

CACI INTERNATIONAL INC /DE/

Form 10-Q

May 04, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2012**

**OR**

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

**Commission File Number 001-31400**

**CACI International Inc**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**54-1345888**  
(I.R.S. Employer  
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 May 1, 2012: CACI International Inc Common Stock, \$0.10 par value, 26,630,334 shares.

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**Table of Contents****PART I****FINANCIAL INFORMATION****Item 1. Financial Statements****CACI INTERNATIONAL INC****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****(amounts in thousands, except per share data)**

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2012</b>                             | <b>2011</b> |
| Revenue   | \$ 927,962                              | \$ 913,369  |
| Costs of revenue:   |   |             |
| Direct costs  | 632,570                                 | 645,404     |
| Indirect costs and selling expenses   | 208,843                                 | 191,403     |
| Depreciation and amortization   | 13,768                                  | 14,777      |
| Total costs of revenue  | 855,181                                 | 851,584     |
| Income from operations  | 72,781                                  | 61,785      |
| Interest expense and other, net   | 6,175                                   | 5,674       |
| Income before income taxes  | 66,606                                  | 56,111      |
| Income taxes  | 25,475                                  | 19,397      |
| Net income including portion attributable to noncontrolling interest in earnings of joint venture | 41,131                                  | 36,714      |
| Noncontrolling interest in earnings of joint venture  | (275)                                   | (287)       |
| Net income attributable to CACI   | \$ 40,856                               | \$ 36,427   |
| Basic earnings per share  | \$ 1.54                                 | \$ 1.20     |
| Diluted earnings per share  | \$ 1.45                                 | \$ 1.16     |
| Weighted-average basic shares outstanding   | 26,537                                  | 30,373      |
| Weighted-average diluted shares outstanding   | 28,086                                  | 31,300      |

*See Notes to Unaudited Condensed Consolidated Financial Statements*

**Table of Contents****CACI INTERNATIONAL INC****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

(amounts in thousands, except per share data)

|   | Nine Months Ended<br>March 31, |              |
|---|--------------------------------|--------------|
|   | 2012                           | 2011         |
| Revenue   | \$ 2,825,600                   | \$ 2,614,618 |
| Costs of revenue:   |                                |              |
| Direct costs  | 1,946,899                      | 1,843,410    |
| Indirect costs and selling expenses   | 613,666                        | 555,972      |
| Depreciation and amortization   | 41,894                         | 41,919       |
| Total costs of revenue  | 2,602,459                      | 2,441,301    |
| Income from operations  | 223,141                        | 173,317      |
| Interest expense and other, net   | 18,313                         | 17,498       |
| Income before income taxes  | 204,828                        | 155,819      |
| Income taxes  | 80,304                         | 56,781       |
| Net income including portion attributable to noncontrolling interest in earnings of joint venture | 124,524                        | 99,038       |
| Noncontrolling interest in earnings of joint venture  | (467)                          | (721)        |
| Net income attributable to CACI   | \$ 124,057                     | \$ 98,317    |
| Basic earnings per share  | \$ 4.54                        | \$ 3.24      |
| Diluted earnings per share  | \$ 4.37                        | \$ 3.16      |
| Weighted-average basic shares outstanding   | 27,303                         | 30,321       |
| Weighted-average diluted shares outstanding   | 28,402                         | 31,102       |

*See Notes to Unaudited Condensed Consolidated Financial Statements*

**Table of Contents****CACI INTERNATIONAL INC****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(amounts in thousands, except per share data)

|  | March 31,<br>2012 | June 30,<br>2011 |
|--|-------------------|------------------|
| <b>ASSETS</b>  |                   |                  |
| Current assets:  |                   |                  |
| Cash and cash equivalents  | \$ 48,929         | \$ 164,817       |
| Accounts receivable, net   | 669,275           | 573,042          |
| Prepaid expenses and other current assets  | 43,861            | 44,219           |
| Total current assets   | 762,065           | 782,078          |
| Goodwill   | 1,404,626         | 1,266,285        |
| Intangible assets, net   | 122,183           | 108,102          |
| Property and equipment, net  | 66,373            | 62,755           |
| Other long-term assets   | 113,845           | 100,911          |
| Total assets   | \$ 2,469,092      | \$ 2,320,131     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                   |                  |
| Current liabilities:   |                   |                  |
| Current portion of long-term debt  | \$ 7,500          | \$ 7,500         |
| Accounts payable   | 128,004           | 98,893           |
| Accrued compensation and benefits  | 173,494           | 173,586          |
| Other accrued expenses and current liabilities   | 152,101           | 157,242          |
| Total current liabilities  | 461,099           | 437,221          |
| Long-term debt, net of current portion   | 565,757           | 402,437          |
| Deferred income taxes  | 86,777            | 68,123           |
| Other long-term liabilities  | 116,797           | 102,734          |
| Total liabilities  | 1,230,430         | 1,010,515        |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                   |                  |
| 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, 40,619 and 40,273 shares issued, respectively | 4,062             | 4,027            |
| Additional paid-in capital   | 519,717           | 504,156          |
| Retained earnings  | 1,062,551         | 938,495          |
| Accumulated other comprehensive loss   | (3,688)           | (3,115)          |
| Treasury stock, at cost (14,005 and 10,077 shares, respectively)                                       | (346,140)         | (136,631)        |
| Total CACI shareholders' equity  | 1,236,502         | 1,306,932        |
| Noncontrolling interest in joint venture   | 2,160             | 2,684            |
| Total shareholders' equity   | 1,238,662         | 1,309,616        |
| Total liabilities and shareholders' equity   | \$ 2,469,092      | \$ 2,320,131     |

*See Notes to Unaudited Condensed Consolidated Financial Statements*

**Table of Contents****CACI INTERNATIONAL INC****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(amounts in thousands)

|  | Nine Months Ended<br>March 31, |           |
|--|--------------------------------|-----------|
|  | 2012                           | 2011      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                                |           |
| Net income including portion attributable to noncontrolling interest in earnings of joint venture                                    | \$ 124,524                     | \$ 99,038 |
| Reconciliation of net income including portion attributable to noncontrolling interest to net cash provided by operating activities: |                                |           |
| Depreciation and amortization  | 41,894                         | 41,919    |
| Non-cash interest expense  | 8,946                          | 8,359     |
| Amortization of deferred financing costs   | 1,743                          | 2,274     |
| Stock-based compensation expense   | 11,095                         | 13,109    |
| Deferred income tax expense  | 18,109                         | 7,805     |
| Undistributed earnings of unconsolidated joint venture   | (1,133)                        | (1,187)   |
| Other  | 1,274                          |           |
| Changes in operating assets and liabilities, net of effect of business acquisitions:   |                                |           |
| Accounts receivable, net   | (73,120)                       | (24,787)  |
| Prepaid expenses and other assets  | (9,397)                        | (15,314)  |
| Accounts payable and other accrued expenses  | 35,571                         | 5,615     |
| Accrued compensation and benefits  | (12,037)                       | 6,392     |
| Income taxes payable and receivable  | (9,787)                        | (9,079)   |
| Other liabilities  | 7,116                          | 11,508    |
| Net cash provided by operating activities  | 144,798                        | 145,652   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                                |           |
| Capital expenditures   | (12,794)                       | (9,170)   |
| Cash paid for business acquisitions, net of cash acquired  | (179,746)                      | (129,621) |
| Investment in unconsolidated joint venture, net  |                                | (4,264)   |
| Other  | (1,128)                        | 749       |
| Net cash used in investing activities  | (193,668)                      | (142,306) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                                |           |
| Proceeds from borrowings under bank credit facilities, net of financing costs  | 853,751                        | 193,978   |
| Payments made under bank credit facilities   | (700,625)                      | (330,528) |
| Payment of contingent consideration  | (20,255)                       |           |
| Proceeds from employee stock purchase plans  | 3,118                          | 3,264     |
| Proceeds from exercise of stock options  | 7,410                          | 18,136    |
| Repurchases of common stock  | (209,680)                      | (47,040)  |
| Other  | (589)                          | 1,291     |
| Net cash used in financing activities  | (66,870)                       | (160,899) |
| Effect of exchange rate changes on cash and cash equivalents   | (148)                          | 1,358     |
| Net decrease in cash and cash equivalents  | (115,888)                      | (156,195) |
| Cash and cash equivalents, beginning of period   | 164,817                        | 254,543   |



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|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents, end of period                     | \$ 48,929 | \$ 98,348 |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>     |           |           |
| Cash paid during the period for income taxes, net of refunds | \$ 70,973 | \$ 57,338 |
| Cash paid during the period for interest                     | \$ 8,108  | \$ 6,486  |
| <b>Non-cash financing and investing activities:</b>          |           |           |
| Landlord-financed leasehold improvements                     | \$ 4,514  | \$ 2,554  |

*See Notes to Unaudited Condensed Consolidated Financial Statements*

**Table of Contents****CACI INTERNATIONAL INC****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)****(amounts in thousands)**

|   | <b>Three Months Ended<br/>March 31,</b> |             | <b>Nine Months Ended<br/>March 31,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2012</b>                             | <b>2011</b> | <b>2012</b>                            | <b>2011</b> |
| Net income including portion attributable to noncontrolling interest in earnings of joint venture | \$ 41,131                               | \$ 36,714   | \$ 124,524                             | \$ 99,038   |
| Change in foreign currency translation adjustment   | 3,414                                   | 3,692       | (546)                                  | 6,547       |
| Effect of changes in actuarial assumptions and recognition of prior service cost                  |   | 1           | (27)                                   | 1           |
| Comprehensive income  | \$ 44,545                               | \$ 40,407   | \$ 123,951                             | \$ 105,586  |

*See Notes to Unaudited Condensed Consolidated Financial Statements*

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**CACI INTERNATIONAL INC**

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

**1. Basis of Presentation**

The accompanying unaudited condensed 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 and cash flows for the Company, including its subsidiaries and joint ventures that are more than 50 percent 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.

Under ASC 855, *Subsequent Events*, the Company is required to assess the existence or occurrence of any events occurring after March 31, 2012 that may require recognition or disclosure in the financial statements as of and for the three and nine months ended March 31, 2012. The Company has evaluated all events and transactions that occurred after March 31, 2012, and found that during this period it did not have any subsequent events requiring financial statement recognition.

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 March 31, 2012 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 market data on companies with a corporate rating similar to CACI's that have recently priced credit facilities. The fair value of the Company's \$300.0 million of 2.125 percent convertible senior subordinated notes issued May 16, 2007 and that mature on May 16, 2014 (the Notes) is based on quoted market prices. See Note 5.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments and reclassifications (all of which are of a normal, recurring nature) that are necessary for fair presentation for 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, 2011. The results of operations for the three and nine months ended March 31, 2012 are not necessarily indicative of the results to be expected for any subsequent interim period or for the full fiscal year.

Certain reclassifications have been made to the prior period's financial statements to conform to the current presentation.

**2. New Accounting Pronouncements**

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05), which amends ASC Topic 220, *Comprehensive Income*. This accounting update requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is effective for the Company beginning July 1, 2012. The adoption of ASU 2011-05 will impact disclosures only and will not impact the Company's financial position or results of operations.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment* (ASU 2011-08), which simplifies how an entity tests goodwill for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Accordingly, an entity will no longer be required to calculate the fair value of a reporting unit in the step one test unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this ASU is not expected to significantly impact the Company's consolidated financial statements.



**Table of Contents****CACI INTERNATIONAL INC****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****3. Acquisitions**

During the nine months ended March 31, 2012, the Company completed the acquisitions of Pangia Technologies, LLC (Pangia), Paradigm Holdings, Inc., the parent of Paradigm Solutions Corporation (Paradigm), Advanced Programs Group, LLC (APG) and Tomorrow Communications Ltd (TCL). Pangia is a software engineering services company that provides technical solutions in the areas of computer network operations, information assurance, mission systems, software and systems engineering, and IT infrastructure support. Paradigm provides cybersecurity and enterprise IT solutions to clients in federal civilian agencies, the Department of Defense, and the Intelligence Community. APG is a provider of Oracle e-Business Services in the Federal market. TCL, based in the United Kingdom, specializes in the design, implementation and on-going management and support of data networks operated by large commercial companies. The combined purchase consideration to acquire these four companies was approximately \$187 million. The Company has completed its valuation of the businesses acquired and has recognized fair values of the assets acquired and liabilities assumed. The Company has allocated approximately \$139 million to goodwill and approximately \$42 million to other intangible assets, primarily customer contracts. The acquired businesses generated \$58.6 million of revenue from their dates of acquisition (July 1, 2011 for Pangia, September 1, 2011 for Paradigm, October 3, 2011 for APG, and February 1, 2012 for TCL) through March 31, 2012.

**4. Intangible Assets**

Intangible assets increased due to the acquisition of four businesses (see Note 3) and consisted of the following (in thousands):

|   | <b>March 31,<br/>2012</b> | <b>June 30,<br/>2011</b> |
|---|---------------------------|--------------------------|
| Customer contracts and related customer relationships | \$ 330,558                | \$ 291,174               |
| Acquired technologies                                 | 27,177                    | 27,177                   |
| Covenants not to compete                              | 3,409                     | 3,070                    |
| Other   | 1,639                     | 1,637                    |
| <b>Intangible assets</b>                              | <b>362,783</b>            | <b>323,058</b>           |
| Less accumulated amortization                         | (240,600)                 | (214,956)                |
| <b>Total intangible assets, net</b>                   | <b>\$ 122,183</b>         | <b>\$ 108,102</b>        |

Intangible assets are primarily amortized on an accelerated basis over periods ranging from 12 to 120 months. The weighted-average period of amortization for all customer contracts and related customer relationships as of March 31, 2012 is 8.7 years, and the weighted-average remaining period of amortization is 7.4 years. The weighted-average period of amortization for acquired technologies as of March 31, 2012 is 6.7 years, and the weighted-average remaining period of amortization is 5.9 years.

Expected amortization expense for the remainder of the fiscal year ending June 30, 2012, and for each of the fiscal years thereafter, is as follows (in thousands):

| <b>Fiscal year ending June 30,</b> | <b>Amount</b> |
|------------------------------------|---------------|
| 2012 (three months)                | \$ 8,603      |
| 2013                               | 28,357        |
| 2014                               | 23,385        |
| 2015                               | 17,983        |
| 2016                               | 13,262        |

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|                              |            |
|------------------------------|------------|
| Thereafter                   | 30,593     |
| Total intangible assets, net | \$ 122,183 |

**Table of Contents****CACI INTERNATIONAL INC****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****5. Long-term Debt**

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

|   | <b>March 31,<br/>2012</b> | <b>June 30,<br/>2011</b> |
|---|---------------------------|--------------------------|
| Convertible notes payable               | \$ 300,000                | \$ 300,000               |
| Bank credit facility Term Loan          | 140,625                   | 146,250                  |
| Bank credit facility Revolving Facility | 160,000                   |                          |
| Principal amount of long-term debt      | 600,625                   | 446,250                  |
| Less unamortized discount               | (27,368)                  | (36,313)                 |
| Total long-term debt                    | 573,257                   | 409,937                  |
| Less current portion                    | (7,500)                   | (7,500)                  |
| Long-term debt, net of current portion  | \$ 565,757                | \$ 402,437               |

**Bank Credit Facility**

The Company has a \$750.0 million credit facility (the Credit Facility), which consists of a \$600.0 million revolving credit facility (the Revolving Facility) and a \$150.0 million term loan (the Term Loan). The Revolving Facility has subfacilities of \$50.0 million for same-day swing line loan borrowings and \$25.0 million for stand-by letters of credit. The Credit Facility was entered into on October 21, 2010 and replaced the Company's then outstanding term loan and revolving credit facility.

Subsequent to entering into the Credit Facility, CACI amended the Credit Facility to increase its ability to do share repurchases, modify the margins applicable to the determination of the interest rate and the unused fees under the Credit Agreement, extend the maturity date of the Credit Facility from October 21, 2015 to November 18, 2016, and increase from \$200.0 million to \$300.0 million the permitted aggregate amount of incremental facilities that may be added by amendment to the Credit Facility.

The Revolving Facility is a secured facility that permits continually renewable borrowings of up to \$600.0 million. As of March 31, 2012, the Company had \$160.0 million outstanding under the Revolving Facility and no outstanding letters of credit. 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 \$1.9 million through September 30, 2015 and \$3.8 million thereafter until September 30, 2016, with the balance due in full on November 18, 2016.

At any time and so long as no default has occurred, the Company has the right to increase the Term Loan or Revolving Facility in an aggregate principal amount of up to \$300.0 million 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 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 margin based upon the Company's consolidated total leverage ratio. As of March 31, 2012, the effective interest rate, excluding the effect of amortization of debt financing costs, for the outstanding borrowings under the Credit Facility was 1.74 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

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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. Since the inception of the Credit Facility, the Company has been in compliance with all of the financial covenants. A majority of the Company's assets serve as collateral under the Credit Facility.



**Table of Contents****CACI INTERNATIONAL INC****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

The Company capitalized \$7.3 million of debt issuance costs associated with the origination and amendment of the Credit Facility. All debt issuance costs are being amortized from the date incurred to the expiration date of the Credit Facility. The unamortized balance of \$5.3 million at March 31, 2012 is included in other assets.

***Convertible Notes Payable***

Effective May 16, 2007, the Company issued the Notes in a private placement. The Notes were issued at par value and are subordinate to the Company's senior secured debt. Interest on the Notes is payable on May 1 and November 1 of each year.

Holders may convert their notes at a conversion rate of 18.2989 shares of CACI common stock for each \$1,000 of note principal (an initial conversion price of \$54.65 per share) under the following circumstances: 1) if the last reported sale price of CACI stock is greater than or equal to 130 percent of the applicable conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; 2) during the five consecutive business day period immediately after any ten consecutive trading day period (the note measurement period) in which the average of the trading price per \$1,000 principal amount of convertible note was equal to or less than 97 percent of the average product of the closing price of a share of the Company's common stock and the conversion rate of each date during the note measurement period; 3) upon the occurrence of certain corporate events constituting a fundamental change, as defined in the indenture governing the Notes; or 4) during the last three-month period prior to maturity. CACI is required to satisfy 100 percent of the principal amount of these notes solely in cash, with any amounts above the principal amount to be satisfied in common stock. As of March 31, 2012, none of the conditions permitting conversion of the Notes had been satisfied.

In the event of a fundamental change, as defined in the indenture governing the Notes, holders may require the Company to repurchase the Notes at a price equal to the principal amount plus any accrued interest. Also, if certain fundamental changes occur prior to maturity, the Company will in certain circumstances increase the conversion rate by a number of additional shares of common stock or, in lieu thereof, the Company may in certain circumstances elect to adjust the conversion rate and related conversion obligation so that these notes are convertible into shares of the acquiring or surviving company. The Company is not permitted to redeem the Notes.

The Company separately accounts for the liability and the equity (conversion option) components of the Notes and recognizes interest expense on the Notes using an interest rate in effect for comparable debt instruments that do not contain conversion features. The effective interest rate for the Notes excluding the conversion option was determined to be 6.9 percent.

The fair value of the liability component of the Notes was calculated to be \$221.9 million at May 16, 2007, the date of issuance. The excess of the \$300.0 million of gross proceeds over the \$221.9 million fair value of the liability component, or \$78.1 million, represents the fair value of the equity component, which was recorded, net of income tax effect, as additional paid-in capital within shareholders' equity. This \$78.1 million difference represents a debt discount that is amortized over the seven-year term of the Notes as a non-cash component of interest expense. For the three and nine months ended March 31, 2012 and 2011, the components of interest expense related to the Notes were as follows (in thousands):

|                                   | Three Months Ended<br>March 31, |          | Nine Months Ended<br>March 31, |           |
|-----------------------------------|---------------------------------|----------|--------------------------------|-----------|
|                                   | 2012                            | 2011     | 2012                           | 2011      |
| Coupon interest                   | \$ 1,594                        | \$ 1,594 | \$ 4,781                       | \$ 4,781  |
| Non-cash amortization of discount | 3,036                           | 2,837    | 8,946                          | 8,359     |
| Amortization of issuance costs    | 205                             | 205      | 615                            | 615       |
| Total                             | \$ 4,835                        | \$ 4,636 | \$ 14,342                      | \$ 13,755 |



**Table of Contents****CACI INTERNATIONAL INC****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

The balance of the unamortized discount as of March 31, 2012 and June 30, 2011, was \$27.4 million and \$36.3 million, respectively. The discount will continue to be amortized as additional, non-cash interest expense over the remaining term of the Notes (through May 1, 2014) using the effective interest method as follows (in thousands):

| Fiscal year ending June 30, | Amount Amortized<br>During Period |
|-----------------------------|-----------------------------------|
| 2012 (three months)         | \$ 3,078                          |
| 2013                        | 12,868                            |
| 2014                        | 11,422                            |
|                             | \$ 27,368                         |

The fair value of the Notes as of March 31, 2012 measured using Level 1 inputs (see Note 11) was \$372.1 million based on quoted market values.

The contingently issuable shares that may result from the conversion of the Notes were included in CACI's diluted share count for the three and nine month periods ended March 31, 2012 and 2011 because CACI's average stock price for those periods was above the conversion price of \$54.65 per share (see Note 8). Of total debt issuance costs of \$7.8 million, \$5.8 million is being amortized to interest expense over seven years. The remaining \$2.0 million of debt issuance costs attributable to the embedded conversion option was recorded in additional paid-in capital. Upon closing of the sale of the Notes, \$45.5 million of the net proceeds was used to concurrently repurchase one million shares of CACI's common stock.

In connection with the issuance of the Notes, the Company purchased in a private transaction at a cost of \$84.4 million call options (the Call Options) to purchase approximately 5.5 million shares of its common stock at a price equal to the conversion price of \$54.65 per share. The cost of the Call Options was recorded as a reduction of additional paid-in capital. The Call Options allow CACI to receive shares of its common stock from the counterparties equal to the amount of common stock related to the excess conversion value that CACI would pay the holders of the Notes upon conversion.

For income tax reporting purposes, the Notes and the Call Options are integrated. This created an original issue discount for income tax reporting purposes, and therefore the cost of the Call Options is being accounted for as interest expense over the term of the Notes for income tax reporting purposes. The associated income tax benefit of \$32.8 million to be realized for income tax reporting purposes over the term of the Notes was recorded as an increase in additional paid-in capital and a long-term deferred tax asset. The majority of this deferred tax asset is offset in the Company's balance sheet by the \$30.7 million deferred tax liability associated with the non-cash interest expense to be recorded for financial reporting purposes.

In addition, the Company sold warrants (the Warrants) to issue approximately 5.5 million shares of CACI common stock at an exercise price of \$68.31 per share. The proceeds from the sale of the Warrants totaled \$56.5 million and were recorded as an increase to additional paid-in capital.

On a combined basis, the Call Options and the Warrants are intended to reduce the potential dilution of CACI's common stock in the event that the Notes are converted by effectively increasing the conversion price of these notes from \$54.65 to \$68.31. The Call Options are anti-dilutive and are therefore excluded from the calculation of diluted shares outstanding. The Warrants will result in additional diluted shares outstanding if CACI's average common stock price exceeds \$68.31. The Call Options and the Warrants are separate and legally distinct instruments that bind CACI and the counterparties and have no binding effect on the holders of the Notes.

***JV Bank Credit Facility***

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eVenture Technologies LLC (eVentures), a joint venture between the Company and ActioNet, Inc., entered into a \$1.5 million revolving credit facility (the JV Facility). The JV Facility was a four-year, guaranteed facility that permitted continuously renewable borrowings of up to \$1.5 million with an expiration date of the earliest of September 14, 2011; the date of any restatement, refinancing, or replacement of the Credit Facility without the lender acting as the sole and exclusive administrative agent; or termination of the Credit Facility. The JV Facility expired on September 14, 2011. eVentures had no borrowings outstanding under the JV Facility during the nine months ended March 31, 2012.

**Table of Contents****CACI INTERNATIONAL INC****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

The aggregate maturities of long-term debt at March 31, 2012 are as follows (in thousands):

|                                |                   |
|--------------------------------|-------------------|
| Twelve months ending March 31, |                   |
| 2013                           | \$ 7,500          |
| 2014                           | 7,500             |
| 2015                           | 307,500           |
| 2016                           | 11,250            |
| 2017                           | 266,875           |
|                                | 600,625           |
| Less unamortized discount      | (27,368)          |
| <b>Total long-term debt</b>    | <b>\$ 573,257</b> |

**6. Commitments and Contingencies*****General Legal Matters***

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.

***Iraq Investigations***

On April 26, 2004, the Company received information indicating that one of its employees was identified in a report authored by U.S. Army Major General Antonio M. Taguba as being connected to allegations of abuse of Iraqi detainees at the Abu Ghraib prison facility. To date, despite the Taguba Report and the subsequently-issued Fay Report addressing alleged inappropriate conduct at Abu Ghraib, no present or former employee of the Company has been officially charged with any offense in connection with the Abu Ghraib allegations.

The Company does not believe the outcome of this matter will have a material adverse effect on its financial statements.

***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). The DCAA is currently in the process of auditing the Company's incurred cost submissions for the years ended June 30, 2006 and 2007. In the opinion of management, audit adjustments that may result from audits not yet completed or 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.

In December 2010, the Defense Contract Management Agency (DCMA) issued a letter to the Company with its determination that the Company improperly allocated certain legal costs incurred arising out of the Company's work in Iraq from 2003 to 2005. The Company does not agree with the DCMA's findings and, on March 9, 2011, filed a Notice of Appeal in the Armed Services Board of Contract Appeals. The Company's appeal is pending. The Company has accrued its current best estimate of the potential outcome within its estimated range of zero to \$2.9 million.

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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 is providing documents responsive to the subpoena and cooperating fully with the government's investigation. The Company has not accrued any liability for this matter as based on its present knowledge of the facts, it does not believe an unfavorable outcome is probable.

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 is reviewing this matter and has not accrued any liability as based on its present knowledge of the facts, it does not believe an unfavorable outcome is probable.

**Table of Contents****CACI INTERNATIONAL INC****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)*****German Value-Added Taxes***

The Company is under audit by the German tax authorities for issues related to value-added tax returns. At this time, the Company has not been assessed any deficiency and, based on sound factual and legal precedent, believes it is in compliance with the applicable value-added tax regulations. The Company has not accrued any liability for this matter because an unfavorable outcome is not considered probable. The Company estimates the range of reasonably possible losses to be between \$1.5 million and \$3.5 million.

**7. Stock-Based Compensation**

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

|  | Three Months Ended |          | Nine Months Ended |           |
|--|--------------------|----------|-------------------|-----------|
|  | March 31,          |          | March 31,         |           |
|  | 2012               | 2011     | 2012              | 2011      |
| Stock-based compensation included in indirect costs and selling expenses:            |                    |          |                   |           |
| Non-qualified stock option and stock settled stock appreciation right (SSAR) expense | \$ 422             | \$ 959   | \$ 1,439          | \$ 2,759  |
| Restricted stock and restricted stock unit (RSU) expense                             | 3,430              | 3,737    | 9,656             | 10,350    |
| Total stock-based compensation expense   | \$ 3,852           | \$ 4,696 | \$ 11,095         | \$ 13,109 |
| Income tax benefit recognized for stock-based compensation expense                   | \$ 1,483           | \$ 1,631 | \$ 4,360          | \$ 4,799  |

Under the terms of its 2006 Stock Incentive Plan (the 2006 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. During the periods presented, all equity instrument grants were made in the form of RSUs. Other than performance-based RSUs 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 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 2011, the Company made its annual grant to its key employees consisting of 721,540 Performance Restricted Stock Units (PRSUs), representing the maximum amount which could be earned. The PRSUs are subject to both performance and market conditions. No PRSUs will be earned if the Net After Tax Profit for the fiscal year ending June 30, 2012 is less than the Net After Tax Profit for the fiscal year ended June 30, 2011. The number of PRSUs earned by the grantee is dependent on the increase or decrease of the 90 calendar day average price per share of common stock of the Company for the period ended September 1, 2011 compared to the 90 calendar day average price per share of common stock of the Company for the period ending September 1, 2012. In addition to the performance and market conditions, there is a service vesting condition which stipulates that 50 percent of the award will vest on the third anniversary of the grant date and 50 percent of the award will vest on the fourth anniversary of the grant date, 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, as defined.

The total number of shares authorized by shareholders for grants under the 2006 Plan and its predecessor plan is 12,450,000 as of March 31, 2012. 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 March 31, 2012, cumulative grants of 12,304,409 equity instruments underlying the shares authorized have been awarded, and 2,569,634 of these instruments have been forfeited.





**Table of Contents****CACI INTERNATIONAL INC****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

Activity related to SSARs/non-qualified stock options and RSUs/restricted shares issued under the 2006 Plan during the nine months ended March 31, 2012 is as follows:

|   | <b>SSARs/<br/>Non-qualified<br/>Stock<br/>Options</b> | <b>RSUs/<br/>Restricted Shares</b> |
|---|---|------------------------------------|
| Outstanding, June 30, 2011  | 2,110,304   | 1,322,101                          |
| Granted   |   | 815,918                            |
| Exercised/Issued  | (363,156)   | (259,856)                          |
| Forfeited/Lapsed  | (61,300)  | (222,040)                          |
| <b>Outstanding, March 31, 2012</b>                                | <b>1,685,848</b>                                      | <b>1,656,123</b>                   |
| Weighted average grant date fair value for RSUs/restricted shares |   | \$ 47.31                           |

As of March 31, 2012, there was \$1.4 million of total unrecognized compensation cost related to SSARs and stock options scheduled to be recognized over a weighted average period of 1.1 years, and \$27.6 million of total unrecognized compensation cost related to restricted shares and RSUs scheduled to be recognized over a weighted-average period of 2.7 years.

**8. 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 exclude dilution and are computed by dividing income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect 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 total number of weighted-average common stock equivalents excluded from the diluted per share computations due to their anti-dilutive effects were 0.6 million and 1.7 million for the three months ended March 31, 2012 and 2011, respectively, and 0.7 million and 2.0 million for the nine months ended March 31, 2012 and 2011, respectively. The PRSUs granted in September 2011 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 shares underlying the Notes were included in the computation of diluted earnings per share for the three and nine months ended March 31, 2012 and 2011 because the average share price was above the conversion price during those periods. The Warrants were excluded from the computation of diluted earnings per share during all periods presented because the Warrants' exercise price of \$68.31 was greater than the average market price of a share of Company common stock during the three and nine month periods ended March 31, 2012 and 2011. The chart below shows the calculation of basic and diluted earnings per share (in thousands, except per share amounts):

|                                 | <b>Three Months Ended<br/>March 31,</b> |             | <b>Nine Months Ended<br/>March 31,</b> |             |
|---------------------------------|---|-------------|--|-------------|
|                                 | <b>2012</b>                             | <b>2011</b> | <b>2012</b>                            | <b>2011</b> |
| Net income attributable to CACI | \$ 40,856                               | \$ 36,427   | \$ 124,057                             | \$ 98,317   |

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Weighted average number of basic shares outstanding during the period  | 26,537  | 30,373  | 27,303  | 30,321  |
| Dilutive effect of SSARs/stock options and RSUs/restricted shares after application of treasury stock method | 932     | 712     | 893     | 709     |
| Dilutive effect of the Notes   | 441     | 215     | 148     | 72      |
| Dilutive effect of accelerated share repurchase agreement  | 176     |         | 58      |         |
| Weighted average number of diluted shares outstanding during the period                                      | 28,086  | 31,300  | 28,402  | 31,102  |
| Basic earnings per share   | \$ 1.54 | \$ 1.20 | \$ 4.54 | \$ 3.24 |
| Diluted earnings per share   | \$ 1.45 | \$ 1.16 | \$ 4.37 | \$ 3.16 |

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**CACI INTERNATIONAL INC**

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

On August 29, 2011, the Company entered into an accelerated share repurchase agreement with Bank of America N.A. (BofA) under which it paid \$209.7 million for 4 million shares of the Company's common stock. The Company's effective per share purchase price will be based generally on the average of the daily volume weighted average prices per share of our common stock, less a discount, calculated during an averaging period which began August 25, 2011 and will last up to eleven months. The total amount ultimately paid for these shares will not be known until the averaging period ends and a final settlement occurs. Upon final settlement, the Company will either receive a settlement amount or be required to remit a settlement amount, in cash or common stock, at its option. The Company recorded the \$209.7 million payment to BofA as treasury stock in its consolidated balance sheet as of March 31, 2012. If the transaction had settled on March 31, 2012, the Company would have issued approximately 0.2 million shares under the agreement if it elected to settle in shares of common stock. These shares were included in the weighted average diluted earnings per share calculation.

Shares outstanding during the three and nine months ended March 31, 2012, reflect the repurchase of shares of CACI's common stock under the accelerated share repurchase agreement described above and other share repurchase programs approved by the Company's Board of Directors. Shares outstanding during the three and nine months ended March 31, 2011 reflect the repurchase of shares under other approved share repurchase programs.

**9. 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 is currently under examination by three state jurisdictions and one foreign jurisdiction for years ended June 30, 2003 through June 30, 2009. The Company does not expect the resolution of these examinations to have a material impact on its results of operations, financial condition or cash flows.

The Company's total liability for unrecognized tax benefits as of March 31, 2012 and June 30, 2011 was \$6.7 million and \$5.9 million, respectively. Of the \$6.7 million unrecognized tax benefit at March 31, 2012, \$2.2 million, if recognized, would impact the Company's effective tax rate.

**10. Business Segment Information**

The Company reports operating results and financial data in two segments: domestic operations and international operations. Domestic operations provide professional services and information technology solutions to its customers. Its customers are primarily U.S. federal government agencies. The Company does not measure revenue or profit by its major service offerings, either for internal management or external financial reporting purposes, as it would be impractical to do so. In many cases more than one offering is provided under a single contract, to a single customer, or by a single employee or group of employees, and segregating the costs of the service offerings in situations for which it is not required would be difficult and costly. The Company also serves customers in the commercial and state and local

**Table of Contents****CACI INTERNATIONAL INC****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

government sectors and, from time to time, serves a number of agencies of foreign governments. 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 through the Company's knowledge management solutions, business systems solutions, and enterprise IT solutions lines of business. 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        |
|--|--------------|---------------|--------------|
| <b>Three Months Ended March 31, 2012</b> |              |               |              |
| Revenue from external customers          | \$ 897,403   | \$ 30,559     | \$ 927,962   |
| Net income attributable to CACI          | 38,901       | 1,955         | 40,856       |
| <b>Three Months Ended March 31, 2011</b> |              |               |              |
| Revenue from external customers          | \$ 881,075   | \$ 32,294     | \$ 913,369   |
| Net income attributable to CACI          | 33,585       | 2,842         | 36,427       |
| <b>Nine Months Ended March 31, 2012</b>  |              |               |              |
| Revenue from external customers          | \$ 2,742,359 | \$ 83,241     | \$ 2,825,600 |
| Net income attributable to CACI          | 118,730      | 5,327         | 124,057      |
| <b>Nine Months Ended March 31, 2011</b>  |              |               |              |
| Revenue from external customers          | \$ 2,525,505 | \$ 89,113     | \$ 2,614,618 |
| Net income attributable to CACI          | 92,133       | 6,184         | 98,317       |

**11. 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.

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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.

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The Company's financial instruments measured at fair value included non-corporate owned life insurance (COLI) money market investments and mutual funds held in the Company's supplemental retirement savings plan (the Supplemental Savings Plan), and contingent consideration in connection with past acquisitions. Contingent consideration recorded at March 31, 2012 related to the February 1, 2012 acquisition of TCL (see Note 3). Contingent consideration recorded as of June 30, 2011 related to three acquisitions completed during the year ended June 30, 2010. The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2012 and June 30, 2011, and the level they fall within the fair value hierarchy (in thousands):

| Description of Financial Instrument                                   | Financial Statement<br>Classification | Fair<br>Value<br>Hierarchy | March 31,<br>2012<br>Fair Value | June 30,<br>2011<br>Fair Value |
|---|---------------------------------------|----------------------------|---------------------------------|--------------------------------|
| Non-COLI assets held in connection with the Supplemental Savings Plan | Long-term asset                       | Level 1                    | \$ 5,155                        | \$ 6,514                       |
| Contingent Consideration  | Current liability                     | Level 3                    | \$ 3,098                        | \$ 20,839                      |
| Contingent Consideration  | Long-term liability                   | Level 3                    | \$ 2,983                        | \$                             |

Changes in the fair value of the assets held in connection with the Supplemental Savings Plan are recorded in indirect costs and selling expenses.

Contingent consideration in each acquisition related to the requirement that the Company pay contingent consideration in the event the acquired businesses achieved certain specified earnings results during the specified periods subsequent to each acquisition (one year in the case of TCL and two years in the case of the three acquisitions completed during the year ended June 30, 2010). The Company determines the fair value of contingent consideration as of each acquisition date using a valuation model which includes the evaluation of all possible outcomes and the application of an appropriate discount rate. At the end of each reporting period, the fair value of the contingent consideration is remeasured and any changes are recorded in indirect costs and selling expenses. During the three months ending March 31, 2012, this remeasurement did not result in a significant change to the liability recorded. During the nine months ended March 31, 2012, this remeasurement resulted in a \$0.5 million decrease in the liability recorded. For the three and nine months ended March 31, 2011, this remeasurement resulted in a \$2.6 million decrease and a \$1.5 million decrease, respectively, in the liability recorded. The maximum contingent consideration associated with the TCL acquisition is approximately \$6.2 million. During the nine month period ended March 31, 2012, the contingent consideration obligations for all three of the acquisitions completed during the year ended June 30, 2010 were fixed, with payments of \$20.3 million made in settlement of earned contingent consideration in connection with two of the acquisitions and the determination that no further payments were due in connection with the third acquisition.

**12. Subsequent Events**

On April 5, 2012, the Company entered into floating-to-fixed interest rate swap agreements for an aggregate notional amount of \$100 million related to a portion of the Company's floating rate indebtedness. The agreements are effective beginning July 1, 2013 and mature July 1, 2017. The swap agreements were designated as cash flow hedges and will be recorded at fair value in the consolidated balance sheets. Related gains or losses will be recorded in stockholders' equity as a component of other comprehensive income. The objective of these hedges is to manage the variability of interest payments related to the portion of the variable-rate debt designated as being hedged.

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

#### **Forward Looking Statements**

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: regional and national economic conditions in the United States and globally (including the impact of uncertainty regarding U.S. debt limits and actions taken related thereto); terrorist activities or war; changes in interest rates; currency fluctuations; significant fluctuations in the equity markets; changes in our effective tax rate; valuation of contingent consideration in connection with business combinations; 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, or in the event of a priority need for funds, such as homeland security, the war on terrorism, or an economic stimulus package; 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 investigations into allegations of improper actions related to the provision of services in support of U.S. military operations in Iraq; 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 Securities and Exchange Commission 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 condensed consolidated financial statements and the notes to those statements that appear elsewhere in this Quarterly Report on Form 10-Q.

We are a leading provider of professional services and information technology solutions to the U.S. government. We derived 94.6 percent and 94.8 percent of our revenue during the nine months ended March 31, 2012 and 2011, 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 and commercial customers. Our major service offerings are as follows:

**Enterprise IT solutions** We support our clients' critical networked operational missions by providing tailored, end-to-end, enterprise-wide solutions and services for the design, development, integration, deployment, operations and management, sustainment, and security of our clients' infrastructure. Our operational, analytic, consultancy, and transformational services make effective use of leading-edge practices, standards, and innovations to enable and optimize the full lifecycle of the enterprise IT environment—improving the services, increasing the efficiency, and reducing the total cost and complexity of heterogeneous, networked, and geographically-dispersed operations. Our capabilities in data center design and management, cloud computing, virtualization, application development and hosting, mobility solutions, and advanced service desk management provide secure and efficient operational environments for our customers.

**Knowledge management solutions** We deliver a full spectrum of solutions and services that automate the knowledge management lifecycle, from data capture through information analysis and understanding. We provide commercially-based products, custom solutions development, and operations and maintenance services that facilitate information access and sharing, foster innovation and learning, locate and leverage expertise, manage intellectual capital and assets, and help navigate from data to decision. Our information technology solutions are complemented by a suite of analytical expertise support offerings for our clients in the homeland security and intelligence communities, Department of Defense (DoD), and Department of Justice (DoJ).

**Business systems solutions** CACI provides the full range of professional services required to plan, manage, architect, develop, deploy, and sustain the complex, integrated system solutions that the DoD and federal civilian agencies need to accomplish their transformation goals.

and achieve ever-increasing efficiency and effectiveness in their mission functions and business operations. Working in the domains of procurement, financial management, human capital management, and



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logistics and supply chain management, we have implemented enterprise-level system solutions for well over 100 federal agencies. From complex commercial-off-the-shelf enterprise resource planning integrations to custom service-oriented architecture-based solutions that address unique federal mission support needs, we bring disciplined industry best practices, advanced technology, and a deep understanding of federal processes and their unique compliance constraints.

**Logistics and material readiness solutions and services** We offer a full suite of solutions and service offerings that plan for, implement, and control the efficient, effective, and secure flow and storage of goods, services, and information in support of U.S. government agencies. We develop and manage logistics information systems, specialized simulation and modeling toolsets, and provide logistics engineering services. Our operational capabilities span the supply chain, including advanced logistics planning, demand forecasting, total asset visibility (including the use of Radio Frequency Identification technology), and life cycle support for weapons systems. Our logistics services are a critical enabler in support of defense readiness and combat sustainability objectives.

**C4ISR solutions and services** We provide rapid response services in support of military missions in a coordinated and controlled operational setting. We support the military efforts to ensure delivery and sustainment of integrated, enterprise-wide, Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) programs. We integrate sensors, mission applications, and systems that connect with DoD data networks.

**Cyberspace solutions** Our solutions and services support the full lifecycle of preparing for, protecting against, detecting, reacting to, and actively responding to the full range of cyber threats. We achieve this through comprehensive, consistently managed, risk-based, and cost-effective capabilities, controls, and measures to protect information, systems, and networks operated by the U.S. government. We proactively support information operations and the operational use and availability/reliability of information.

**Integrated security and intelligence solutions** The United States, its partners and its allies around the world face state, non-state, and transnational adversaries that do not recognize political boundaries; do not recognize international law; and will seek, through asymmetric and irregular means, ways to strike at seams in our national security. We assist clients in developing integrated solutions that close gaps between security, intelligence, and law enforcement in order to address complex threats to our national security.

**Geospatial solutions** We support the collection, processing, exploitation, analysis and dissemination of geospatial information relating to Defense, Intelligence, Homeland Security, and commercial applications. We use imagery and other collected data from Government and commercial sources to produce hardcopy and digital maps, and other value added enhanced imagery and 3-dimensional products. Our geospatial solutions employ advanced analytical training, focused tools and applications development, and feature database extraction and maintenance. We provide time-proven expertise in multi-source data analysis and conflation, diverse sensor exploitation, intelligence analysis, and geographic information system (GIS) integration and deployment. We offer mobile solutions and secure web-based data accessibility and subscription services on an enterprise scale.

**Investigation and litigation support solutions** We support government investigations and litigations in pursuit of saving taxpayer dollars with full service technology solutions. Using comprehensive training to carefully honed processes and procedures, we help attorneys acquire, organize, develop, control, and present evidence throughout the course of litigations, from pre-filing investigation, through complaint, discovery, and trial, to post-trial briefs, review, and appeals. Our portfolio of legal-support offerings includes: cloud hosting (on-line, evidentiary information management to rapidly enable data storage and accessibility); e-discovery consulting and support; data forensic extraction and analysis; document/data capture and processing; database development, population, and maintenance; pre-trial, trial and post-trial support; case management; training; claims management; and Freedom of Information Act (FOIA) support.

**Healthcare IT solutions** We meet the steadily accelerating demand for new healthcare strategies and technology required by government, industry, and patients. We assist the federal medical community in focusing on the patient, ensuring that systems and processes at the backbone of health organizations are running efficiently. We provide both functional subject matter expertise and health IT services to the Department of Veterans Affairs, the Department of Defense Military Health System, and the Department of Health and Human Services. Our capabilities include medical logistics and facility management, design, development and integration of healthcare information

technology systems, including virtual electronic health records, information assurance, and security of personally identifiable information.

Identity management solutions We provide solutions that enable our clients to manage detect, and protect identities of individuals, entities, organizations, groups, nation states, networks, and associations in both the physical and digital worlds. Our solutions capitalize on our vast experience supporting the Intelligence Community, war fighters, and law enforcement in areas such as biometric collection and identification, human factors analysis, forensics, large-volume identity-related data exploitation and assessment, information management, and managed security services.

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**Program management and system engineering and technical assistance (SETA) services** We support U.S. government Program Executive Offices and Program Management Offices via subject matter experts and comprehensive technical management processes that optimize program resources. This includes translating operational requirements into configured systems, integrating technical inputs, characterizing and managing risk, transitioning technology into program efforts, and verifying that designs meet operational needs, through the application of internationally recognized and accepted standards. Additionally, we provide SETA and advisory and assistance services that include contract and acquisition management, operations support, architecture and system engineering services, project and portfolio management, strategy and policy support, and complex trade analyses.

We carefully follow federal contracting trends and activities and continually evolve our growth strategy to take these into consideration. Following the announcement of the DoD's new strategy guidance in January 2012 and the President's five-year defense budget request in February 2012, we updated our analysis of our addressable market and believe it remains at roughly \$230 to \$250 billion. Our analysis was driven by the following:

The reduction of Overseas Contingency Operations funding and a slower overall baseline budget growth rate that is consistent with our original CACI addressable market analysis.

DoD's stated strategy for more disciplined use of Defense dollars that identifies better use of information technology, better use of business systems and enterprise systems, and better inventory management as key actions to accomplish this objective. These are established CACI market areas in which we are executing today.

DoD's stated strategy to protect new capabilities and investments that identifies counter-terrorism through Special Operations Forces and advanced intelligence, surveillance, and reconnaissance (ISR) systems, and cyber operations, as key areas where DoD will preserve and grow its investments for future capabilities. These are CACI market areas in which we are well established and in which we have been investing for growth over the last several years.

We will continue to analyze our addressable market and the potential impact on future business opportunities as our customers in the DoD reprioritize in order to align with the January 2012 strategy guidance and our customers in the federal civilian agencies continue to operate in a constrained fiscal environment. In February 2012, the Administration submitted a budget request with discretionary spending priorities imposed by the Budget Control Act of 2011 (the Budget Act), including a reduction of defense spending of \$489 billion over a ten-year period starting in the government's fiscal year 2013. The possibility exists that, absent the current Congress and Administration changing or delaying a pending sequestration of appropriations in the government's fiscal year 2013 as mandated by the Budget Act, many of our customers throughout the federal government would have their budgets significantly reduced across the board in January 2013. This would have significant consequences on the professional services and information technology solutions we provide to the U.S. government as well as our industry in general.

We also face some uncertainties due to the current general business environment and we continue to see a number of 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. In addition, future gains or losses on assets invested in corporate-owned life insurance policies could cause fluctuations in our income tax expense.

**Table of Contents****Results of Operations for the Three Months Ended March 31, 2012 and 2011**

**Revenue.** The table below sets forth revenue by customer type with related percentages of total revenue for the three months ended March 31, 2012 and 2011, respectively:

| (dollars in thousands)      | Three Months Ended March 31, |               |                   |               | Change           |             |
|-----------------------------|------------------------------|---------------|-------------------|---------------|------------------|-------------|
|                             | 2012                         |               | 2011              |               | \$               | %           |
| Department of Defense (DoD) | \$ 718,982                   | 77.5%         | \$ 735,639        | 80.5%         | \$ (16,657)      | (2.3)%      |
| Federal civilian agencies   | 159,201                      | 17.2          | 129,349           | 14.2          | 29,852           | 23.1        |
| Commercial and other        | 46,667                       | 5.0           | 44,917            | 4.9           | 1,750            | 3.9         |
| State and local governments | 3,112                        | 0.3           | 3,464             | 0.4           | (352)            | (10.2)      |
| <b>Total</b>                | <b>\$ 927,962</b>            | <b>100.0%</b> | <b>\$ 913,369</b> | <b>100.0%</b> | <b>\$ 14,593</b> | <b>1.6%</b> |

For the three months ended March 31, 2012, total revenue increased by 1.6 percent, or \$14.6 million, over the same period a year ago. This increase in revenue is attributable to acquired revenue and an increase in organic direct labor, offset by a decline in other direct costs (ODCs). ODCs include work which we subcontract to third parties to meet customer needs. Revenue generated from the date a business is acquired through the first anniversary of that date is considered acquired revenue. Our acquired revenue in the three months ended March 31, 2012 was \$28.1 million. Revenue from existing operations decreased by 1.5 percent, or \$13.5 million, for the three months ended March 31, 2012 driven by the decrease in ODCs.

DoD revenue decreased 2.3 percent, or \$16.7 million, for the three months ended March 31, 2012, as compared to the same period a year ago. The aforementioned acquisitions generated \$9.6 million of DoD revenue during the quarter. DoD revenue includes services provided to the U.S. Army, our largest customer, that focus on supporting readiness, tactical military intelligence, and communications of the commands engaged in operations throughout the world in support of U.S. strategic objectives. DoD revenue also includes work with the U.S. Navy and other DoD agencies across all of our major service offerings. The decrease in DoD revenue is primarily attributable to a decrease in ODCs related to reductions in government activity in Southwest Asia.

Revenue from federal civilian agencies increased 23.1 percent, or \$29.9 million, for the three months ended March 31, 2012, as compared to the same period a year ago. The aforementioned acquisitions accounted for 41.7 percent of this total growth, contributing \$12.5 million. Approximately 16.0 percent of the federal civilian agency revenue for the quarter was derived from DoJ, for whom we provide litigation support services. Revenue from DoJ was \$25.4 million and \$21.6 million for the three months ended March 31, 2012 and 2011, respectively. Federal civilian agency revenue also includes services provided to non-DoD national intelligence agencies.

Commercial and other revenue increased 3.9 percent, or \$1.8 million, during the three months ended March 31, 2012, as compared to the same period a year ago. Commercial revenue is derived from both international and domestic operations. International operations accounted for 65.5 percent, or \$30.6 million, of total commercial revenue, while domestic operations accounted for 34.5 percent, or \$16.1 million. Our U.K. revenue decreased by \$1.7 million due primarily to cuts in U.K. government spending and the completion of several large U.K. contracts, partially offset by revenue from acquisitions of \$5.8 million.

Revenue from state and local governments decreased by 10.2 percent, or \$0.4 million, for the three months ended March 31, 2012, as compared to the same period a year ago. Revenue from state and local governments represented less than one percent of our total revenue for both the three months ended March 31, 2012 and 2011.

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**Income from Operations.** The following table sets forth the relative percentage that certain items of expense and earnings bore to revenue for the three months ended March 31, 2012 and 2011, respectively.

| (dollars in thousands)  | Dollar Amount                   |            | Percentage of Revenue           |        | Change    |       |
|---|---------------------------------|------------|---------------------------------|--------|-----------|-------|
|   | Three Months Ended<br>March 31, |            | Three Months Ended<br>March 31, |        | \$        | %     |
|   | 2012                            | 2011       | 2012                            | 2011   |           |       |
| Revenue   | \$ 927,962                      | \$ 913,369 | 100.0%                          | 100.0% | \$ 14,593 | 1.6%  |
| Costs of revenue  |                                 |            |                                 |        |           |       |
| Direct costs  | 632,570                         | 645,404    | 68.2                            | 70.6   | (12,834)  | (2.0) |
| Indirect costs and selling expenses   | 208,843                         | 191,403    | 22.5                            | 21.0   | 17,440    | 9.1   |
| Depreciation and amortization   | 13,768                          | 14,777     | 1.5                             | 1.6    | (1,009)   | (6.8) |
| Total costs of revenue  | 855,181                         | 851,584    | 92.2                            | 93.2   | 3,597     | 0.4   |
| Income from operations  | 72,781                          | 61,785     | 7.8                             | 6.8    | 10,996    | 17.8  |
| Interest expense and other, net   | 6,175                           | 5,674      | 0.6                             | 0.6    | 501       | 8.8   |
| Income before income taxes  | 66,606                          | 56,111     | 7.2                             | 6.2    | 10,495    | 18.7  |
| Income taxes  | 25,475                          | 19,397     | 2.8                             | 2.2    | 6,078     | 31.3  |
| Net income including portion attributable to noncontrolling interest in earnings of joint venture | 41,131                          | 36,714     | 4.4                             | 4.0    | 4,417     | 12.0  |
| Noncontrolling interest in earnings of joint venture  | (275)                           | (287)      |                                 |        | 12        | (4.2) |
| Net income attributable to CACI   | \$ 40,856                       | \$ 36,427  | 4.4%                            | 4.0%   | \$ 4,429  | 12.2% |

Income from operations for the three months ended March 31, 2012 was \$72.8 million. This was an increase of \$11.0 million, or 17.8 percent, from income from operations of \$61.8 million for the three months ended March 31, 2011. Our operating margin of 7.8 percent for the period ended March 31, 2012 increased from 6.8 percent during the period ended March 31, 2011. This growth in operating margin was driven primarily by a changing mix of our direct costs and greater than expected profitability on a large fixed price contract. Direct labor, the more profitable component of direct costs, increased 8.1% while ODCs decreased 7.7%.

As a percentage of revenue, direct costs were 68.2 percent and 70.6 percent for the three months ended March 31, 2012 and 2011, respectively. Direct costs include direct labor and ODCs, which include, among other costs, subcontractor labor and materials along with equipment purchases and travel expenses. ODCs, which are common in our industry, typically are incurred in response to specific client tasks and may vary from period to period. The single largest component of direct costs, direct labor, was \$252.2 million and \$233.3 million for the three months ended March 31, 2012 and 2011, respectively. This increase in direct labor was attributable to both acquisitions and organic growth. ODCs were \$380.3 million and \$412.1 million during the three months ended March 31, 2012 and 2011, respectively. This decrease was primarily driven by a decrease in ODCs related to reductions in government activity in Southwest Asia.

Indirect costs and selling expenses include fringe benefits, marketing and bid and proposal costs, indirect labor, and other discretionary expenses. As a percentage of revenue, indirect costs and selling expenses were 22.5 percent and 21.0 percent for the three months ended March 31, 2012 and 2011, respectively. Total stock compensation expense, a component of indirect costs, was \$3.9 million and \$4.7 million for the three months ended March 31, 2012 and 2011, respectively. This decrease in stock compensation expense was due primarily to a higher level of forfeitures during the three months ended March 31, 2012 as compared to the three months ended March 31, 2011.

Depreciation and amortization expense was \$13.8 million and \$14.8 million for the three months ended March 31, 2012 and 2011, respectively. The decrease of \$1.0 million, or 6.8 percent, was attributable to decreased amortization of intangible assets.

Interest expense and other, net increased \$0.5 million, or 8.8 percent, during the three months ended March 31, 2012 as compared to the same period a year ago. The increase was primarily attributable to an increase in interest expense related to higher outstanding debt during the period.



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The effective tax rate was 38.4 percent and 34.7 percent during the three months ended March 31, 2012 and 2011, respectively. The tax rates reported during the third quarters of both FY2012 and FY2011 were favorably impacted by non-taxable gains on assets invested in corporate-owned life insurance (COLI) policies during the nine months ended March 31, 2012 and 2011. If gains or losses on these investments throughout the rest of the current fiscal year vary from our estimates, our effective tax rate will fluctuate in the fourth quarter of the year ending June 30, 2012.

**Results of Operations for the Nine Months Ended March 31, 2012 and 2011**

**Revenue.** The table below sets forth revenue by customer type with related percentages of total revenue for the nine months ended March 31, 2012 and 2011, respectively:

| (amounts in thousands)      | Nine Months Ended March 31, |               |                     |               | Change            |             |
|-----------------------------|-----------------------------|---------------|---------------------|---------------|-------------------|-------------|
|                             | 2012                        |               | 2011                |               | \$                | %           |
| Department of Defense       | \$ 2,220,916                | 78.6%         | \$ 2,078,870        | 79.5%         | \$ 142,046        | 6.8%        |
| Federal civilian agencies   | 452,342                     | 16.0          | 399,251             | 15.3          | 53,091            | 13.3        |
| Commercial and other        | 141,372                     | 5.0           | 126,179             | 4.8           | 15,193            | 12.0        |
| State and local governments | 10,970                      | 0.4           | 10,318              | 0.4           | 652               | 6.3         |
| <b>Total</b>                | <b>\$ 2,825,600</b>         | <b>100.0%</b> | <b>\$ 2,614,618</b> | <b>100.0%</b> | <b>\$ 210,982</b> | <b>8.1%</b> |

For the nine months ended March 31, 2012, total revenue increased by 8.1 percent, or \$211.0 million, over the same period a year ago. This growth in revenue resulted from both organic growth and acquired revenue. Our acquired revenue in the nine months ended March 31, 2012 was \$78.7 million. Revenue from existing operations increased by 5.1 percent, or \$132.3 million, for the nine months ended March 31, 2012. This organic growth was driven primarily by an increase in our direct labor. In addition, during the nine months ended March 31, 2012, we had a commercial product sale that generated \$12.0 million in revenue.

DoD revenue increased 6.8 percent, or \$142.0 million, for the nine months ended March 31, 2012, as compared to the same period a year ago. \$39.4 million of the increase was attributable to acquired DoD revenue and the remaining \$102.6 million of the increase was attributable to revenue from existing operations.

Revenue from federal civilian agencies increased 13.3 percent, or \$53.1 million, for the nine months ended March 31, 2012, as compared to the same period a year ago. Of the federal civilian agency revenue growth, \$26.9 million was attributable to existing operations and \$26.2 million was attributable to acquisitions. Approximately 16.7 percent of the federal civilian agency revenue for the year was derived from DoJ, for whom we provide litigation support services. Revenue from DoJ was \$75.6 million and \$68.2 million for the nine months ended March 31, 2012 and 2011, respectively. Federal civilian agency revenue also includes services provided to non-DoD national intelligence agencies.

Commercial revenue increased 12.0 percent, or \$15.2 million, during the nine months ended March 31, 2012, as compared to the same period a year ago. Commercial revenue is derived from both international and domestic operations. International operations accounted for 58.9 percent, or \$83.2 million, of total commercial revenue, while domestic operations accounted for 41.1 percent, or \$58.2 million. Our U.K. revenue decreased by \$5.9 million, due primarily to cuts in U.K. government spending and the completion of several large U.K. contracts, partially offset by revenue from our U.K. acquisitions of \$8.2 million. The remaining increase in commercial revenue came primarily from the \$12.0 million product sale during the first quarter of the fiscal year and commercial revenue from U.S. acquisitions of \$4.5 million.

Revenue from state and local governments increased by 6.3 percent, or \$0.7 million, for the nine months ended March 31, 2012, as compared to the same period a year ago. Revenue from state and local governments represented less than one percent of our total revenue for both the nine months ended March 31, 2012 and 2011.

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**Income from Operations.** The following table sets forth the relative percentage that certain items of expense and earnings bore to revenue for the nine months ended March 31, 2012 and 2011, respectively.

| (dollars in thousands)  | Dollar Amount                  |              | Percentage of Revenue          |        | Change     |        |
|---|--------------------------------|--------------|--------------------------------|--------|------------|--------|
|   | Nine Months Ended<br>March 31, |              | Nine Months Ended<br>March 31, |        | \$         | %      |
|   | 2012                           | 2011         | 2012                           | 2011   |            |        |
| Revenue   | \$ 2,825,600                   | \$ 2,614,618 | 100.0%                         | 100.0% | \$ 210,982 | 8.1%   |
| Costs of revenue  |                                |              |                                |        |            |        |
| Direct costs  | 1,946,899                      | 1,843,410    | 68.9                           | 70.5   | 103,489    | 5.6    |
| Indirect costs and selling expenses   | 613,666                        | 555,972      | 21.7                           | 21.3   | 57,694     | 10.4   |
| Depreciation and amortization   | 41,894                         | 41,919       | 1.5                            | 1.6    | (25)       | (0.1)  |
| Total costs of revenue  | 2,602,459                      | 2,441,301    | 92.1                           | 93.4   | 161,158    | 6.6    |
| Income from operations  | 223,141                        | 173,317      | 7.9                            | 6.6    | 49,824     | 28.7   |
| Interest expense and other, net   | 18,313                         | 17,498       | 0.7                            | 0.6    | 815        | 4.7    |
| Income before income taxes  | 204,828                        | 155,819      | 7.2                            | 6.0    | 49,009     | 31.5   |
| Income taxes  | 80,304                         | 56,781       | 2.8                            | 2.2    | 23,523     | 41.4   |
| Net income including portion attributable to noncontrolling interest in earnings of joint venture | 124,524                        | 99,038       | 4.4                            | 3.8    | 25,486     | 25.7   |
| Noncontrolling interest in earnings of joint venture  | (467)                          | (721)        |                                |        | 254        | (35.2) |
| Net income attributable to CACI   | \$ 124,057                     | \$ 98,317    | 4.4%                           | 3.8%   | \$ 25,740  | 26.2%  |

Income from operations for the nine months ended March 31, 2012 was \$223.1 million. This is an increase of \$49.8 million, or 28.7 percent, from income from operations of \$173.3 million for the nine months ended March 31, 2011. Our operating margin was 7.9 percent up from 6.6 percent during the same period a year ago. Operating margin was favorably impacted by a changing mix of our direct costs and the greater than expected profitability on a large fixed price contract and the commercial product sale described previously.

As a percentage of revenue, direct costs were 68.9 percent and 70.5 percent for the nine months ended March 31, 2012 and 2011, respectively. Direct costs include direct labor and ODCs, which include, among other costs, subcontractor labor and materials along with equipment purchases and travel expenses. ODCs, which are common in our industry, typically are incurred in response to specific client tasks and may vary from period to period. Direct labor was \$725.8 million and \$656.1 million for the nine months ended March 31, 2012 and 2011, respectively. This increase in direct labor was attributable to both organic growth and acquisitions. ODCs were \$1.2 billion during both the nine months ended March 31, 2012 and 2011.

Indirect costs and selling expenses include fringe benefits, marketing and bid and proposal costs, indirect labor, and other discretionary expenses. As a percentage of revenue, indirect costs and selling expenses were 21.7 percent and 21.3 percent for the nine months ended March 31, 2012 and 2011, respectively. Stock compensation expense, a component of indirect costs, was \$11.1 million and \$13.1 million for the nine months ended March 31, 2012 and 2011, respectively. The decrease in stock compensation expense is primarily attributable to performance RSUs issued in FY2009 and FY2010 requiring stock compensation expense to be recorded on an accelerated basis along with a higher level of forfeitures in the current fiscal year.

Depreciation and amortization expense was \$41.9 million for both the nine months ended March 31, 2012 and 2011.

Interest expense and other, net increased \$0.8 million, or 4.7 percent, during the nine months ended March 31, 2012 as compared to the same period a year ago. The increase was primarily attributable to an increase in interest expense related to higher outstanding debt which was partially offset by a decrease in amortization of deferred financing costs.



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The effective tax rate was 39.3 percent and 36.6 percent during the nine months ended March 31, 2012 and 2011, respectively. The tax rates reported for the first nine months of both FY2012 and FY2011 were favorably impacted by non-taxable gains on assets invested in COLI policies during the nine months ended March 31, 2012 and 2011. If gains or losses on those investments throughout the rest of the current fiscal year vary from our estimates, our effective tax rate will fluctuate in the fourth quarter of the year ending June 30, 2012.

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### **Liquidity and Capital Resources**

Historically, our positive cash flow from operations and our available credit facilities have provided adequate liquidity and working capital to fund our operational needs.

We have a \$750.0 million credit facility (the Credit Facility), which consists of a \$600.0 million revolving credit facility (the Revolving Facility) and a \$150.0 million term loan (the Term Loan). The Revolving Facility has subfacilities of \$50.0 million for same-day swing line loan borrowings and \$25.0 million for stand-by letters of credit. The Credit Facility was entered into on October 21, 2010 and replaced our then outstanding term loan and revolving credit facility.

Subsequent to entering into the Credit Facility, we amended the Credit Facility to increase our ability to do share repurchases, modify the margins applicable to the determination of the interest rate and the unused fees under the Credit Agreement, extend the maturity date of the Credit Facility from October 21, 2015 to November 18, 2016, and increase from \$200.0 million to \$300.0 million the permitted aggregate amount of incremental facilities that may be added by amendment to the Credit Facility.

The Revolving Facility is a secured facility that permits continually renewable borrowings of up to \$600.0 million. As of March 31, 2012, we had \$160.0 million outstanding under the Revolving Facility and no outstanding letters of credit. We pay 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 \$1.9 million through September 30, 2015 and \$3.8 million thereafter until September 30, 2016, with the balance due in full on November 18, 2016.

At any time and so long as no default has occurred, we have the right to increase the Term Loan or Revolving Facility in an aggregate principal amount of up to \$300.0 million 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 interest rates applicable to loans under the Credit Facility are floating interest rates that, at our option, equal a base rate or a Eurodollar rate plus, in each case, an applicable margin based upon our consolidated total leverage ratio. As of March 31, 2012, the effective interest rate, excluding the effect of amortization of debt financing costs, for the outstanding borrowings under the Credit Facility was 1.74 percent.

The Credit Facility requires us 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 our 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. Since the inception of the Credit Facility, we have been in compliance with all of the financial covenants. A majority of our assets serve as collateral under the Credit Facility.

We capitalized \$7.3 million of debt issuance costs associated with the origination and amendment of the Credit Facility. All debt issuance costs are being amortized from the date incurred to the expiration date of the Credit Facility. The unamortized balance of \$5.3 million at March 31, 2012 is included in other assets.

On August 29, 2011, we entered into an accelerated share repurchase agreement with Bank of America N.A. (BoFA), under which we paid \$209.7 million for 4 million shares of our common stock. Our effective per share purchase price will be based generally on the average of the daily volume weighted average prices per share of our common stock, less a discount, calculated during an averaging period which began August 25, 2011 and will last up to eleven months. The total amount ultimately paid for these shares will not be known until the averaging period ends and a final settlement occurs. Upon final settlement, we will either receive a settlement amount or be required to remit a settlement amount, in cash or common stock, at our option.

On April 5, 2012, we entered into floating-to-fixed interest rate swap agreements for an aggregate notional amount of \$100 million related to a portion of our floating rate indebtedness. The agreements are effective beginning July 1, 2013 and mature July 1, 2017. The swap agreements were designated as cash flow hedges. The objective of these hedges is to manage the variability of interest payments related to the portion of the variable-rate debt designated as being hedged.



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Effective May 16, 2007, we issued the Notes, which mature on May 1, 2014, in a private placement pursuant to Rule 144A of the Securities Act of 1933. The Notes are subordinate to our senior secured debt, and interest on the Notes is payable on May 1 and November 1 of each year.

Holders may convert their notes at a conversion rate of 18.2989 shares of CACI common stock for each \$1,000 of note principal (an initial conversion price of \$54.65 per share) under the following circumstances: 1) if the last reported sale price of CACI stock is greater than or equal to 130 percent of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; 2) during the five consecutive business day period immediately after any ten consecutive trading day period (the note measurement period) in which the average of the trading price per \$1,000 principal amount of convertible note was equal to or less than 97 percent of the average product of the closing price of a share of our common stock and the conversion rate of each date during the note measurement period; 3) upon the occurrence of certain corporate events, as defined; or 4) during the last three-month period prior to maturity. We are required to satisfy 100 percent of the principal amount of these notes solely in cash, with any amounts above the principal amount to be satisfied in common stock. As of March 31, 2012, none of the conditions permitting conversion of the Notes had been satisfied.

In the event of a fundamental change, as defined, holders may require us to repurchase the Notes at a price equal to the principal amount plus any accrued interest. Also, if certain fundamental changes occur prior to maturity, we will in certain circumstances increase the conversion rate by a number of additional shares of common stock or, in lieu thereof, we may in certain circumstances elect to adjust the conversion rate and related conversion obligation so that these notes are convertible into shares of the acquiring or surviving company. We are not permitted to redeem the Notes.

In connection with the issuance of the Notes, we purchased in a private transaction at a cost of \$84.4 million call options (the Call Options) to purchase approximately 5.5 million shares of our common stock at a price equal to the conversion price of \$54.65 per share. The Call Options allow us to receive shares of our common stock from the counterparties equal to the amount of common stock related to the excess conversion value that we would pay the holders of the Notes upon conversion. In addition, we sold warrants (the Warrants) to issue approximately 5.5 million shares of CACI common stock at an exercise price of \$68.31 per share. The proceeds from the sale of the Warrants totaled \$56.5 million. On a combined basis, the Call Options and the Warrants are intended to reduce the potential dilution of CACI's common stock in the event that the Notes are converted by effectively increasing the conversion price of these notes from \$54.65 to \$68.31. The Call Options and the Warrants are separate and legally distinct instruments that bind us and the counterparties and have no binding effect on the holders of the Notes.

Cash and cash equivalents were \$48.9 million and \$164.8 million as of March 31, 2012 and June 30, 2011, respectively. The decrease in cash and cash equivalents was primarily attributable to cash used for acquisitions and the repurchase of company stock pursuant to an accelerated share repurchase plan. Working capital was \$301.0 million and \$334.9 million as of March 31, 2012 and June 30, 2011, respectively. Our operating cash flow was \$144.8 million for the nine months ended March 31, 2012 compared to \$145.7 million for the same period a year ago. Days-sales outstanding was 63 at March 31, 2012, compared to 54 for the same period a year ago. This increase was due in part to our decision to temporarily discontinue a prompt pay discount program as we determined that the cost of the program exceeded the benefit of accelerating cash collections and payment delays due to contract negotiations and funding realignments with three specific customers, all of which are expected to be resolved before the end of our fiscal year ending June 30, 2012.

We used cash in investing activities of \$193.7 million and \$142.3 million for the nine months ended March 31, 2012 and 2011, respectively. This increase for the nine months ended March 31, 2012 as compared to the same period a year ago was primarily attributable to the four acquisitions completed during the nine months ended March 31, 2012.

Cash used in financing activities was \$66.9 million in the nine months ended March 31, 2012 as compared to \$160.9 million in the nine months ended March 31, 2011. During the nine months ended March 31, 2011, we prepaid our then outstanding term loan in connection with entering into the Credit Facility and used \$44.3 million to repurchase 0.9 million shares of our common stock. During the nine months ended March 31, 2012, we paid \$20.3 million in settlement of contingent consideration for acquisitions completed during the year ended June 30, 2010. As of March 31, 2012 we had net borrowings of \$160.0 million under the Revolving Facility. These borrowings along with our available cash balance funded our repurchase of four million shares of company stock for \$209.7 million.

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Cash flows from financing activities include proceeds received from the exercise of stock options and purchases of stock under our Employee Stock Purchase Plan totaling \$10.5 million and \$21.4 million during the nine months ended March 31, 2012 and 2011, respectively.

We believe that the combination of internally generated funds, available bank borrowings and cash and cash equivalents on hand will provide the required liquidity and capital resources necessary to fund on-going operations, customary capital expenditures, debt service obligations, and other working capital requirements over the next twelve months. Over the longer term, our ability to generate sufficient cash flows from operations necessary to fulfill the obligations under the Credit Facility and the Notes will depend on our future financial performance which will be affected by many factors outside of our control, including worldwide economic and financial market conditions.

### **Off-Balance Sheet Arrangements and Contractual Obligations**

We use off-balance sheet arrangements to finance the lease of operating facilities. We have financed the use of all of our current office and warehouse facilities through operating leases. Operating leases are also used to finance the use of computers, servers, phone systems, and to a lesser extent, other fixed assets, such as furnishings, that are obtained in connection with business acquisitions. We generally assume the lease rights and obligations of companies acquired in business combinations and continue financing equipment under operating leases until the end of the lease term following the acquisition date. We generally do not finance capital expenditures with operating leases, but instead finance such purchases with available cash balances. For additional information regarding our operating lease commitments, see Note 14 in the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended June 30, 2011. The Credit Facility provides for stand-by letters of credit aggregating up to \$25.0 million that reduce the funds available under the Revolving Facility when issued. As of March 31, 2012, we had no outstanding letters of credit. We have no other material off-balance sheet financing arrangements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The interest rates on both the Term Loan and the Revolving Facility are affected by changes in market interest rates. We have the ability to manage these fluctuations in part through interest rate hedging alternatives in the form of interest rate swaps and caps. We have maintained hedging relationships with various counterparties in recent years, including two interest rate swap agreements that expired in December 2009 which allowed us to exchange a portion of our variable rate debt for fixed rate debt. In April 2012, we entered into floating-to-fixed interest rate swap agreements for an aggregate notional amount of \$100 million related to a portion of our floating rate indebtedness, as described above. The agreements are effective beginning July 1, 2013 and mature July 1, 2017. All outstanding balances under our Term Loan, and any amounts that may be borrowed under our Revolving Facility, are currently subject to interest rate fluctuations. With every one percent fluctuation in the applicable interest rates, interest expense on our variable rate debt for the nine months ended March 31, 2012 would have fluctuated by approximately \$2.3 million.

Approximately 2.9 percent and 3.4 percent of our total revenue in the nine months ended March 31, 2012 and 2011, respectively, was derived from our international operations in the U.K. Our practice in the U.K. is to negotiate contracts in the same currency in which the predominant expenses are incurred, thereby mitigating the exposure to foreign currency exchange fluctuations. It is not possible to accomplish this in all cases; thus, there is some risk that profits will be affected by foreign currency exchange fluctuations. As of March 31, 2012, we held a combination of euros and pounds sterling in our U.K. operations equivalent to approximately \$13.1 million. This allows us to better utilize our cash resources on behalf of our foreign subsidiaries, thereby mitigating foreign currency conversion risks.

### **Item 4. Controls and Procedures**

As of the end of the three month period covered by this report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer.

The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.



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The effectiveness of a system of disclosure controls and procedures is subject to various inherent limitations, including cost limitation, judgments used in decision making, assumptions about the likelihood of future events, the soundness of internal controls, and fraud. Due to such inherent limitations, there can be only reasonable, and not absolute, assurance that any system of disclosure controls and procedures will be successful in preventing all errors or fraud, or in making all material information known in a timely manner to appropriate levels of management.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level at March 31, 2012.

The Company reports that no changes in its internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three months ended March 31, 2012.

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**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings**

*Al Shimari, et al. v. L-3 Services, Inc. et al.*

Reference is made to Part I, Item 3, Legal Proceeding in the Registrant's Annual Report on Form 10-K for the year ended June 30, 2011 for the most recently filed information concerning the suit filed in the United States District Court for the Southern District of Ohio. The lawsuit names CACI International Inc, CACI Premier Technology, Inc. and former CACI employee Timothy Dugan as Defendants, along with L-3 Services, Inc. Plaintiffs seek, inter alia, compensatory damages, punitive damages, and attorney's fees.

Since the filing of Registrant's report described above, on September 21, 2011, the United States Court of Appeals for the Fourth Circuit reversed the decision of the United States District Court for the Eastern District of Virginia and remanded the action with instructions to dismiss the action. On October 5, 2011, Plaintiffs filed a petition for a rehearing en banc, which the Court of Appeals granted. The Court of Appeals also invited the United States to participate in the en banc rehearing of the appeal as amicus curiae. The United States participated in that capacity in the en banc rehearing. On January 27, 2012, the Court of Appeals, sitting en banc, heard oral argument and took the matter under advisement.

The *Al Shimari* case is the last of eight cases naming CACI as a defendant in lawsuits in which various Plaintiffs have sought damages relating to alleged activities at the Abu Ghraib prison. All of the other cases have been dismissed.

We are vigorously defending the above-described legal proceeding, and, based on our present knowledge of the facts, believe the lawsuit is completely without merit.

**Item 1A. Risk Factors**

Reference is made to Part I, Item 1A, Risk Factors, in the Registrant's Annual Report on Form 10-K for the year ended June 30, 2011. There have been no material changes from the risk factors described in that report.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. [Removed and Reserved]**

None

**Item 5. Other Information**

None





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| Exhibit No. | Description   | Filed with this Form 10-Q | Incorporated by Reference |                    | Exhibit No. |
|-------------|---|---------------------------|---------------------------|--------------------|-------------|
|             |   |                           | Form                      | Filing Date        |             |
| 3.1         | Certificate of Incorporation of CACI International Inc, as amended to date  |                           | 10-K                      | September 13, 2006 | 3.1         |
| 3.2         | Amended and Restated By-laws of CACI International Inc, amended as of March 5, 2008   |                           | 8-K                       | March 7, 2008      | 3.1         |
| 4.1         | Clause FOURTH of CACI International Inc s Certificate of Incorporation incorporated above as Exhibit 3.1  |                           | 10-K                      | September 13, 2006 | 4.1         |
| 4.2         | The Rights Agreement dated July 11, 2003 between CACI International Inc and American Stock Transfer & Trust Company   |                           | 8-K                       | July 11, 2003      | 4.1         |
| 10.1        | Amended and Restated Director Stock Purchase Plan of CACI International Inc   | X                         |                           |                    |             |
| 31.1        | Section 302 Certification Paul M. Cofoni  | X                         |                           |                    |             |
| 31.2        | Section 302 Certification Thomas A. Mutryn  | X                         |                           |                    |             |
| 32.1        | Section 906 Certification Paul M. Cofoni  | X                         |                           |                    |             |
| 32.2        | Section 906 Certification Thomas A. Mutryn  | X                         |                           |                    |             |
| 101         | The following materials from the CACI International Inc Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 formatted in eXtensible Business Reporting Language (XBRL):<br>(i) Condensed Consolidated Statements of Operations,<br>(ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Cash Flows (iv) Consolidated Statements of Comprehensive Income, and (v) Notes to Condensed Consolidated Financial Statements. * |                           |                           |                    |             |

\* Submitted electronically herewith.

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SIGNATURES

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

CACI International Inc  
Registrant

Date: May 4, 2012

By: /s/ Paul M. Cofoni  
Paul M. Cofoni  
President,  
Chief Executive Officer and Director  
(Principal Executive Officer)

Date: May 4, 2012

By: /s/ Thomas A. Mutryn  
Thomas A. Mutryn  
Executive Vice President,  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)

Date: May 4, 2012

By: /s/ Carol P. Hanna  
Carol P. Hanna  
Senior Vice President, Corporate Controller  
and Chief Accounting Officer  
(Principal Accounting Officer)