work within the United States and internationally, providing analysis of data received from a variety of sources, and we provide direct support such as ground truth and intelligence gathering internationally.

19

Intelligence Systems and Support – CACI advances near-real time intelligence and analysis to drive situational awareness and gain operational advantage. CACI designs, develops, integrates, deploys, and rapidly prototypes hardware- and software-enabled tools and applications which advance situational awareness and mission support for our IC and DoD customers. An industry leader in signals intelligence (SIGINT) collection, processing, and dissemination systems, we deliver end-to-end SIGINT capabilities, including virtualized signal processing. We also provide significant support to the federal government in foreign instrumentation signals intelligence. We employ multi-intelligence fusion analysis of vast data from multiple intelligence sources, displayed using robust visualization techniques, to support a wide range of intelligence products and services for our customers to deliver actionable information in near real-time. We design and develop software-defined radio systems capable of hosting a range of SIGINT capabilities. We also deliver quick reaction capabilities for integrating SIGINT and RF systems into platforms to meet the rising tempo of missions.

Investigation and Litigation Support – Since 1978, CACI has assisted the U.S. government in investigating and litigating many thousands of cases, saving billions of dollars for taxpayers. We continually monitor and develop new document and data capture methodologies that increase efficiency and lower costs for our customers in high-stakes situations such as trials, investigations, hearings, and regulatory and enforcement activities. We are a proven provider with decades of experience delivering start-to-finish investigation and litigation support, leveraging technology to help customers manage documents and acquire and present evidence from pre-filing investigation through complaint, discovery, and trial; then post-trial and appeals. With our American Society of Crime Laboratory Directors/Laboratory Accreditation Board (ASCLD/LAB) International-accredited computer and audio/video forensics lab, we analyze digital evidence to support criminal and civil investigations, litigations, and security inquiries. We offer scalable cloud hosting solutions that are stable, secure, and fast, with access to industry-leading e-Discovery tools. As the premier contractor for delivering background investigations to the U.S. federal government, our fully trained and cleared investigators provide cost-efficient, high-quality personnel security investigations.

Logistics and Material Readiness – CACI provides a full suite of logistics and material readiness solutions and professional service offerings that ensure the efficient, effective, and secure global flow and storage of materials, services, and information in support of U.S. government agencies. We provide complete product lifecycle management to make certain that provisions, equipment, and systems are ready anytime, anywhere. We deploy comprehensive supply chain solutions to enhance visibility, facilitate readiness-based sparing, and analyze readiness in near-real time. To advance the secure flow of supplies, we optimize efficiency while minimizing the time and cost of meeting readiness requirements across the enterprise. We provide our customers with workforce readiness by tailoring solutions to achieve the optimal capability of the organization and individual. We develop and manage logistics information systems as well as specialized simulation and modeling toolsets, and provide logistics engineering services.

Surveillance and Reconnaissance – CACI integrates surveillance and reconnaissance technologies into platforms that enhance individual and unit situational awareness, mobility, and interoperability, while supporting identification of potential targets and enhancing troop safety. We develop and integrate state-of-the-art surveillance and reconnaissance sensors into air and ground systems, leveraging our mission-customized software and electronics. We provide integration, development, and technical support services in support of military, intelligence, and homeland security missions throughout the U.S. and around the world. We have over 20 years of experience developing quick-reaction solutions for IC and DoD customers. We use system-of-systems engineering and integration, agile development and deployment, and end-to-end lifecycle support to deliver net-centric solutions that meet the needs of U.S. forces, combatant commands, the IC, DoD, the Department of Homeland Security, and other government agencies.

We continue to carefully follow federal budget, legislative and contracting trends and activities and evolve our strategies to take these into consideration. Since March 2013, the federal government has been operating under sequestration required by the BCA. Under sequestration, constraints on discretionary expenditures have taken place each of the government's fiscal years since 2013 and, unless the BCA is amended or repealed, will continue through the government's Fiscal Year 2025. At the end of October 2015, the Bipartisan Budget Act of 2015 (BBA) was passed and signed into law, raising the discretionary spending caps under the BCA by \$50 billion and \$30 billion in the

government's Fiscal Years 2016 and 2017, respectively. Prior to the end of the government's Fiscal Year 2016, no appropriations legislation for the government's Fiscal Year 2017 was enacted. As a result, at the end of September 2016, a continuing resolution was signed into law, which kept the government operating until December 9, 2016. When Congress reconvened following the November general election, a second continuing resolution was passed and signed into law by the President that keeps the government operating until April 28, 2017. Subsequent to the inauguration of the new administration, Congress is expected to address the Fiscal Year 2017 budget and the funding of the government through September 2017. We expect the impact of the above legislation and actions Congress will take on contracts and task orders we hold, and may receive, to continue throughout our FY17.

We are continuously reviewing our operations in an attempt to identify those programs that are potentially at risk from the consequences of sequestration beyond the coverage of the BBA so that we can make appropriate contingency plans, should that be necessary. We are experiencing reduced funding on some of our programs, and may experience further reductions, but we do not expect the cancellation of any of our major programs.

We also continue to face some uncertainties due to the current general business environment, and we continue to see protests of major contract awards and delays in government procurement activities. In addition, many of our federal government contracts require us to employ personnel with security clearances, specific levels of education and specific past work experience. Depending on the level of clearance, security clearances can be difficult and time-consuming to obtain and competition for skilled personnel in the information technology services industry is intense. In addition, a shift of expenditures away from programs that we support could cause federal government agencies to reduce their purchases under contracts, to exercise their right to terminate contracts at any time without penalty, or to decide not to exercise options to renew contracts. Additional factors that could affect our federal government contracting business include an increase in set-asides for small businesses and budgetary priorities limiting or delaying federal government spending in general.

Results of Operations for the Three Months Ended December 31, 2016 and 2015

Revenue. The table below sets forth revenue by customer type with related percentages of total revenue for the three months ended December 31, 2016 and 2015, respectively:

(dollars in thousands)	Three Months Ended December 31,				Change	
	2016		2015		\$	%
Department of Defense	\$684,673	64.8 %	\$543,716	65.5 %	\$140,957	25.9 %
Federal civilian agencies	308,053	29.1	232,773	28.0	75,280	32.3
Commercial and other	64,804	6.1	53,948	6.5	10,856	20.1
Total	\$1,057,530	100.0 %	\$830,437	100.0 %	\$227,093	27.3 %

For the three months ended December 31, 2016, total revenue increased by 27.3 percent, or \$227.1 million, compared to the same period a year ago. This growth in revenue resulted primarily from the NSS acquisition completed February 1, 2016 and other recent acquisitions. Revenue generated from the date a business is acquired through the first anniversary of that date is considered acquired revenue. Excluding acquired revenue, organic revenue decreased by 4.7 percent primarily due to reduced customer requirements and government purchasing delays.

DoD revenue increased 25.9 percent, or \$141.0 million, for the three months ended December 31, 2016, as compared to the same period a year ago. This growth was primarily from the NSS acquisition. Excluding acquired revenue of \$172.9 million, DoD revenue decreased by 5.9 percent primarily due to reduced customer requirements. DoD revenue includes services provided to the U.S. Army, our largest customer, where our services focus on supporting readiness, tactical military intelligence, and communications systems. DoD revenue also includes work with the U.S. Navy and other DoD agencies across all of our major service offerings.

Revenue from federal civilian agencies increased 32.3 percent, or \$75.3 million, for the three months ended December 31, 2016, as compared to the same period a year ago. This increase was primarily attributable to the NSS acquisition for information technology support services. Excluding the acquired revenue of \$78.5 million, federal civilian agency revenue decreased by 1.4 percent. Federal civilian agency revenue also includes services provided to non-DoD national intelligence agencies.

Commercial and other revenue increased 20.1 percent, or \$10.9 million for the three months ended December 31, 2016, as compared to the same period a year ago, primarily from our international and domestic technology services and cyber security products. This increase was attributable to increased product orders and managed services revenue from NSS and other acquisitions. Excluding acquired revenue of \$14.7 million, commercial and other revenue decreased by 7.1 percent. Commercial and other revenue is derived from both international and domestic operations. Of the total commercial and other revenue, international operations accounted for 51.7 percent, or \$33.5 million for the three months ended December 31, 2016 as compared to 68.4 percent, or \$36.9 million over the same period a year ago due to growth of managed services business from acquisitions. Domestic operations accounted for 48.3 percent, or \$31.3 million as compared to 31.6 percent, or \$17.0 million over the same period a year ago due to increased technology and security product sales.

Income from Operations. The following table sets forth the relative percentage that certain items of expense and earnings bear to revenue for the three months ended December 31, 2016 and 2015, respectively.

(dollars in thousands)	Dollar Amount		Percentage of Revenue		Change	
	Three Months Ended December 31,		Three Months Ended December 31,		\$	%
	2016	2015	2016	2015		
Revenue	\$1,057,530	\$830,437	100.0%	100.0%	\$227,093	27.3%
Costs of revenue						
Direct costs	705,321	547,140	66.7	65.9	158,181	28.9%
Indirect costs and selling expenses	253,822	213,144	24.0	25.7	40,678	19.1
Depreciation and amortization	18,132	14,670	1.7	1.7	3,462	23.6