

CACI INTERNATIONAL INC /DE/  
Form 10-Q  
May 04, 2018

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, 2018

OR

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

For the transition period from to

Commission File Number 001-31400

CACI International Inc

(Exact name of registrant as specified in its charter)

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

incorporation or organization) Identification No.)

1100 North Glebe Road, Arlington, VA 22201

(Address of principal executive offices)

(703) 841-7800

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock, as of April 17, 2018:  
CACI International Inc Common Stock, \$0.10 par value, 24,697,430 shares.

## CACI INTERNATIONAL INC

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## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements

## CACI INTERNATIONAL INC

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(amounts in thousands, except per share data)

|   | Three Months Ended<br>March 31, |             |
|---|---------------------------------|-------------|
|   | 2018                            | 2017        |
| Revenue                                     | \$1,124,100                     | \$1,086,418 |
| Costs of revenue:                           |                                 |             |
| Direct costs                                | 728,444                         | 732,224     |
| Indirect costs and selling expenses         | 273,145                         | 269,237     |
| Depreciation and amortization               | 17,717                          | 17,703      |
| Total costs of revenue                      | 1,019,306                       | 1,019,164   |
| Income from operations                      | 104,794                         | 67,254      |
| Interest expense and other, net             | 10,566                          | 12,107      |
| Income before income taxes                  | 94,228                          | 55,147      |
| Income tax expense                          | 29,729                          | 14,790      |
| Net income                                  | \$64,499                        | \$40,357    |
| Basic earnings per share                    | \$2.62                          | \$1.65      |
| Diluted earnings per share                  | \$2.56                          | \$1.61      |
| Weighted-average basic shares outstanding   | 24,656                          | 24,419      |
| Weighted-average diluted shares outstanding | 25,234                          | 25,106      |

See Notes to Unaudited Consolidated Financial Statements

## CACI INTERNATIONAL INC

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(amounts in thousands)

|   | Nine Months Ended<br>March 31, |             |
|---|--------------------------------|-------------|
|   | 2018                           | 2017        |
| Revenue                                     | \$3,297,774                    | \$3,217,228 |
| Costs of revenue:                           |                                |             |
| Direct costs                                | 2,195,282                      | 2,165,766   |
| Indirect costs and selling expenses         | 788,569                        | 780,397     |
| Depreciation and amortization               | 53,563                         | 53,898      |
| Total costs of revenue                      | 3,037,414                      | 3,000,061   |
| Income from operations                      | 260,360                        | 217,167     |
| Interest expense and other, net             | 32,769                         | 36,921      |
| Income before income taxes                  | 227,591                        | 180,246     |
| Income tax expense (benefit)                | (21,749 )                      | 60,806      |
| Net income                                  | \$249,340                      | \$119,440   |
| Basic earnings per share                    | \$10.14                        | \$4.90      |
| Diluted earnings per share                  | \$9.88                         | \$4.77      |
| Weighted-average basic shares outstanding   | 24,588                         | 24,382      |
| Weighted-average diluted shares outstanding | 25,229                         | 25,034      |

See Notes to Unaudited Consolidated Financial Statements

## CACI INTERNATIONAL INC

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(amounts in thousands)

|  | Three Months<br>Ended<br>March 31, |          | Nine Months Ended<br>March 31, |           |
|--|------------------------------------|----------|--------------------------------|-----------|
|  | 2018                               | 2017     | 2018                           | 2017      |
| Net income   | \$64,499                           | \$40,357 | \$249,340                      | \$119,440 |
| Other comprehensive income:  |                                    |          |                                |           |
| Foreign currency translation adjustment                              | 5,779                              | 1,565    | 11,333                         | (8,561 )  |
| Change in fair value of interest rate swap agreements,<br>net of tax | 3,344                              | 2,045    | 6,465                          | 14,944    |
| Other comprehensive income, net of tax                               | 9,123                              | 3,610    | 17,798                         | 6,383     |
| Comprehensive income   | \$73,622                           | \$43,967 | \$267,138                      | \$125,823 |

See Notes to Unaudited Consolidated Financial Statements

## CACI INTERNATIONAL INC

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(amounts in thousands, except per share data)

|   | March 31,<br>2018 | June 30,<br>2017 |
|---|-------------------|------------------|
| <b>ASSETS</b>   |                   |                  |
| Current assets:   |                   |                  |
| Cash and cash equivalents   | \$55,970          | \$65,539         |
| Accounts receivable, net  | 820,042           | 757,341          |
| Prepaid expenses and other current assets                                       | 77,335            | 57,022           |
| Total current assets  | 953,347           | 879,902          |
| Goodwill  | 2,618,910         | 2,577,435        |
| Intangible assets, net  | 234,324           | 235,371          |
| Property and equipment, net   | 100,756           | 91,749           |
| Supplemental retirement savings plan assets                                     | 91,051            | 91,367           |
| Accounts receivable, long-term  | 9,235             | 7,886            |
| Other long-term assets  | 39,777            | 27,372           |
| Total assets  | \$4,047,400       | \$3,911,082      |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                     |                   |                  |
| Current liabilities:  |                   |                  |
| Current portion of long-term debt   | \$94,438          | \$53,965         |
| Accounts payable  | 138,597           | 62,874           |
| Accrued compensation and benefits   | 234,532           | 239,741          |
| Other accrued expenses and current liabilities                                  | 160,104           | 170,164          |
| Total current liabilities   | 627,671           | 526,744          |
| Long-term debt, net of current portion  | 989,462           | 1,177,598        |
| Supplemental retirement savings plan obligations, net of current portion        | 87,315            | 81,823           |
| Deferred income taxes   | 208,076           | 273,320          |
| Other long-term liabilities   | 76,801            | 57,876           |
| Total liabilities   | 1,989,325         | 2,117,361        |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                   |                  |
| Shareholders' equity:   |                   |                  |
| Preferred stock \$0.10 par value, 10,000 shares authorized, no shares issued or |                   |                  |
| outstanding   | —                 | —                |
| Common stock \$0.10 par value, 80,000 shares authorized; 42,127 shares          |                   |                  |
| issued and 24,692 outstanding at March 31, 2018 and 41,896 shares               |                   |                  |
| issued and 24,462 outstanding at June 30, 2017                                  | 4,213             | 4,190            |
| Additional paid-in capital  | 566,272           | 569,080          |
| Retained earnings   | 2,074,959         | 1,825,619        |
| Accumulated other comprehensive loss  | (11,318 )         | (29,116 )        |
| Treasury stock, at cost (17,434 and 17,435 shares, respectively)                | (576,186 )        | (576,187 )       |
| Total CACI shareholders' equity   | 2,057,940         | 1,793,586        |
| Noncontrolling interest   | 135               | 135              |



|  |             |             |
|--|-------------|-------------|
| Total shareholders' equity                 | 2,058,075   | 1,793,721   |
| Total liabilities and shareholders' equity | \$4,047,400 | \$3,911,082 |

See Notes to Unaudited Consolidated Financial Statements

## CACI INTERNATIONAL INC

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(amounts in thousands)

|  | Nine Months Ended<br>March 31, |           |
|--|--------------------------------|-----------|
|  | 2018                           | 2017      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                                |           |
| Net income   | \$249,340                      | \$119,440 |
| Reconciliation of net income to net cash provided by operating activities:           |                                |           |
| Depreciation and amortization  | 53,563                         | 53,898    |
| Amortization of deferred financing costs   | 3,311                          | 3,371     |
| Loss on disposal of fixed assets   | —                              | 975       |
| Stock-based compensation expense   | 18,183                         | 16,114    |
| Deferred income taxes  | (69,405 )                      | 6,773     |
| Equity in earnings of unconsolidated ventures  | —                              | (167 )    |
| Gain on sale of assets   | —                              | (1,545 )  |
| Changes in operating assets and liabilities, net of effect of business acquisitions: |                                |           |
| Accounts receivable, net   | (53,410 )                      | 62,360    |
| Prepaid expenses and other assets  | (11,916 )                      | (3,895 )  |
| Accounts payable and other accrued expenses  | 68,505                         | (31,706 ) |
| Accrued compensation and benefits  | (12,047 )                      | (7,013 )  |
| Income taxes payable and receivable  | (572 )                         | (4,082 )  |
| Supplemental retirement savings plan obligations and other long-term liabilities     | 8,945                          | 1,955     |
| Net cash provided by operating activities  | 254,497                        | 216,478   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                                |           |
| Capital expenditures   | (31,810 )                      | (34,941 ) |
| Cash paid for business acquisitions, net of cash acquired                            | (50,368 )                      | (5,786 )  |
| Proceeds from net working capital refund of acquired business                        | —                              | 13,619    |
| Proceeds from equity method investments  | —                              | 4,681     |
| Other  | (38 )                          | 1,597     |
| Net cash (used in) investing activities  | (82,216 )                      | (20,830 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                                |           |
| Proceeds from borrowings under bank credit facilities                                | 397,000                        | 373,500   |
| Principal payments made under bank credit facilities                                 | (547,974)                      | (551,974) |
| Payment of contingent consideration  | (11,553 )                      | —         |
| Proceeds from employee stock purchase plans  | 3,673                          | 3,334     |
| Repurchases of common stock  | (3,802 )                       | (3,367 )  |
| Payment of taxes for equity transactions   | (20,692 )                      | (10,580 ) |
| Net cash used in financing activities  | (183,348)                      | (189,087) |
| Effect of exchange rate changes on cash and cash equivalents                         | 1,498                          | (1,272 )  |
| Net (decrease) increase in cash and cash equivalents                                 | (9,569 )                       | 5,289     |
| Cash and cash equivalents, beginning of period                                       | 65,539                         | 49,082    |
| Cash and cash equivalents, end of period   | \$55,970                       | \$54,371  |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>                             |                                |           |
| Cash paid during the period for income taxes, net of refunds                         | \$45,771                       | \$57,721  |
| Cash paid during the period for interest   | \$30,346                       | \$33,916  |

Non-cash financing and investing activities:

|                              |       |       |
|------------------------------|-------|-------|
| Accrued capital expenditures | \$818 | \$334 |
|------------------------------|-------|-------|

See Notes to Unaudited Consolidated Financial Statements

CACI INTERNATIONAL INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

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

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and amounts included in other current assets and current liabilities that meet the definition of a financial instrument approximate fair value because of the short-term nature of these amounts. The fair value of the Company's debt outstanding as of March 31, 2018 under its bank credit facility approximates its carrying value. The fair value of the Company's debt under its bank credit facility was estimated using Level 2 inputs based on market data of companies with a corporate rating similar to CACI's that have recently priced credit facilities. See Notes 6 and 12.

In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments and reclassifications (all of which are of a normal, recurring nature) that are necessary for the fair presentation of the periods presented. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's latest annual report to the SEC on Form 10-K for the year ended June 30, 2017. The results of operations for the three and nine months ended March 31, 2018 are not necessarily indicative of the results to be expected for any subsequent interim period or for the full fiscal year.

2. Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-01, Clarifying the Definition of a Business, which revises the definition of a business and provides guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance is effective for the fiscal year, and interim periods within that fiscal year, beginning after December 15, 2017. The Company believes that the evaluation of whether transactions should be accounted for as acquisitions (or dispositions) of assets or businesses will be simplified under the new standard.

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

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, as amended (ASC 606), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. On July 9, 2015, the FASB approved a one-year deferral of the effective date of ASU 2014-09 to annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2017, using either a full retrospective approach or a modified approach.

The Company plans to adopt the standard on July 1, 2018 and apply it on a modified retrospective basis, whereby the cumulative effect of applying the standard will be recognized through shareholders' equity on the date of adoption. We have identified the changes to accounting policies, business processes, systems, disclosures, and controls to support the adoption of the new standard and are in the process of implementing the effects of the new standard.

CACI INTERNATIONAL INC

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

We expect the standard will impact the pattern of revenue recognition for some of our contracts with customers. For our award and incentive fee contracts, we will recognize a constrained amount of variable consideration over time as the performance obligation is satisfied rather than defer recognition of the relevant portion of fee until customer notification of the amount earned. Some of our fixed price contracts in which revenue is recognized on a straight-line basis over the performance period will be converted to recognition of revenue over time by measuring the progress toward complete satisfaction of the performance obligation using input methods, including cost and labor hours. We do not anticipate a material impact to our cost-plus-fixed fee, fixed price/level-of-effort, time-and-materials, or fixed price contracts that currently use percentage-of-completion accounting.

The cumulative catch-up adjustment that will be recorded through shareholders' equity on July 1, 2018 is still being quantified. We will continue evaluating the impact of the standard on our contract portfolio through the date of adoption.

### 3. Acquisitions

#### Domestic Acquisition

On November 22, 2017, CACI acquired 100 percent of the outstanding membership interests of a business in the United States. The acquisition was financed with cash on hand. The purchase consideration was \$53.0 million, which includes a \$40.1 million initial cash payment, \$4.5 million of deferred consideration, \$8.7 million estimated fair value of contingent consideration to be paid upon achieving certain metrics and a \$0.3 million refund from the seller for a net working capital adjustment. The Company recognized fair values of the assets acquired and liabilities assumed and allocated \$26.7 million to goodwill and \$24.9 million to intangible assets. The intangible assets primarily consist of customer relationships and acquired technology. The purchase price and purchase price allocation was finalized as of March 31, 2018, with no significant changes to preliminary amounts.

#### International Acquisitions

On October 1, 2017, CACI Limited acquired 100 percent of the outstanding shares of a United Kingdom (U.K.) IT consulting services and software engineering company. The purchase consideration is approximately \$9.1 million, which includes initial cash payments, deferred consideration and an estimated net working capital payment.

On November 1, 2017, CACI Limited acquired 100 percent of the outstanding shares of a London-based software and mapping data company. The company provides geographical information systems, logistics and route optimization software and related map data. The purchase consideration is approximately \$7.5 million, which includes initial cash payments, deferred consideration and an estimated net working capital payment.



## CACI INTERNATIONAL INC

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

## 4. Intangible Assets

Intangible assets consisted of the following (in thousands):

|   | March 31,<br>2018 <sup>(1)</sup> | June 30,<br>2017 |
|---|----------------------------------|------------------|
| Intangible assets                                     |                                  |                  |
| Customer contracts and related customer relationships | \$419,571                        | \$635,895        |
| Acquired technologies                                 | 13,361                           | 28,503           |
| Covenants not to compete                              | —                                | 3,305            |
| Other   | 804                              | 1,545            |
| Intangible assets                                     | 433,736                          | 669,248          |
| Less accumulated amortization                         |                                  |                  |
| Customer contracts and related customer relationships | (190,590)                        | (402,934)        |
| Acquired technologies                                 | (8,401 )                         | (26,542 )        |
| Covenants not to compete                              | —                                | (3,288 )         |
| Other   | (421 )                           | (1,113 )         |
| Less accumulated amortization                         | (199,412)                        | (433,877)        |
| Total intangible assets, net                          | \$234,324                        | \$235,371        |

<sup>(1)</sup>During the nine months ended March 31, 2018, the Company wrote off \$263.9 million in fully amortized intangible assets.

Intangible assets are primarily amortized on an accelerated basis over periods ranging from one to twenty years. The weighted-average period of amortization for all customer contracts and related customer relationships as of March 31, 2018 is 14.7 years, and the weighted-average remaining period of amortization is 11.5 years. The weighted-average period of amortization for acquired technologies as of March 31, 2018 is 7.1 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, 2018, and for each of the fiscal years thereafter, is as follows (in thousands):

| Fiscal year ending June 30,  | Amount    |
|------------------------------|-----------|
| 2018 (three months)          | \$9,414   |
| 2019                         | 34,204    |
| 2020                         | 29,605    |
| 2021                         | 26,152    |
| 2022                         | 22,580    |
| Thereafter                   | 112,369   |
| Total intangible assets, net | \$234,324 |



## 5. Goodwill

The changes in the carrying amount of goodwill for the year ended June 30, 2017 and the nine months ended March 31, 2018 are as follows (in thousands):

|                              | Domestic    | International | Total       |
|------------------------------|-------------|---------------|-------------|
| Balance at June 30, 2016     | \$2,487,148 | \$ 98,195     | \$2,585,343 |
| Business acquisitions        | (7,652 )    | 2,220         | (5,432 )    |
| Foreign currency translation | —           | (2,476 )      | (2,476 )    |
| Balance at June 30, 2017     | 2,479,496   | 97,939        | 2,577,435   |
| Business acquisitions        | 26,662      | 6,867         | 33,529      |
| Foreign currency translation | —           | 7,946         | 7,946       |
| Balance at March 31, 2018    | \$2,506,158 | \$ 112,752    | \$2,618,910 |

## CACI INTERNATIONAL INC

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

## 6. Long-term Debt

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

|  | March 31,<br>2018 | June 30,<br>2017 |
|--|-------------------|------------------|
| Bank credit facility – term loans      | \$938,393         | \$978,867        |
| Bank credit facility – revolver loans  | 154,500           | 265,000          |
| Principal amount of long-term debt     | 1,092,893         | 1,243,867        |
| Less unamortized debt issuance costs   | (8,993 )          | (12,304 )        |
| Total long-term debt                   | 1,083,900         | 1,231,563        |
| Less current portion                   | (94,438 )         | (53,965 )        |
| Long-term debt, net of current portion | \$989,462         | \$1,177,598      |

## Bank Credit Facility

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

The Revolving Facility is a secured facility that permits continuously renewable borrowings of up to \$850.0 million. As of March 31, 2018, the Company had \$154.5 million outstanding under the Revolving Facility and no borrowings on the swing line. The Company pays a quarterly facility fee for the unused portion of the Revolving Facility.

The Term Loan is a five-year secured facility under which principal payments are due in quarterly installments of \$13.5 million through June 30, 2018 and \$27.0 million thereafter until the balance is due in full on June 1, 2020. As of March 31, 2018, the Company had \$938.4 million outstanding under the Term Loan.

The interest rates applicable to loans under the Credit Facility are floating interest rates that, at the Company's option, equal a base rate or a Eurodollar rate plus, in each case, an applicable rate based upon the Company's consolidated total leverage ratio. As of March 31, 2018, the effective interest rate, including the impact of the Company's floating-to-fixed interest rate swap agreements and excluding the effect of amortization of debt financing costs, for the outstanding borrowings under the Credit Facility was 3.46 percent.

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

permitted under the Credit Facility. As of March 31, 2018, the Company was in compliance with all of the financial covenants. A majority of the Company's assets serve as collateral under the Credit Facility.

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

#### Cash Flow Hedges

The Company periodically uses derivative financial instruments as part of a strategy to manage exposure to market risks associated with interest rate fluctuations. The Company has entered into several floating-to-fixed interest rate swap agreements for an aggregate notional amount of \$800.0 million which hedge a portion of the Company's floating rate indebtedness. The swaps mature at various dates through 2022. The Company has designated the swaps as cash flow hedges. Unrealized gains are recognized as assets while unrealized losses are recognized as liabilities. The interest rate swap agreements are highly correlated to the changes in interest rates to which the Company is exposed. Unrealized gains and losses on these swaps are designated as effective or ineffective. Realized gains and losses in connection with each required interest payment are reclassified from accumulated other comprehensive income or loss to interest expense. The Company does not hold or issue derivative financial instruments for trading purposes.

## CACI INTERNATIONAL INC

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

The effect of derivative instruments in the consolidated statements of operations and accumulated other comprehensive loss for the three and nine months ended March 31, 2018 and 2017 is as follows (in thousands):

|  | Three Months<br>Ended<br>March 31, |         | Nine Months<br>Ended<br>March 31, |          |
|--|------------------------------------|---------|-----------------------------------|----------|
|  | 2018                               | 2017    | 2018                              | 2017     |
| Gain (loss) recognized in other comprehensive income                       | \$3,257                            | \$124   | \$4,778                           | \$8,649  |
| Amounts reclassified to earnings from accumulated other comprehensive loss | 87                                 | 1,921   | 1,687                             | 6,295    |
| Net current period other comprehensive income                              | \$3,344                            | \$2,045 | \$6,465                           | \$14,944 |

The aggregate maturities of long-term debt at March 31, 2018 are as follows (in thousands):

| Twelve months ending March 31,       |             |
|--------------------------------------|-------------|
| 2018                                 | \$94,438    |
| 2019                                 | 107,930     |
| 2020                                 | 890,525     |
| Principal amount of long-term debt   | 1,092,893   |
| Less unamortized debt issuance costs | (8,993)     |
| Total long-term debt                 | \$1,083,900 |

## 7. Commitments and Contingencies

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

### Government Contracting

Payments to the Company on cost-plus-fee and time-and-materials contracts are subject to adjustment upon audit by the Defense Contract Audit Agency (DCAA) and other government agencies that do not utilize DCAA's services. The DCAA is nearing completion of audits of the Company's incurred cost submissions for its fiscal years 2012 and 2013, and is in the process of auditing pre-acquisition incurred cost submissions for fiscal years 2013 through 2015 associated with CACI's acquisition of National Security Solutions (NSS), a L-3 subsidiary. In its efforts to bring its audits more current, DCAA has commenced audits of our incurred cost submission through our fiscal year 2016. We are still negotiating the results of prior years' audits with the respective cognizant contracting officers and believe our reserves for such are adequate. In the opinion of management, adjustments that may result from these audits and the audits not yet started are not expected to have a material effect on the Company's financial position, results of

operations, or cash flows as the Company has accrued its best estimate of potential disallowances. Additionally, the DCAA continually reviews the cost accounting and other practices of government contractors, including the Company. In the course of those reviews, cost accounting and other issues are identified, discussed and settled.

On March 26, 2012, the Company received a subpoena from the Defense Criminal Investigative Service seeking documents related to one of the Company's contracts for the period of January 1, 2007 through March 26, 2012. The Company provided documents responsive to the subpoena and has cooperated fully with the government's investigation. In April, we reached an agreement in principle to resolve the matter and are negotiating a binding settlement agreement. We have accrued our current best estimate of the likely outcome within its estimated range of zero to \$2.0 million.

#### 8. Stock-Based Compensation

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

|  | Three Months<br>Ended<br>March 31,<br>2018 |         | Nine Months<br>Ended<br>March 31,<br>2018 |          |
|--|--|---------|---|----------|
|  | 2017                                       | 2018    | 2017                                      | 2018     |
| Stock-based compensation related to RSUs included in |  |         |   |          |
| indirect costs and selling expense                   | \$5,794                                    | \$5,557 | \$18,183                                  | \$16,114 |

## CACI INTERNATIONAL INC

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

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

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

In September 2014, the Company made its annual grant to key employees consisting of 180,570 PRSUs. The final number of such PRSUs that are earned by participants and vest is based on the achievement of a specified earnings per share (EPS) for the year ended June 30, 2015 and on the average share price of Company stock for the 90 day period ending September 23, 2015, 2016 and 2017 as compared to the average share price for the 90 day period ended September 23, 2014. The specified EPS for the year ended June 30, 2015 was met and the average share price of the Company's stock for the 90 day periods ending September 23, 2015, 2016 and 2017 exceeded the average share price of the Company's stock for the 90 day period ended September 23, 2014, resulting in an additional 63,642 RSUs earned by participants.

In September 2015, the Company made its annual grant to key employees consisting of 208,160 PRSUs. The final number of such PRSUs that are earned by participants and vest is based on the achievement of a specified EPS for the year ending June 30, 2016 and on the average share price of Company stock for the 90 day periods ending September 18, 2016, 2017 and 2018 as compared to the average share price for the 90 day period ended September 18, 2015. The specified EPS for the year ended June 30, 2016 was met and the average share price of the Company's stock for the 90 day period ending September 18, 2016 and 2017 exceeded the average share price of the Company's stock for the 90 day period ended September 18, 2015, resulting in an additional 48,068 RSUs earned by participants.

In September 2016, the Company made its annual grant to key employees consisting of 193,420 PRSUs. The final number of such PRSUs that are earned by participants and vest is based on the achievement of a specified EPS for the year ended June 30, 2017 and on the average share price of Company stock for the 90 day period ending September 30, 2017, 2018 and 2019 as compared to the average share price for the 90 day period ended September 30, 2016. The specified EPS for the year ended June 30, 2017 was met and the average share price of the Company's stock for the 90 day period ending September 30, 2017 exceeded the average share price of the Company's stock for the 90 day period ended September 30, 2016, resulting in an additional 21,824 RSUs earned by participants.

In September 2017, the Company made its annual grant to key employees consisting of 146,550 PRSUs. The final number of such PRSUs that are earned by participants and vest is based on the achievement of a specified EPS for the year ended June 30, 2018 and on the average share price of Company stock for the 90 day period ending September 15, 2018, 2019 and 2020 as compared to the average share price for the 90 day period ended September 15, 2017. If

the specified EPS for the year ended June 30, 2018 is met and if the average share price of the Company's stock for the 90 day period ending September 15, 2018, 2019 and 2020 exceeds the average share price of the Company's stock for the 90 day period ended September 15, 2017 by 100 percent or more, then an additional 146,550 could be earned by participants. This is the maximum number of additional RSUs that can be earned related to the September 2017 annual grant. In addition to the performance and market conditions, there is a service vesting condition which stipulates that 50 percent of the earned award will vest on October 1, 2020 and 50 percent of the earned award will vest on October 1, 2021, in both cases dependent upon continuing service by the grantee as an employee of the Company, unless the grantee is eligible for earlier vesting upon retirement or certain other events.

As of March 31, 2018, the total number of shares authorized by shareholders for grants under the 2016 Plan and its predecessor plan is 1,200,000 plus any forfeitures from the 2006 Plan. The aggregate number of grants that may be made may exceed this approved amount as forfeited RSUs become available for future grants. As of March 31, 2018, cumulative grants of 311,654 equity instruments underlying the shares authorized have been awarded, and 96,259 of these instruments have been forfeited.

## CACI INTERNATIONAL INC

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

Activity related to RSUs during the nine months ended March 31, 2018 is as follows:

|   | RSUs      |
|---|-----------|
| Unvested at June 30, 2017                       | 834,607   |
| Granted   | 269,898   |
| Vested  | (378,007) |
| Forfeited                                       | (44,090 ) |
| Unvested at March 31, 2018                      | 682,408   |
| Weighted-average grant date fair value for RSUs | \$ 145.94 |

As of March 31, 2018, there was \$43.0 million of total unrecognized compensation costs related to RSUs scheduled to be recognized over a weighted-average period of 2.9 years.

### 9. Earnings Per Share

ASC 260, Earnings Per Share (ASC 260), requires dual presentation of basic and diluted earnings per share on the face of the income statement. Basic earnings per share excludes dilution and is computed by dividing income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock but not securities that are anti-dilutive. Using the treasury stock method, diluted earnings per share include the incremental effect of RSUs that are no longer subject to a market or performance condition. The PRSUs granted in September 2017 are excluded from the calculation of diluted earnings per share as the underlying shares are considered to be contingently issuable shares. These shares will be included in the calculation of diluted earnings per share beginning in the first reporting period in which the performance metric is achieved. The chart below shows the calculation of basic and diluted earnings per share (in thousands, except per share amounts):

|   | Three Months               |          | Nine Months Ended |           |
|---|----------------------------|----------|-------------------|-----------|
|   | Ended<br>March 31,<br>2018 | 2017     | 2018              | 2017      |
| Net income  | \$64,499                   | \$40,357 | \$249,340         | \$119,440 |
| Weighted-average number of basic shares outstanding   |                            |          |                   |           |
| during the period                                     | 24,656                     | 24,419   | 24,588            | 24,382    |
| Dilutive effect of RSUs after application of treasury |                            |          |                   |           |
| stock method  | 578                        | 687      | 641               | 652       |



## Weighted-average number of diluted shares outstanding

|                            |        |        |         |        |
|----------------------------|--------|--------|---------|--------|
| during the period          | 25,234 | 25,106 | 25,229  | 25,034 |
| Basic earnings per share   | \$2.62 | \$1.65 | \$10.14 | \$4.90 |
| Diluted earnings per share | \$2.56 | \$1.61 | \$9.88  | \$4.77 |

## 10. Income Taxes

The Company is subject to income taxes in the U.S. and various state and foreign jurisdictions. Tax statutes and regulations within each jurisdiction are subject to interpretation and require the application of significant judgment. The Company is currently under examination by two state jurisdictions for the years 2010 through 2017 and one foreign jurisdiction for the years 2011 through 2015. The Company does not expect 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, 2018 and June 30, 2017 was \$4.1 million and \$1.7 million, respectively. The \$4.1 million unrecognized tax benefit at March 31, 2018, if recognized, would impact the Company's effective tax rate.

## CACI INTERNATIONAL INC

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

The effective income tax rate for the three months ended March 31, 2018 increased to 31.6 percent from 26.8 percent for the same period last year. The effective tax rate increased primarily due to the positive impact in FY2017 of research and development tax credits for the years ending June 30, 2016 and June 30, 2017, both of which were recognized in the third quarter of FY2017. This increase was partially offset by the favorable effect of a reduced federal statutory rate due to the Tax Cuts and Jobs Act (TCJA) for the three months ended March 31, 2018.

The effective income tax rate for the nine months ended March 31, 2018 decreased to (9.6) percent from 33.7 percent for the same period last year. The effective tax rate decreased primarily due to certain impacts of the TCJA, discussed below. The effective tax rate was also favorably affected by excess tax benefits from employee share-based payment awards under ASU 2016-09, a benefit from the research and development tax credit, and gains from the change in value of assets invested in corporate owned life insurance (COLI) policies.

#### Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017. Among other things, the TCJA reduces the U.S. federal corporate tax rate from 35.0 percent to 21.0 percent effective on January 1, 2018. The rate change is administratively effective at the beginning of our fiscal year, using a blended rate for the annual period. As a result, the blended federal statutory tax rate for the year is 28.06 percent. Additionally, the TCJA requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, creates new taxes on certain foreign-sourced earnings and changes or limits certain tax deductions and credits. At March 31, 2018, we have not completed our accounting for the tax effects of enactment of the TCJA; however, as described below, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. For these items we recognized provisional amounts in income tax expense benefit as discussed below.

We remeasured deferred tax asset and liability balances at December 22, 2017 based on the rates at which they are expected to reverse in the future, which is generally 21.0 percent for reversals after FY2018 and a blended rate of 28.06 percent for reversals within FY2018. However, we are still analyzing certain aspects of the Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount recorded related to the remeasurement of our net deferred tax liabilities was a reduction to income tax expense of zero and \$94.8 million for the three and nine months ended March 31, 2018.

The one-time transition tax is based on our total post-1986 earnings and profits ("E&P") for which we have previously deferred from U.S. income taxes. We recorded a provisional amount for our one-time transition tax liability for our foreign subsidiaries, resulting in an increase in income tax expense of zero and \$9.7 million for the three and nine months ended March 31, 2018, respectively. The Company expects to pay this amount over eight years. We have not yet completed our calculation of the total post-1986 foreign E&P for these foreign subsidiaries. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when we finalize the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and finalize the amounts held in cash or other specified assets. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax and any additional outside basis difference inherent in these entities as these amounts continue to be indefinitely reinvested in foreign operations.

The Company will continue to analyze the TCJA to determine the full effects of the new law, including the new lower corporate tax rate, international provisions, and the impact of the TCJA on the 162(m) limitations on its financial condition and results of operations. Additionally, the Company will continue to monitor various state law changes in

reaction to the TCJA as changes are enacted.

The overall impact of the TCJA on our results of operations was a \$5.7 million and \$98.0 million reduction to tax expense for the three and nine months ended March 31, 2018. The corresponding increase in diluted earnings per share was \$0.23 and \$3.88 for the three and nine months ended March 31, 2018, respectively.

## CACI INTERNATIONAL INC

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

## 11. Business Segment Information

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

|  | Domestic<br>Operations | International<br>Operations | Total        |
|--|------------------------|-----------------------------|--------------|
| <b>Three Months Ended March 31, 2018</b> |                        |                             |              |
| Revenue from external customers          | \$ 1,079,953           | \$ 44,147                   | \$ 1,124,100 |
| Net income                               | 60,779                 | 3,720                       | 64,499       |
| <b>Three Months Ended March 31, 2017</b> |                        |                             |              |
| Revenue from external customers          | \$ 1,051,449           | \$ 34,969                   | \$ 1,086,418 |
| Net income                               | 36,920                 | 3,437                       | 40,357       |
| <b>Nine Months Ended March 31, 2018</b>  |                        |                             |              |
| Revenue from external customers          | \$ 3,177,659           | \$ 120,115                  | \$ 3,297,774 |
| Net income attributable to CACI          | 238,542                | 10,798                      | 249,340      |
| <b>Nine Months Ended March 31, 2017</b>  |                        |                             |              |
| Revenue from external customers          | \$ 3,114,365           | \$ 102,863                  | \$ 3,217,228 |
| Net income attributable to CACI          | 109,294                | 10,146                      | 119,440      |

## 12. Fair Value of Financial Instruments

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

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

levels, as follows:

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

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

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

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## CACI INTERNATIONAL INC

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

The Company's financial instruments measured at fair value included interest rate swap agreements and contingent consideration in connection with business combinations. The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 and June 30, 2017, and the level they fall within the fair value hierarchy (in thousands):

| Description of Financial Instrument | Financial Statement Classification             | Fair Value Hierarchy | March                  | June 30, |
|-------------------------------------|--|----------------------|------------------------|----------|
|                                     |  |                      | 31, 2018<br>Fair Value | 2017     |
| Contingent consideration            | Other accrued expenses and current liabilities | Level 3              | \$729                  | \$14,889 |
| Contingent consideration            | Other long-term liabilities                    | Level 3              | \$9,400                | \$658    |
| Interest rate swap agreements       | Other long-term assets                         | Level 2              | \$11,854               | \$5,559  |
| Interest rate swap agreements       | Prepaid expenses and other current assets      | Level 2              | \$721                  | \$—      |
| Interest rate swap agreements       | Other accrued expenses and current liabilities | Level 2              | \$—                    | \$3      |
| Interest rate swap agreements       | Other long-term liabilities                    | Level 2              | \$—                    | \$3,110  |

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

Various acquisitions completed during prior fiscal years contained provisions requiring that the Company pay contingent consideration in the event the acquired businesses achieved certain specified earnings results during the two and three year periods subsequent to each acquisition. The Company determined the fair value of the contingent consideration as of each acquisition date using a valuation model which included the evaluation of the most likely outcome and the application of an appropriate discount rate. At the end of each reporting period, the fair value of the contingent consideration was remeasured and any changes were recorded in indirect costs and selling expenses. During the three and nine months ended March 31, 2018 this remeasurement resulted in a \$0.4 million and \$1.6 million change to the liability recorded.

### 13. Subsequent Events

On May 3, 2018, CACI amended its credit agreement dated as of October 21, 2010 (the Credit Agreement). The amendment includes (i) an extension of the maturity of the Credit Facility to June 30, 2023 (ii) a reduction to interest rate margins by 25 basis points at each level of the applicable rate grid (iii) a revision to the amortization of the principal amount of the Term Loan under the Credit Agreement to reflect the current Term Loan balance and the extended maturity and (iv) an increase in the capacity of the Revolving Facility from \$850.0 million to \$1.1 billion.



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

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

### Overview

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

During the nine months ended March 31, 2018, 93.5 percent of our revenue was derived from contracts with U.S. government agencies versus 93.8 percent in same period in 2017. These were derived through both prime and subcontractor relationships. We also provide services to commercial customers, and through our international operations, to non-U.S. government agencies. We provide our services and solutions to our customers in the following market areas:

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

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Command and Control (C2) – CACI develops, integrates, sustains, and operates agile and flexible C2 solutions, consisting of hardware, software, and interfaces that enhance our customers’ situational awareness, planning, execution, and assessment. CACI’s solutions enable network-centric operations to generate decision advantage in the most demanding environments.

Communications – CACI’s broad-based solutions offer communications capabilities for soldier systems, mobile platforms, fixed facilities, and the enterprise. We leverage our expertise to design, develop, integrate, and provide field support to deliver rapidly deployable communications solutions when they are required anywhere in the world. CACI develops and integrates solutions that deliver secure multi-level unified communications from the enterprise directly to and from the tactical edge. We rapidly tailor and implement our products, services, and solutions to fit the specific missions and operating contexts of our customers.

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

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**Enterprise Information Technology (IT)** – CACI’s Enterprise IT solutions enable our customers’ missions. Our experts secure operational IT environments in the defense, intelligence, homeland security, and civilian communities. We provide tailored, end-to-end, enterprise-wide information solutions and services for the design, development, integration, deployment, operations and management, sustainment, and security of our customers’ IT solutions. Our solutions include cloud-powered solutions; performance-based service management; development operations and mobility; defensive cyber; end-user services; and infrastructure services. We support customers in the adoption of virtualized cloud services and mobile solutions that are revolutionizing the efficiency, reliability, and cost-effectiveness of IT services. We provide managed services and technical services that enhance efficiency, improve mission uptime, and reduce costs. Our operational, analytic, consulting, and transformational services use industry leading-edge practices, standards, and innovations to enable and optimize the full lifecycle of the enterprise IT environment.

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

**Intelligence Services** – CACI’s intelligence specialists support our customers’ mission to convert data collected from all information sources into knowledge that enables event forecasting and empowers decisions. Our support is provided at the strategic and tactical levels, and consists of intelligence analysis, operations and planning, policy, doctrine, and security support. We work within the United States and internationally, providing analysis of data received from a variety of sources, and we provide direct support such as ground truth and intelligence gathering internationally.

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

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

**Logistics and Material Readiness** – CACI provides a full suite of logistics and material readiness solutions and professional service offerings that ensure the efficient, effective, and secure global flow and storage of materials, services, and information in support of U.S. government agencies. We provide complete product lifecycle

management to make certain that provisions, equipment, and systems are ready anytime, anywhere. We deploy comprehensive supply chain solutions to enhance visibility, facilitate readiness-based sparing, and analyze readiness in near-real time. To advance the secure flow of supplies, we optimize efficiency while minimizing the time and cost of meeting readiness requirements across the enterprise. We provide our customers with workforce readiness by tailoring solutions to achieve the optimal capability of the organization and individual. We develop and manage logistics information systems as well as specialized simulation and modeling toolsets, and provide logistics engineering services.

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**Space Operations and Resiliency** – CACI provides the advanced technology and mission support capabilities required to launch, operate, and exploit systems in the space domain. Our unique solutions predict outcomes, allowing decision-makers more time and better options for executing the mission. Our advanced analytics capabilities are used across the mission space ranging from the execution of launch operations planning to the mission management of complex on orbit systems. We utilize advanced big data and deep learning solutions to enhance the ability of our mission partners to solve their most complex problems. We also provide Engineering, Logistics and Modification solutions to globally deployed ground systems used to provide critical mission capabilities to ongoing missions as well as launch and early orbit events.

**Surveillance and Reconnaissance** – CACI integrates surveillance and reconnaissance technologies into platforms that support identification of potential targets and enhance troop safety. We develop and integrate state-of-the-art surveillance and reconnaissance sensors into air and ground systems, leveraging our mission-customized software and electronics. We provide integration, development, quick-reaction solutions and technical support services in support of military, intelligence, and homeland security missions throughout the U.S. and around the world.

We continue to carefully follow federal budget, legislative and contracting trends and activities and structure our strategies to take these into consideration. Since March 2013, the federal government has been operating under sequestration required by the BCA. Under sequestration, constraints on discretionary expenditures have taken place each of the government's fiscal years since 2013 and, unless the BCA is amended or repealed, will continue through the government's Fiscal Year 2021. Congress has amended the BCA primarily through the passage of bipartisan budget acts in 2013, 2015, and 2018. Each of these acts raised discretionary spending caps for the government fiscal years 2014 through 2019. In particular, the Bipartisan Budget Act of 2018 (BBA 2018), passed and signed into law on February 9, 2018, established a framework and increased the caps on defense and non-defense discretionary spending for the government's FY2018 and FY2019. Defense caps were increased by \$80 billion for FY2018 and \$85 billion for FY2019, while non-defense caps were increased by \$63 billion and \$68 billion, respectively.

From October 1, 2017 until March 23, 2018, except for January 20<sup>th</sup> to the 22<sup>nd</sup>, the U.S. Government operated under a series of continuing resolutions (CRs). During those months while the government operated under CRs, we continuously reviewed our operations in an attempt to identify those programs that were potentially at risk from the consequences of sequestration beyond the coverage of the legislation that was in effect so that we could make appropriate contingency plans, should they have been necessary. We temporarily experienced reduced and delayed funding on some of our programs. On March 23<sup>rd</sup>, as a result of the passage of the BBA 2018, the president signed into law a \$1.3 trillion omnibus appropriations package for FY2018 that will fund the government's operations through September 30, 2018. We expect the impact of that omnibus appropriations legislation and actions Congress will take on contracts and task orders we hold, and may receive, to continue throughout our FY2018.

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

through March 1, 2019 to allow the government to borrow whatever it needs through that time to fully finance government operations.

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

## Results of Operations for the Three Months Ended March 31, 2018 and 2017

Revenue. The table below sets forth revenue by customer type with related percentages of total revenue for the three months ended March 31, 2018 and 2017, respectively:

| (dollars in thousands)    | Three Months Ended March 31, |        | Change      |        |          |        |
|---------------------------|------------------------------|--------|-------------|--------|----------|--------|
|                           | 2018                         | 2017   | \$          | %      |          |        |
| Department of Defense     | \$747,203                    | 66.5 % | \$700,212   | 64.4 % | \$46,991 | 6.7 %  |
| Federal civilian agencies | 299,309                      | 26.6   | 320,269     | 29.5   | (20,960) | (6.5 ) |
| Commercial and other      | 77,588                       | 6.9    | 65,937      | 6.1    | 11,651   | 17.7   |
| Total                     | \$1,124,100                  | 100.0% | \$1,086,418 | 100.0% | \$37,682 | 3.5 %  |

For the three months ended March 31, 2018, total revenue increased by 3.5 percent, or \$37.7 million, compared to the same period a year ago. This growth in revenue resulted primarily from improved financial performance on fixed price and fixed unit price contracts, higher award and one-time incentive fees and product sales.

DoD revenue increased 6.7 percent, or \$47.0 million, for the three months ended March 31, 2018, as compared to the same period a year ago primarily due to new intelligence services and satellite network support business. DoD revenue includes services provided to the U.S. Army, our largest customer, where our services focus on supporting readiness, tactical military intelligence, and communications systems. DoD revenue also includes work with the U.S. Navy and other DoD agencies across all of our major service offerings.

Revenue from federal civilian agencies decreased 6.5 percent, or \$21.0 million, for the three months ended March 31, 2018, as compared to the same period a year ago. This decrease was primarily attributable to reduced material sales and customer requirements offset by growth in investigation and litigation support services. Federal civilian agency revenue also includes services provided to non-DoD national intelligence agencies.

Commercial and other revenue increased 17.7 percent, or \$11.7 million for the three months ended March 31, 2018, as compared to the same period a year ago. This increase was attributable to increased new managed services business from our international operations. Commercial revenue and other is derived from both international and domestic operations. Of the total commercial and other revenue, international operations accounted for 56.9 percent, or \$44.1 million for the three months ended March 31, 2018 as compared to 53.0 percent or \$35.0 million over the same period a year ago due to growth of managed services business from acquisitions. Domestic operations accounted for 43.1 percent or \$33.5 million as compared to 47.0 percent or \$30.9 million over those same periods a year ago, due to increased technology support and product sales.

Income from Operations. The following table sets forth the relative percentage that certain items of expense and earnings bear to revenue for the three months ended March 31, 2018 and 2017, respectively.

| (dollars in thousands)              | Dollar Amount                     |                                   | Percentage of Revenue             |                                   | Change   |         |
|-------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------|---------|
|                                     | Three Months Ended March 31, 2018 | Three Months Ended March 31, 2017 | Three Months Ended March 31, 2018 | Three Months Ended March 31, 2017 | \$       | %       |
| Revenue                             | \$1,124,100                       | \$1,086,418                       | 100.0%                            | 100.0%                            | \$37,682 | 3.5 %   |
| Costs of revenue                    |                                   |                                   |                                   |                                   |          |         |
| Direct costs                        | 728,444                           | 732,224                           | 64.8                              | 67.4                              | (3,780 ) | (0.5 )  |
| Indirect costs and selling expenses | 273,145                           | 269,237                           | 24.3                              | 24.8                              | 3,908    | 1.5     |
| Depreciation and amortization       | 17,717                            | 17,703                            | 1.6                               | 1.6                               | 14       | 0.1     |
| Total costs of revenue              | 1,019,306                         | 1,019,164                         | 90.7                              | 93.8                              | 142      | —       |
| Income from operations              | 104,794                           | 67,254                            | 9.3                               | 6.2                               | 37,540   | 55.8    |
| Interest expense and other, net     | 10,566                            | 12,107                            | 0.9                               | 1.1                               | 1,541    | (12.7 ) |
| Income before income taxes          | 94,228                            | 55,147                            | 8.4                               | 5.1                               | 39,081   | 70.9    |
| Income tax expense                  | 29,729                            | 14,790                            | 2.7                               | 1.4                               | 14,939   | 101.0   |
| Net income                          | \$64,499                          | \$40,357                          | 5.7 %                             | 3.7 %                             | \$24,142 | 59.8 %  |

Income from operations for the three months ended March 31, 2018 was \$104.8 million. This was an increase of \$37.5 million, or 55.8 percent, from income from operations of \$67.3 million for the three months ended March 31, 2017. Our operating margin of 9.3 percent for the period ended March 31, 2018 increased from 6.2 percent during the period ended March 31, 2017. This increase is due to increased profitability in program performance on fixed price and fixed unit price contracts, higher award and one-time incentive fees and product sales.

As a percentage of revenue, direct costs were 64.8 percent and 67.4 percent for the three months ended March 31, 2018 and 2017, respectively. Direct costs include direct labor and ODCs, which include, among other costs, subcontracted labor and material purchases.

Indirect costs and selling expenses include fringe benefits (attributable to both direct and indirect labor), facilities, marketing and bid and proposal (B&P) costs, indirect labor, and other discretionary expenses. Indirect costs and selling expenses increased \$3.9 million or 1.5 percent for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017. As a percentage of revenue indirect costs and selling expenses were 24.3 percent and 24.8 percent for the three months ended March 31, 2018 and 2017, respectively. This percentage decrease includes reductions in B&P, facility costs and bad debt expense offset by an increase to merger and acquisition costs.

Depreciation and amortization expense increased 14 thousand or 0.1 percent for the three months ended March 31, 2018 as compared to the same period a year ago.

Interest expense and other, net decreased \$1.5 million or 12.7 percent during the three months ended March 31, 2018 as compared to the same period a year ago. The decrease primarily relates to lower outstanding debt balances.

The effective income tax rate for the three months ended March 31, 2018 increased to 31.6 percent from 26.8 percent for the same period last year. The effective tax rate increased primarily due to the positive impact in FY2017 of research and development tax credits for the years ending June 30, 2016 and June 30, 2017, both of which were recognized in the third quarter of FY2017. This increase was partially offset by the favorable effect of a reduced

federal statutory rate due to the Tax Cuts and Jobs Act (TJCA) for the three months ended March 31, 2018.

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## Results of Operations for the Nine Months Ended March 31, 2018 and 2017

Revenue. The table below sets forth revenue by customer type with related percentages of total revenue for the nine months ended March 31, 2018 and 2017, respectively:

| (dollars in thousands)    | Nine Months Ended March 31, |        | Change      |        |           |       |
|---------------------------|-----------------------------|--------|-------------|--------|-----------|-------|
|                           | 2018                        | 2017   | \$          | %      |           |       |
| Department of Defense     | \$2,181,495                 | 66.1 % | \$2,077,088 | 64.5 % | \$104,407 | 5.0 % |
| Federal civilian agencies | 902,075                     | 27.4   | 942,115     | 29.3   | (40,040 ) | (4.3) |
| Commercial and other      | 214,204                     | 6.5    | 198,025     | 6.2    | 16,179    | 8.2   |
| Total                     | \$3,297,774                 | 100.0% | \$3,217,228 | 100.0% | \$80,546  | 2.5 % |

For the nine months ended March 31, 2018, total revenue increased by 2.5 percent, or \$80.5 million, over the same period a year ago. This growth in revenue resulted primarily from increase in fixed price and fixed unit price contracts, higher award and one-time incentive fees and product sales during the quarter ended March 31, 2018.

DoD revenue increased 5.0 percent, or \$104.4 million, for the nine months ended March 31, 2018, as compared to the same period a year ago. This growth was primarily from new business in intelligence and technology support services. DoD revenue includes services provided to the U.S. Army, our largest customer, where our services focus on supporting readiness, tactical military intelligence, and communications systems. DoD revenue also includes work with the U.S. Navy and other DoD agencies across all of our major service offerings.

Revenue from federal civilian agencies decreased 4.3 percent, or \$40.0 million, for the nine months ended March 31, 2018, as compared to the same period a year ago. This decrease was primarily attributable to reduced material sales and customer requirements offset by growth in investigation and litigation support services. Federal civilian agency revenue also includes services provided to non-DoD national intelligence agencies.

Commercial and other revenue increased 8.2 percent, or \$16.2 million primarily from our international and domestic technology services and cyber security products. This increase was primarily attributable to increased product orders and managed services revenue from acquisitions within our international operations. Commercial and other revenue is derived from both international and domestic operations. Of the total commercial and other revenue, international operations accounted for 56.1 percent, or \$120.1 million for the nine months ended March 31, 2018 as compared to 51.9 percent, or \$102.9 million over the same period a year ago. Domestic operations accounted for 43.9 percent, or \$94.1 million as compared to 48.1 percent, or \$95.1 million over the same period a year ago.

Income from Operations. The following table sets forth the relative percentage that certain items of expense and earnings bear to revenue for the nine months ended March 31, 2018 and 2017, respectively.

| (dollars in thousands)              | Dollar Amount               |             | Percentage of Revenue       |        | Change    |         |
|-------------------------------------|-----------------------------|-------------|-----------------------------|--------|-----------|---------|
|                                     | Nine Months Ended March 31, |             | Nine Months Ended March 31, |        | \$        | %       |
|                                     | 2018                        | 2017        | 2018                        | 2017   |           |         |
| Revenue                             | \$3,297,774                 | \$3,217,228 | 100.0%                      | 100.0% | \$80,546  | 2.5 %   |
| Costs of revenue                    |                             |             |                             |        |           |         |
| Direct costs                        | 2,195,282                   | 2,165,766   | 66.6                        | 67.3   | 29,516    | 1.4     |
| Indirect costs and selling expenses | 788,569                     | 780,397     | 23.9                        | 24.2   | 8,172     | 1.0     |
| Depreciation and amortization       | 53,563                      | 53,898      | 1.6                         | 1.7    | (335 )    | (0.6 )  |
| Total costs of revenue              | 3,037,414                   | 3,000,061   | 92.1                        | 93.2   | 37,353    | 1.2     |
| Income from operations              | 260,360                     | 217,167     | 7.9                         | 6.8    | 43,193    | 19.9    |
| Interest expense and other, net     | 32,769                      | 36,921      | 1.0                         | 1.2    | (4,152 )  | (11.2 ) |
| Income before income taxes          | 227,591                     | 180,246     | 6.9                         | 5.6    | 47,345    | 26.3    |
| Income tax expense (benefit)        | (21,749 )                   | 60,806      | (0.7 )                      | 1.9    | (82,555 ) | (135.8) |
| Net income                          | \$249,340                   | \$119,440   | 7.6 %                       | 3.7 %  | \$129,900 | 108.8 % |

Income from operations for the nine months ended March 31, 2018 was \$260.4 million. This was an increase of \$43.2 million, or 19.9 percent, from income from operations of \$217.2 million for the nine months ended March 31, 2017. Our operating margin of 7.9 percent for the period ended March 31, 2018 increased from 6.8 percent during the period ended March 31, 2017. This increase was due to improved financial performance on fixed price and fixed unit price contracts, higher award and incentive fees and product sales.

As a percentage of revenue, direct costs were 66.6 percent and 67.3 percent for the nine months ended March 31, 2018 and 2017, respectively. Direct costs include direct labor and ODCs, which include, among other costs, subcontracted labor and material purchases.

Indirect costs and selling expenses include fringe benefits (attributable to both direct and indirect labor), facilities, marketing and B&P costs, indirect labor, and other infrastructure expenses. Indirect costs and selling expenses increased 1.0 percent or \$8.2 million comparing the nine months ended March 31, 2018 to the nine months ended March 31, 2017. As a percentage of revenue indirect costs and selling expenses were 23.9 percent and 24.2 percent for the nine months ended March 31, 2018 and 2017, respectively. This percentage decrease was driven by lower B&P and lower facilities costs due to lease consolidations.

Depreciation and amortization expense decreased \$0.3 million or 0.6 percent for the nine months ended March 31, 2018 as compared to the same period a year ago. This decrease was the result of the run-off of amortization expense related to prior acquisitions, partially offset by increased depreciation expense.

Interest expense and other, net decreased \$4.2 million or 11.2 percent during the nine months ended March 31, 2018 as compared to the same period a year ago. The decrease primarily relates to lower outstanding debt balances.

The effective income tax rate for the nine months ended March 31, 2018 decreased to (9.6) percent from 33.7 percent for the same period last year, primarily due to a net benefit from the TCJA, discussed in Note 10. The effective tax rate was also favorably affected by excess tax benefits from employee share-based payment awards under ASU 2016-09, a benefit from the research and development tax credit, and gains from the change in value of assets invested in corporate owned life insurance (COLI) policies.

## Liquidity and Capital Resources

As of March 31, 2018, the aggregate amount of committed financing under our Credit Facility was \$1,981.3 million, which included an \$850.0 million revolving credit facility, and a \$1,131.3 million term loan. The Credit Facility matures on June 1, 2020.

The Revolving Facility is a secured facility that permits continuously renewable borrowings and has subfacilities of \$100.0 million for same-day swing line borrowings and \$25.0 million for stand-by letters of credit. As of March 31, 2018, we had \$154.5 million outstanding under the Revolving Facility and no borrowings on the swing line.

The Term Loan is a five-year secured facility under which principal payments are due in quarterly installments of \$13.5 million through June 30, 2018 and \$27.0 million thereafter until the balance is due in full on June 1, 2020. As of March 31, 2018, \$938.4 million was outstanding under the Term Loan.

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 the greater of \$400.0 million or an amount subject to 2.75 times secured leverage, calculated assuming the Revolving Facility is fully drawn, with applicable lender approvals.

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.

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.

Cash and cash equivalents were \$56.0 million and \$65.5 million as of March 31, 2018 and June 30, 2017, respectively. Our operating cash flow was \$254.5 million for the nine months ended March 31, 2018 compared to \$216.5 million for the same period a year ago. The year-over-year increase is primarily due to the timing of vendor payables and receivable collections. Days-sales outstanding (DSO) was 62 days at March 31, 2018, compared to 58 days at March 31, 2017 due to normal fluctuations in collections.

Cash used in investing activities was \$82.2 million and \$20.8 million during the nine months ended March 31, 2018 and 2017, respectively. During the nine months ended March 31, 2018 we paid \$50.4 million for business acquisitions, as compared to \$5.8 million during the same period a year ago. For the nine months ended March 31, 2017 we received a net working capital refund from our NSS acquisition of \$13.6 million. We also received \$4.7 million of capital contributions relating to our joint ventures. We had no similar proceeds during the nine months ended March 31, 2018.

Cash flows used in financing activities were \$183.3 and \$189.1 million during the nine months ended March 31, 2018 and March 31, 2017, respectively. During the nine months ended March 31, 2018 and March 31, 2017 we had net payments under our credit facility of \$151.0 million and \$178.5 million, respectively. During the nine months ended March 31, 2018 we paid \$11.6 million of contingent consideration related to various acquisitions made during prior fiscal years. We made no similar payments during the nine months ended March 31, 2017. During the nine months ended March 31, 2018 and March 31, 2017 we also used cash within financing activities of \$20.7 million and \$10.6

million to pay taxes on equity transactions.

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. We may in the future seek to borrow additional amounts under a long-term debt security. Over the longer term, our ability to generate sufficient cash flows from operations necessary to fulfill the obligations under the Credit Facility and any other indebtedness we may incur 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.

The TCJA was enacted on December 22, 2017. Among other things, the TCJA reduces the U.S. federal corporate tax rate from 35 percent to 21 percent, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, creates new taxes on certain foreign-sourced earnings and changes or limits certain tax deductions. The Company expects that these changes will have a net favorable impact on the Company's future after-tax earnings, primarily due to the lower federal tax rate, however, we have not fully analyzed the potential benefit the TCJA could have on our free cash flow. The Company will continue to assess the expected impacts of the TCJA on our consolidated financial statements.

### 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, motor vehicles in the U.K., 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, 2017. 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. 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. We have entered into floating-to-fixed interest rate swap agreements for an aggregate notional amount of \$800.0 million related to a portion of our floating rate indebtedness. All remaining balances under our Term Loan, and any additional 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, 2018 would have fluctuated by approximately \$2.9 million.

Approximately 3.6 percent and 3.2 percent of our total revenue in nine months ended March 31, 2018 and 2017, respectively, was derived from our international operations headquartered in the U.K. Our practice in our international operations 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, 2018, we held a combination of euros and pounds sterling in the U.K. and in the Netherlands equivalent to approximately \$19.4 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. 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 operating and effective at March 31, 2018.

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, 2018.

## 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 Proceedings in the Registrant's Annual Report on Form 10-K for the year ended June 30, 2017 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 remand, Defendant CACI Premier Technology, Inc. moved to dismiss Plaintiffs' claims based upon the political question doctrine. On June 18, 2015, the Court issued an Order granting Defendant CACI Premier Technology, Inc.'s motion to dismiss, and on June 26, 2015 entered a final judgment in favor of Defendant CACI Premier Technology, Inc.

On July 23, 2015, Plaintiffs filed a Notice of Appeal of the district court's June 2015 decision. On October 21, 2016, the Court of Appeals vacated and remanded the District Court's judgment with instructions for the District Court to make further determinations regarding the political question doctrine. The District Court conducted an initial status conference on December 16, 2016. On June 9, 2017, the District Court dismissed Plaintiff Rashid without prejudice from the action based upon his inability to participate. On July 19, 2017, CACI Premier Technology, Inc. filed a motion to dismiss the action on numerous legal grounds. The Court held a hearing on that motion on September 22, 2017, and denied the motion pending issuance of a written decision. On January 17, 2018, CACI filed a third-party complaint naming the United States and John Does 1-60, asserting claims for contribution, indemnification, exoneration and breach of contract in the event that CACI Premier Technology, Inc. is held liable to Plaintiffs, as Plaintiffs are seeking to hold CACI Premier Technology, Inc. liable on a co-conspirator theory and a theory of aiding and abetting. On April 13, 2018, the Court held a hearing on the United States' motion to dismiss and took the matter under advisement.

Abbass, et al v. CACI Premier Technology, Inc. and CACI International Inc, Case No. 1:13CV1186-LMB/JFA (EDVA)

Reference is made to Part I, Item 3, Legal Proceedings in the Registrant's Annual Report on Form 10-K for the year ended June 30, 2017 for the most recently filed information concerning the suit filed in the United States District Court for the Eastern District of Virginia. The lawsuit names CACI International Inc and CACI Premier Technology, Inc. as Defendants. Plaintiffs seeks, inter alia, compensatory damages, punitive damages, and attorney's fees.

Since the filing of Registrant's report described above, the case remains stayed pending the outcome in the Al Shimari appeal.

We are vigorously defending the above-described legal proceedings, and based on our present knowledge of the facts, believe the lawsuits are 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, 2017. 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

The following table provides certain information with respect to our purchases of shares of CACI International Inc's common stock:

| Period        | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased As Part of Publicly Announced Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------|----------------------------------|------------------------------|---|--|
| January 2018  | 9,654                            | \$ 138.64                    | 1,140,584   | 109,416  |
| February 2018 | —                                | —                            | —   | —  |
| March 2018    | —                                | —                            | —   | —  |
| Total         | 9,654                            | \$ 138.64                    | 1,140,584   | 109,416  |

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

| Exhibit<br>No. | Description   | Filed<br>with this<br>Form<br>10-Q | Incorporated by<br>Reference |             |
|----------------|---|------------------------------------|------------------------------|-------------|
|                |   |                                    | Filing<br>Form Date          | Exhibit No. |
| 31.1           | <u>Section 302 Certification Kenneth Asbury</u>   | X                                  |                              |             |
| 31.2           | <u>Section 302 Certification Thomas A. Mutryn</u>   | X                                  |                              |             |
| 32.1           | <u>Section 906 Certification Kenneth Asbury</u>   | X                                  |                              |             |
| 32.2           | <u>Section 906 Certification Thomas A. Mutryn</u>   | X                                  |                              |             |
| 101            | The following materials from the CACI International Inc Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements. * |                                    |                              |             |

\*Submitted electronically herewith.

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, 2018 By: /s/ Kenneth Asbury  
Kenneth Asbury  
President,  
Chief Executive Officer and Director  
(Principal Executive Officer)

Date: May 4, 2018 By: /s/ Thomas A. Mutryn  
Thomas A. Mutryn  
Executive Vice President,  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)

Date: May 4, 2018 By: /s/ Gregory W. Buckis, Sr.  
Gregory W. Buckis, Sr.  
Senior Vice President, Corporate Controller  
and Chief Accounting Officer  
(Principal Accounting Officer)