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## **CACI INTERNATIONAL**

**Moderator: Paul Cofoni**  
**October 29, 2009**  
**8:30 am ET**

**Operator:** Ladies and gentlemen, thank you for standing by. Welcome to the CACI International First Quarter Fiscal Year 2010 conference call. Today's call is being recorded.

At this time, all lines are in a listen only mode. Later, we will announce the opportunity for questions and instructions will be given at that time. If you should need assistance during this call, please press star 0 and someone will help you. A special reminder to our media guests who are listening in - please remember that during the question and answer portion of this call we are only taking questions from the analysts.

At this time, I would like to turn the conference over to Mr. Dave Dragics, Senior Vice President of Investor Relations for CACI International. Please go ahead, sir.

### **INTRODUCTION AND SAFEHARBOR STATEMENT**

**David Dragics:** Thanks, Angel, and good morning ladies and gentlemen. I'm Dave Dragics, Senior Vice President of Investor Relations for CACI International, and we're very pleased that you're able to participate with us today.

Now as is our practice on these calls, we are providing presentation slides. During our presentation, we'll make every effort to keep all of you on the same page as we are. So let's move to slide number 2.

Before we begin our discussion this morning, I would like to make our customary but important statement regarding our written and oral disclosures and commentary. There will be statements in this call that do not address historical fact and as such constitute forward-looking statements under current law. These statements reflect our views as of today and are subject to important factors that could cause our actual results to differ materially from anticipated results. Factors that could cause our actual results to differ materially from those we anticipate are listed at the bottom of last evening's earnings release and are described in the company's Securities and Exchange Commission filings and our Safe Harbor statement is included on this exhibit and should be incorporated as part of any transcript of this call. And I'd also like to point out that our presentation today will include discussion of non-GAAP financial measures and these non-GAAP measures should not be considered in isolation or as a substitute for performance measures prepared in accordance with GAAP.

Now let's go to the next slide please and to open up our discussion this morning here is Paul Cofoni, President and Chief Executive Officer of CACI International. Paul.

## CEO OVERVIEW

**Paul Cofoni:** Thank you, Dave, and good morning everyone. Thank you for joining us on the conference call.

With me to discuss our results and answer your questions are Tom Mutryn, Chief Financial Officer, **Bill Fairl:**, President of US Operations, Randy Fuerst, Chief Operating Officer of US Operations and by phone from the United Kingdom, Greg Bradford, Chief Executive of CACI Limited UK.

Let me begin today by providing you an overview of our results for the quarter and discussing how execution of our growth strategy drives these results.

We are pleased to announce strong results with record first quarter revenue and earnings per share. Our revenue grew 13 percent, primarily from organic growth, and our earnings per share grew more than 22 percent. Importantly, the revenue growth occurred across every one of our eight functional core competencies underscoring the breadth of our revenue base. Three areas—C4ISR, document and media exploitation and enterprise IT—delivered particularly strong growth this quarter.

National security remains one of the greatest challenges for our nation and CACI Services focus on addressing this challenge. We have competitive strengths in defense, intelligence, homeland security, cyber security and IT modernization and we are building on these strengths. We continue to pursue opportunities in these areas and are exploring growth opportunities in adjacent markets such as healthcare and energy.

Slide 5 please - Our growth strategy, which drives our financial performance, has three major components: First, provide mission critical services to our government clients to address increasing threats to national security. In other words, focus on our clients' most pressing challenges.

Second, concentrate on well-funded areas such as defense, intelligence and homeland security where we have clear competitive advantages, an excellent track record and enduring customer relationships.

And third, identify and capitalize on new opportunities for growth both organically and through acquisitions in existing and adjacent market sectors.

But it's not enough to have the right growth strategy. CACI is successfully executing our strategy and consistently delivering outstanding results. We have recorded double digit organic growth in eight out of the last nine quarters and double digit earnings per share growth in six out of the last seven quarters.

While we are confident in our growth strategy and expect to continue to see strong performance, we recognize that the industry is facing some challenges. Let me tell you how we are addressing these challenges of organizational conflict of interest, in-sourcing and the pressures on government spending.

Let's go to slide 6. First, recent organizational conflict of interest legislation was designed to eliminate contractual situations in which a single contractor may have dual roles of defining requirements and fulfilling requirements. We have and will continue to successfully deal with these conditions by avoiding these conflicts. In other words, by not bidding into a conflicting situation or by creating sufficient organizational separation to assure our clients that the potential for conflict has been adequately mitigated. For these reasons we do not see this as an obstacle to our growth strategy.

The second challenge we are closely monitoring, of course, is in-sourcing. We have experienced minor instances of in-sourcing in a few areas. But our contract wins of new work and our strong hiring program has more than offset that. Our government clients recognize that the competitive nature of the private sector adds innovation, productivity and efficiency that translate into benefits for their missions and the American taxpayer. Therefore, we do not believe that in-sourcing will have a significant impact on CACI.

Finally, we believe the future pressures on government spending will provide CACI with opportunity to help our clients improve efficiency while reducing cost. Our solutions and processes for IT modernization increase productivity, lower costs and improve the quality of government services.

I am confident we are well positioned to manage these industry challenges. As a result, we expect to continue to win large, complex contracts and to deliver solid performance for our clients and our shareholders.

Now, I'd like to turn the call over to Tom who will provide more information on our results. Tom.

## **FINANCIAL OVERVIEW**

**Tom Mutryn:** Thank you, Paul and good morning, everyone. Please turn to slide number 7.

We are glad to be able to report another quarter of strong revenue and earnings growth. Revenue grew year over year by 12.9 percent, with 11.8 percent organic growth in UK acquisition related revenue. For the quarter our direct billable labor, the more profitable aspect of our business, grew a solid 8.3 percent. And our other direct costs were up an impressive 19.8 percent, driven by our growing C4ISR work under contract vehicles such as S3, TESS and ITES-2S.

We seek to grow both direct labor and other direct costs because each helps our customers with their important mission and contributes to our bottom line earnings. In quarters in which our other direct costs grow faster than our direct labor, our margins may drop as it did this quarter. While profit margins vary from contract to contract, our diverse portfolio provides earnings stability, strong cash flow and growth opportunities.

Next, slide number 8 - Our other key financial metrics show meaningful increases. EBITDA was up 6.8 percent, operating income was up 11.4 percent and net income was up 21.8 percent.

Our continued, strong funding growth in our direct labor and other direct costs, lower amortization and net interest expense and a lower effective tax rate bolstered this solid performance.

The effective tax rate was 38.1 percent for the quarter, lower than what we had assumed, reflecting gains we realized in equity investments in our executive and deferred compensation plans. We are now using a 38.1 percent effective tax rate for our planning for the rest of the year, which is based on an assumption of no plan gains or losses for the remaining nine months of our fiscal year.

Next slide please, Number 9 - our UK operations turned in excellent performance for the first quarter. Revenue was up 24 percent over the first quarter of last year, primarily the result of three smaller UK acquisitions. Net income margin was 7.2 percent.

Our cash position at the end of the quarter was \$200 million, with first quarter cash flow from operations at \$51 million. Our DSO dropped to 59 days, reflecting our long-standing commitment to operational excellence.

As you know, we record several large, non-cash charges, depreciation, amortization, stock complication expense and non-cash interest expense. For that reason, we report cash EPS, a non-GAAP measure, to underscore our strong cash-based results. For the quarter cash EPS was \$1.20, well in excess of our GAAP EPS of 78 cents.

Our balance sheet remains strong. In early June we pre-paid \$50 million of our Term V loan that had a maturity date of 2011 in May to reduce net interest expense. Our quarter end net debt was at \$331 million. Our net debt to trailing EBITDA leverage ratio was at a comfortable 1.4 times, and we have no near term financing requirements. Let me point out that our GAAP debt now reflects a lower principal amount for our convertible debt due to the new accounting for convertibles.

We are confident that we are able to execute reasonably sized acquisitions with our current capital structure, and we believe that we are able to tap the capital markets for additional, relatively attractive financing if the needs arise.

Please go to slide number 10. We are increasing our fiscal year 2010 guidance ranges. We now expect revenue to be between \$2.95 to \$3.05 billion, and earnings per share to be between \$3.25 and \$3.45. The primary driver of the increase is strong domestic and UK performance followed by a lower expected tax rate, partly offset by increases in variable compensation.

With that, let me turn the call over to Bill Fairl. Bill.

## **OPERATIONS OVERVIEW**

**Bill Fairl:** Thanks, Tom, and welcome to everyone on the call.

This morning, I will address highlights from operations during our first quarter of fiscal year 2010. I'll start off by calling your attention to our funding orders. For the first time ever we exceeded \$1 billion in quarterly funding orders. This represents growth of 10-1/2 percent, or approximately \$100 million over the first quarter of fiscal year 2009. It puts our funded backlog at more than \$1.9 billion. That's a 16 percent increase over the first quarter of fiscal year 2009 and an all time high.

I want to take a few minutes now and share our thoughts on why we believe funding orders are so important and why they are the surest indicator of top and bottom line growth over the next 12 months. To do so let me distinguish between contract awards and funding orders.

Contract awards represent the government selecting a contractor to provide goods and services over a certain period of time without necessarily providing any funding or even authorizing the contractor to start work. The value of a contractor's contract award is a very subjective number. There is no standard definition. Since it's based on estimated future funding, it is a much less certain indicator of future gross prospects particularly when you're dealing with multiple award contracts.

On the other hand, funding orders represent a contractual obligation for the government to actually purchase those goods and services. Funding orders is a well-defined term and is the basis for calculating funded backlog. By booking more funding during our fiscal year than we expend, we increase our funded backlog and, therefore, have a strong indicator that we will have top and bottom line growth in our next year. As you know, in fiscal year '09 we achieved funded orders of \$3 billion and generated revenue of \$2.7 billion.

I also want to address the significance of September 30 as the end of the government fiscal year as it relates to the timing of funding orders and contract awards. In general, this is an important date for funding orders but not for contract awards. Funds from a particular government fiscal year must be obligated against a contract or task order by September 30<sup>th</sup> or they will be lost if

the government agency fails to obligate them. This is generally not the case for contract awards. There is little if any pressure for them to be awarded in any particular quarter, including the fourth quarter of the government's fiscal year.

While I'm on the subject of contract awards, we received more than \$700 million in awards during our first quarter and we won our major recompetes. Over the past two quarters, we received contract awards totaling \$2 billion, and for the trailing 12 months our contract awards totaled \$3.7 billion. Our strong operational performance this quarter was driven in particular by new work in both the intell and C4ISR arenas. In both instances we were able to significantly increase our higher margin direct labor base revenue through new hires.

Let's go to slide 12. Our intelligence business continued its rapid growth during the quarter, coming in 19.3 percent higher than in the first quarter of fiscal '09 and now represents 39 percent of our business. With the strength of our distinctive offerings and a market that continues to be well-funded, we believe intell will be a mainstay of our growth for years to come.

Turning to our future business opportunities, our proposal activity continues at a brisk pace. At the end of our first quarter we had approximately \$4 billion in submitted proposals under evaluation, the majority of those for new business. We expect nearly all of them to be awarded by the end of our third quarter. During the second and third quarter of fiscal year '10, we expect to submit over \$4-1/2 billion in additional proposals, the majority of which are for new work. Over \$1 billion of those planned proposals have cyber as their primary or secondary competency. I expect a majority of those will be awarded by the end of our fiscal year '10. The health of our cyber-specific pipeline is a direct result of our strategy to concentrate on providing mission critical services to our government clients, particularly in areas that are well-funded where we have clear competitive advantages and established track record of performance excellence.

Looking ahead, we believe our outstanding performance during the first quarter of fiscal year '10 and our strong leading indicators, particularly funding orders, have laid the foundation for a terrific fiscal year '10.

And Paul, that concludes my remarks.

### **CEO CONCLUDING REMARKS**

**Paul Cofoni:** Thanks, Bill, and thank you, Tom, for your comments. Please go to slide number 13.

Before we open the call to questions, let me close by reiterating our confidence in CACI's strategy for continued growth.

We have the right strategy, an excellent track record, significant competitive advantages, strong and enduring relationships with our government clients and a commitment to flawless execution. All of this positions us for continued strong financial performance. We are growing our contract base and funded backlog in defense, intelligence, homeland security and IT modernization. We are also pursuing new growth opportunities in areas that align with the government's newest priorities including cyber and healthcare. Given our record first quarter financial performance and our expectations for the remainder of the year, we are confident in the increased Fiscal Year 2010 guidance.

Of course, none of this would be possible without the hard work and dedication of our more than 12,000 men and women at CACI who serve our nation and our clients with distinction each and every day. I am proud to be associated with such a highly skilled and dedicated group, and I thank them for their continued performance.

With that, Angel, we can open the lines for questions.

**Operator:** Thank you. The question and answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit 1 on your touchtone telephone. If you are using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. We will proceed in the order that you signal us and we'll take as many questions as time permits. We do ask that you limit yourself to one question and one follow up question please. Once again, please press star 1 on your touchtone telephone to signal for a question.

And we'll go first to Michael Lewis of BB&T Capital Markets.

#### **QUESTION ON SOURCES OF INTERNAL GROWTH IN THE FIRST QUARTER**

**Michael Lewis:** Good morning. Thank you very much for taking my questions here. Tom, I was wondering how much of the internal growth that we witnessed in Q1 is attributable to S3 and the UK operations? I'm trying to understand the outperformance, and I'm wondering was your internal growth in the quarter above your internal plan at CACI?

**Tom Mutryn:** Mike, this is Tom. A couple questions - the internal growth was driven by both growth in direct labor - direct labor was up 8.3 percent, which is very profitable - and other direct costs up 19.8 percent. The other direct costs are largely related to C4ISR activities under a number of contract vehicles, and S3 is one of the major contract vehicles. And so, S3 certainly contributed to that internal growth.

The UK growth was largely driven by acquisition. And, in fact, we had some negative currency impacts on a year-over-year basis. So, the UK was fueled by a couple of the three smaller acquisitions I referenced, contributing around—on a non-annualized basis—around \$28 million of our run rate revenue.

**Michael Lewis:** Okay. Yeah. I just misunderstood that UK comment then. What about--Can you give us what S3 contributed in the quarter revenue wise?

**Paul Cofoni:** Mike, typically we don't break out performance of specific contracts, and so we're going to continue not to break out the performance of specific contracts. But, you did ask the question about is this greater than our expectations and the answer is yes.

We were pleased with the growing C4ISR business. There is a need there, and we are continuing to meet the customers' needs. So, revenue increase, profit increase, and, as a result of that, we're able to increase our annual guidance both on the top line and the bottom line.

**Michael Lewis:** Okay. Great. Thank you very much. Great work.

**Tom Mutryn:** Thanks.

**Operator:** And we'll go next to Ed Caso, Wells Fargo.

#### **QUESTION ON THE IMPACT OF THE RABBI TRUST**

**Ed Caso:** Thanks. Tom, could you give us a sense on the rabbi trust, what the impact might have been on the P&L, margin and tax level wise?

**Tom Mutryn:** Yes. I can tell you about the tax level. As most of you know, the S&P had a very good—our fiscal year first quarter, the June 30 to September 30 timeframe. S&P was up around 15 percent. And so that drove significant gains in the trust. As a result of that, our tax rate fell. Initially, we guided to a 39.5 percent tax rate for the year. Right now we're estimating tax rate for the year—assuming no further gains or losses—to be 38.1 percent. So a 140 basis point improvement in our tax rate. So that was material.

## QUESTION ON THE COMPANY'S CURRENT ABILITY TO OFFSET ATTRITION

**Ed Caso:** And my other question is just to get a sense on your ability to hire—days to fill attrition rates—whatever you can offer on the supply side of the model. Thank you.

**Bill Fairl:** Ed, this is Bill Fairl. That is all performing very well. Our number of firm, open hiring reqs, which is the best indicator we have of future demand, future growth in direct labor, which as Tom pointed out is really what's the primary driver to our terrific earnings growth this quarter. Those are holding steady. We're winning the new work that I talked about earlier. So that's beating that demand.

In terms of our ability to fill those positions, we just have a great corporate recruiting team that pairs up really well with Randy's P&L managers. And so, our days to fill these positions continue to trend down as does the average cost to fill those positions. So, all those statistics are pointing in exactly the right direction—a very, very efficient process and very timely process.

The voluntary attrition, as you know, we don't disclose the actual number. But I can tell you that for the first quarter of fiscal year '10, our voluntary attrition rate is now at the lowest quarterly point that it's been in the last six years that I've been tracking this thing. We had just a terrific year in terms of voluntary attrition, reduced voluntary attrition last year and that's even gotten a little better this quarter as well. So good news on all fronts there.

**Operator:** And we'll go next to Bill Loomis of Stifel Nicolaus.

## QUESTION ON CONTRACT FUNDING AND CONTRACT AWARDS IN THE FIRST QUARTER

**Bill Loomis:** Hi. Thank you. Good quarter. Just to talking about your discussion on contract funding and you went through that. So obviously the awards were generally light—in terms of contract awards in this space—as the government workers basically dealt with a number of issues coming down the pike. But your contract funding orders was high. Should we take that to mean that the government has basically added money to existing programs or extended existing programs? So kept more work or added work to existing contracts as they deal with some of these other issues? And, as a result, we have seen delays in new contract awards because your contract awards in the quarter weren't obviously that high. Usually one times revenue, it's a little bit higher at this quarter. How should we read that?

**Bill Fairl:** Okay Bill, this is Bill Fairl. So, I'll try to cover all your points here. I'll go to the contract awards first. Let me say that we actually don't consider this to be a particularly light quarter, which is why I mentioned our total over the last two quarters. We had just an unbelievable quarter in our fourth quarter when we recorded \$1.3 billion. So our space—our specific positioning is the awards came out early. We had a terrific fourth quarter. So, when I look over the last two quarters together, I see \$2 billion. Throw me in that briar patch every two quarters. That's a great position to be in. I love that.

As far as the funding orders go, you actually answered the question for me. You ran down all the possible ways in which they place funding orders. It is, in fact, placing funding on existing contract vehicles. In some cases, they don't have a new vehicle out yet so they use an existing vehicle that we have, which is why our strategy over the years of going out and bidding all these multiple award, IDIQ contracts, having all the right ones, has proven to be such a great strategy for us. And we love that. Other funding is placed actually when we win the contracts. Sometimes they actually do give you the funding on Day One with the contracts. So it's a mix of all those things if you will.

## QUESTION ON WHAT ASPECT OF CACI'S BUSINESS IS NOT PERFORMING TO EXPECTATIONS

**Bill Loomis:** Okay. So you've had some good things. You talked about a lot of good things that are happening in the space and so forth. But what's not up to your expectations right now in terms of business trends or other activities?

**Paul Cofoni:** Well, it's hard. That's a good question. I think, right now, we feel like we're firing on all cylinders. And there is, of course, all of us have some concern about what the future government Fiscal '11 budget will look like and where the pressures will be. We're concerned about the deficit spending level that's going on in the government today and the pressures that that will bring on our government. I would say Bill, that those are the things that we spend a lot of our time here thinking about and trying to determine what actions we should take to offset some of the potential of those things. But, in terms of the business, I think we're firing on all cylinders and feeling really good about the performance of the organization.

**Bill Loomis:** Okay. Great. Thanks.

**Bill Fairl:** Thank you, Bill.

**Operator:** And we'll go next to Joe Nadol of JP Morgan.

#### **QUESTION ON THE INCREASE IN THE REVISED FY10 GUIDANCE**

**Joe Nadol:** Thanks. Good morning.

**Bill Fairl:** Hey Joe.

**Joe Nadol:** First question is great bookings quarter or funded orders quarter.

**Bill Fairl:** Thank you.

**Joe Nadol:** Why is - the sales guidance is up nicely but it looks like it could have been up even more. Your funded backlog is up 16 percent, year over year, and the high end of your sales growth or sales guidance is a little bit less than 12 percent.

**Paul Cofoni:** Can you try that question again? We're all looking confused here.

**Joe Nadol:** Yes. Your sales guidance—sure. Your sales guidance is—the high end—it looks like about 12 percent growth for the year.

**Paul Cofoni:** Right.

**Joe Nadol:** And your funded backlog is up 16 percent from a year ago.

**Paul Cofoni:** Bill, do you want to say something?

**Joe Nadol:** So, it implies that the tail of your backlog, I guess, is getting a little bit longer or that you're maybe being a bit conservative on the sales guidance.

**Paul Cofoni:** Well, I don't think there is a one to one correlation between the funded backlog and the future. We think it's correlated but not one to one. So it wouldn't surprise me that we have a higher percentage growth in the funded backlog than we're showing in our sales forecast for the next nine months.

**Bill Fairl:** Right. And Paul, if I could add, I would also say that we're one quarter into the year as well. So, so far, so good I would say. It looks really good.

**Joe Nadol:** Okay.

**Paul Cofoni:** Yes. Right, and these things are not smooth continuous curves. They all operate at different rates. And it's not the kind of thing you can simply plug into an equation and run it out. It changes from week to week, month to month. Every week, we look with great anticipation to see what the funding orders are for that week. And some weeks, we're very pleasantly surprised. Other weeks, maybe a little bit less than we had expected. And we can't predict with that kind of precision, I would say.

#### **QUESTION ON THE ACTUAL GROWTH RATE OF OTHER DIRECT COSTS IN THE QUARTER VERSUS WHAT WAS PREVIOUSLY ASSUMED**

**Joe Nadol:** Okay. Understood. Second question is just on the direct labor versus the ODCs. I think you said three months ago that you were looking for growth to kind of balance out—and both, each to grow roughly the same level. It looks like, clearly, your ODCs are growing faster than expected. Is that because of bookings you got during the quarter or did something else change in your plan?

**Paul Cofoni:** Yeah. I think what it is, first of all we can't - this is another area where we cannot predict that the labor will come in. We're pleased that it came in at over 8 percent growth but we cannot predict with precision which one is going to come in stronger than the other. It is more a function of customer demand.

Now what's going on that's driving the ODCs is this whole area of C4ISR, which is - C4ISR is all about the battlefield of the future. All of the work we're doing today in the area of C4ISR and ITES-2S, on DIA SIA, on S3 has to do with information collection, analysis and presentation to the war fighter to do two things: to protect the war fighter on the battle field, so force protection; and also to guide the war fighter in terms of where the enemy is and how to deal with the enemy or targeting of the enemy. So that is done at multiple levels. It's done at a very tactical, on the battlefield level. It's also done on a national level through our support to the Intell Community.

All of that is having large growth right now with all that's going on in Afghanistan, in particular. We're seeing a real run up in our document and media exploitation technologies. Those technologies are about collection and analysis of captured documents and media on the battlefield. So that is a big run up. There is a lot of equipment associated with that.

Also, the C4ISR area is where we do a lot of IED detection and avoidance work. And, as you know, that problem continues to be the major threat to protection of a force in theater. And we are doing work on IED detection and avoidance that includes both consulting and training of new troops, new soldiers. Also in the development of rapid prototyping of technologies, much of that technology gets deployed into the theater. So there is a lot of ODC associated with that.

These technologies require us to find special niche technology components within our sub-contractor community and bring those forward. That drives the ODCs. All of this was part of our original strategy, some three years ago, when we made a big push to get on the ITES vehicle, the S3 vehicle, the TESS vehicle, the DIA SIA vehicle—all of these relate to the C4ISR force protection and projection, the fight of the future. And we are growing fastest there, which positions the company to be right where our clients want us to be and where we can do the most good for the war fighter.

#### **QUESTION ON THE CONVERSION OF CONTRACT FUNDING ORDERS TO REVENUE**

**Joe Nadol:** Paul, is there a rule of thumb in terms of the translation of those funding orders into revenue from the C4ISR ODCs that you're talking about, the speed with which they translate into sales versus say the rest of your business? Or is it roughly the same do you think?

**Paul Cofoni:** Bill, do you have any comments on that?

**Bill Fairl:** Yeah. Joe, I'll just observe that we're talking about a large set of numbers over a large set of task orders. So, generally we assume that there is no major change in the run off period of that if you will. So one of the ways we look at it is essentially how many months of future revenue do we have in our cupboard there? And so, right now, our months of future revenue is at an all time high, which is why I'm so excited and the rest of us are so excited about our growth prospects going forward here.

**Operator:** And we'll go next to Joseph Vafi of Jefferies & Company.

#### **QUESTION ON THE SOURCE OF CONTRACT FUNDING ORDERS IN THE FIRST QUARTER**

**Joseph Vafi:** Hey guys. Good morning. Good results. I was wondering if you could talk a little bit on where the funding orders came from that came in pretty strongly here this quarter? I guess the question is: how much of the funding do you think was driven by the strong award activity you saw in your fiscal Q4 versus maybe other vehicles that have been in place for a little while?

**Paul Cofoni:** Joe, it's the same answer. It's this important C4ISR area that has been—and as I said earlier—this is where exactly we want to be. But it is where we're getting the strongest funding.

#### **QUESTION ON THE PACE OF AWARDS RECEIVED SINCE THE END OF THE SEPTEMBER QUARTER**

**Joseph Vafi:** Okay. And how and I guess the second question is how are you seeing awards trending so far here in the December quarter?

**Bill Fairl:** Joe, this is Bill Fairl. We're not quite one month into the quarter here and our customers worked real hard up to and including September 30<sup>th</sup> to get all the funding placed for us here. So, it's early in the quarter and there hasn't been a lot of activity nor do we typically expect a lot of activity in the first month here of October here. We'll look for it to kind of pick up towards the end of this quarter. As I mentioned to you, that's why I always look over the next two quarters because it's so lumpy this quarter, next two quarters being no exception to that. So, over the next two quarters, from our standpoint, we have got, I believe I said, \$4 billion in submitted proposals. I expect the vast majority of those are going to be awarded over the next two quarters. And I expect to win more than our share of those to be quite honest with you. So it looks good.

**Operator:** And we'll go next to Laura Lederman of William Blair.

#### **QUESTION ON WHERE ANY IN-SOURCING HAS OCCURRED IN CACI'S OPERATIONS**

**Laura Lederman:** Yes. Thank you for taking my questions. Can you talk a little bit about where you have seen in-sourcing—what type of roles it's been? And just give us a rough sense of is that 100 people, 200 people, 1000? Give us a rough sense of it.

**Paul Cofoni:** Yes. It's not in any concentrated area. I would say there has been some, especially in our business that deals with helping the government in the acquisition process, the running of acquisitions, helping them with preparing of RFPs, or in some of the management of acquisitions, evaluation of acquisitions as an area.

It's surprising because, while we have had in-sourcing in that area, that is also the fastest growing part of our business today. The demand for acquisition support services throughout the federal government is so strong that even though we're seeing the biggest spending basis—the biggest amount of in-sourcing in that space—it's also the fastest growing part of our business because of the demand, which I think will continue to exceed supply for the next three or four years because the federal government is so short.

Some of the new work that we're picking up in that area is coming from stimulus related activity. The Department of Forestry and Parks has asked us to help them with getting acquisitions done—projects started there. And so in general we have seen some there.

I'd say the rest of it is sort of sprinkled out over the organization, without any special concentration in one part. Things that are most vulnerable are things where we're doing staff augmentation work. We have some amount of that work. It is not the dominant part of our business nor is it the focus of our new business efforts going forward. But obviously, where demand does not exceed supply, where supply and demand are sort of in equilibrium and where we're doing staff augmentation work would be where anyone in this industry would be most vulnerable I would say.

#### **QUESTION ON WHAT THE GROWTH RATE OF CACI MIGHT BE OVER A FIVE-YEAR PERIOD**

**Laura Lederman:** Can you also talk a little bit about longer term; let's say if we go out on a five-year basis, what you think the growth rate for your company would be? And also, what are the underlying assumptions for what budget growth would be and that sort of thing? So, we talked a lot on this call about the short-term level—a longer term perspective? Thank you.

**Paul Cofoni:** Okay. We have a commitment to grow our organic [revenue] growth at mid-to-high single digits, and we still feel very strongly about our ability to continue doing that. And we have a commitment to grow earnings per share at double digits—net income and earnings per share at double digits and we still feel very comfortable we can do that.

We don't have insight into the government fiscal year '11 but the last government budget, which of course shows multiple years of planning, indicated modest growth within the Department of Defense where we are concentrated. And, while it's not the same level of growth in their budget that we have experienced in the last seven or eight years, there is still adequate opportunity there. And we believe, as pressures come into the environment to find ways for government to lower its costs, that will create opportunities for us with our IT modernization capability to help them improve productivity and lower overall costs.

That has been my experience over the years, whenever we have seen pressures on budgets. So we're confident that we can continue to grow in the mid-to-high single digits and at the top line and double digit at the bottom line going forward.

**Operator:** And we'll go next to Frank Atkins with SunTrust Robinson Humphries.

#### **QUESTION ON MARGINS IN CACI'S INTELLIGENCE BUSINESS**

**Frank Atkins:** Hi. This is Frank in for Tobey. Another good quarter on the intelligence side - good growth there. Could you talk a little bit about the margins? Any changes or trends in the margins on that intelligence side?

**Paul Cofoni:** No. There is no real change in the margins on that business. It continues to have good margins. The thing to keep in mind is what's impacting margins mostly for us is the mix of work, whether it's direct labor or ODC. And independent of any particular sector of our business, more about whether ODCs are growing faster than labor is the thing that will give you the best indicator about margins.

#### **QUESTION ON OPERATING CASH FLOW IN FISCAL YEAR 2010**

**Frank Atkins:** Okay. And a quick numbers question: any changes to the estimates you gave for 2010 cash flow from operations or CAPEX?

**Tom Mutryn:** No, there are no changes to those estimates. We had a very nice cash flow from operation quarter. Initially we guided to cash flow from operations in the \$130 million range. We hope to exceed that. But I don't feel comfortable updating that number right now.

**Operator:** And we'll go next to Jason Kupferberg of UBS.

#### **QUESTION ON CHANGE IN OPERATING MARGIN RANGE FOR FY10**

**Jason Kupferberg:** Thanks guys. Sorry if I missed this but is there any change in the operating margin guidance here? I mean, I know your EPS guidance is not going up as much in percentage terms as revenue guidance, and the tax rate is being guided down so I just want to make sure I have the pieces.

**Tom Mutryn:** Jason, this is Tom. Initially we guided to an operating margin of 6.5 to 9.5 percent for the year - excuse me, 6.5 to 6.9 percent for the full year. Given the strong growth in other direct costs—again related to the C4ISR business—we raised the upper end of the guidance more than we did the lower end of the guidance. And as a result, I would guide to operating a margin of between 6.4 and 6.7percent.

#### **QUESTION ON ADDITIONAL IMPROVEMENT IN CONTROLLING SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

**Jason Kupferberg:** 6.4 to 6.7 - okay. Got it. And, it looks like there continues to be year over year improvement in the SG&A to revenue ratio. Are you guys running out of room there? I know you have been on a cost control journey for a while. I wanted to get a sense of how much more opportunity still remains there.

**Paul Cofoni:** I think there is still room for improvement. We continue to have a Cost Hawk program. There are a number of additional areas we are pursuing cost reductions in our travel program by aggregating our requirements and concentrating our utilization with fewer suppliers across the board in travel as well as in other areas. We have undertaken a broad program on improving utilization of facilities and that has—and will continue to—yield improvement.

We have a rule of thumb here that, while we're growing as nicely as we are, we can always improve the ratio of overhead to gross margin profit—gross profits. And we watch that every month. We watch to make sure that we're not growing indirect [expenses] as fast as or faster than our gross profit. And if we find that that is happening, we take corrective action. So you can expect that economies of scale will continue here as we get bigger, and that's just the way we manage.

**Operator:** And we'll take our next question from Peter Skibitski of Credit Suisse.

#### **QUESTION ON THE ESTIMATED VALUE OF INTELLIGENCE-RELATED AWARDS IN THE FIRST QUARTER**

**Peter Skibitski:** Hi guys. I wanted to ask about the intell side. I see the awards you that you talked about—\$96 million—was a bit light in the quarter but you certainly had great growth, around 19 percent. I just wondered if you expect the growth on the intell side to slow going forward. That's kind of Part A?

**Bill Fairl:** Peter, this is Bill Fairl. We don't - let me say it in a positive sense. We expect strong, continued forward growth coming out of our intell space there. The \$96 million that you referred to—I want to clarify that. That is just the ones [awards] that we didn't separately announce. That is not all of our intell. There is a lot more to it than that. In some cases, as you might imagine, given the nature of the work we do, we don't make specific contract award announcement in the best interests of our clients and our nation, if you will. So we put those together in a bucket [that] we

call "previously unannounced" [awards]. So we don't distinguish there. So that's just one sub-category of all of our intell work.

**Peter Skibitski:** Okay. Fair enough. And so how would you say, the size, the total intell awards are for?

**Bill Fairl:** Hold on just a second here. Total?

**Paul Cofoni:** Your question is the size of total awards for intell related work?

**Peter Skibitski:** Correct.

**Bill Fairl:** Are you talking about for the quarter?

**Peter Skibitski:** Yeah.

**Bill Fairl:** Figure about \$400 million, give or take a little bit.

#### **QUESTION ON WHERE THE INTELLIGENCE BUSINESS RESIDES WITHIN CACI**

**Peter Skibitski:** Okay. Got you, and just in terms of how you define it, I think you mentioned that it's about 39 percent of your business now.

**Bill Fairl:** Yes.

**Peter Skibitski:** Is that basically all Jake Jacoby's group or is it across different sections of your organization?

**Bill Fairl:** Great question Peter. In our parlance it's both at the national level and at the individual service level. So Jake's organization is certainly a big, big part of that.

**Paul Cofoni:** Because he has the national intelligence division.

**Bill Fairl:** He has the national level, right. Moving to the service level, to the extent we're doing intell work for one of our service clients, the Army, the Air Force, the Navy, if you will, that would be counted in there as well. So it's both.

**Operator:** And we'll take our next question from Tim Quillin with Stephens.

#### **QUESTIONS ON WHAT IS DRIVING THE INCREASE IN CACI'S INTELLIGENCE BUSINESS AND WHAT LEVEL WITHIN THE INTELLIGENCE COMMUNITY IS GENERATING THE BUSINESS**

**Tim Quillin:** Good morning. Nice results.

**Bill Fairl:** Thanks Tim.

**Tim Quillin:** Just following along with that line of questioning on the intell business, it was up 19 percent nicely. I presume that's all organic. I think your acquisitions are just in the UK that are impacting numbers right now. So that growth: is it similar to your overall business where, because of C4I projects, a lot of that growth is being driven by ODCs, or can you give us a sense of what the direct labor growth is there?

**Paul Cofoni:** You're talking about for the intell component?

**Tim Quillin:** For the intell component only, yeah.

**Paul Cofoni:** Hold on a second. We're looking through our notes here to see if we have got that.

**Tim Quillin:** And the other question would be—and it may be somewhat related but—how much of the growth is coming from the national, from Jake's group? And how much of the growth is coming from the service level?

**Paul Cofoni:** Can we get back to you on that? I just don't think we have got that information. I worry that we'll whip out some numbers here and regret it later. Why don't we get back to you when we have got that research done and give you the answers?

**Bill Fairl:** I can say, at a broad level, that the growth, particularly the bottom line growth, is coming off a variety of vehicles, which is driving our strong earnings performance. It would be, of course, the traditional S3. It would also be ITES-2S. It would be work for other national level agencies as well. It's really a mix. As Tom mentioned earlier, it's really a broad-based growth for the direct labor growth there. We're very pleased with that - all in this C4ISR arena.

**Operator:** And we'll take our next question from Cai Von Rumohr of Cowen & Company.

#### QUESTIONS ON THE GROWTH AND MIX OF DIRECT COSTS DURING FY10

**Paul Cofoni:** Morning, Cai.

**Cai von Rumohr:** Good morning, guys. Thanks so much. Could you tell us how much of the \$100 million increase in your revenue was for ODCs? And, if you hit the midpoint of your growth range of 10 percent, how much should we expect both direct labor and ODCs to be growing over the remainder of the year?

**Paul Cofoni:** Yeah. We're kind of looking at each other here. I don't think we - we don't - I would say you could use the approximate mix we have today to project that \$100 million—to split that \$100 million between DL (direct labor) and ODCs.

**Cai von Rumohr:** And so should ODCs for the full year going to be where they were in the first quarter as a percent of growth of costs, something like 61.4 percent?

**Paul Cofoni:** We don't have that kind of precision. The ODCs, as we have mentioned, are very difficult to predict because it relates to emerging demand.

**Cai von Rumohr:** But let's turn it around. Why don't you predict where the direct labor is? You can predict - should be able to predict that I hope.

**Paul Cofoni:** I think if you use roughly a 40/60 split you will be pretty close.

**Cai von Rumohr:** Right. But last year, when the split sort of increased one percentage point in the favor of ODCs, the gross margins went down by 130 basis points. So while I can do it about, I assume direct labor is going to grow 8 to 9 percent, something like that over the year. So most of the growth would come from ODCs, continuing to put pressure on gross margins, resulting in the EBIT margins you talked about. Is that essentially correct?

**Paul Cofoni:** I think Tom has given you the range for operating margin. I think he said it was between 6.4 and 6.7 [percent]. That's as much guidance as we're prepared to give at this point.

I think also the focus we have is on growth of net income and earnings per share. And while direct labor provides higher concentration of net income, every dollar that we perform ODC work comes with profit as well. And we welcome and it is also some of the most important work. So we welcome all of it and we'd never turn it away.

So I think the answer is operating margin guidance is between 6.4 and 6.7 [percent]. The splits on direct labor and ODCs are about what we have said historically, and that is 40/60 range, if we don't see some major change. And we don't have precision on how much ODC will come and when it will come.

**Cai von Rumohr:** Right. But you must have some assumption because you have given us a revenue estimate. So embodied in that revenue estimate and that margin estimate must be some kind of...

**Paul Cofoni:** Why don't we have the fellows get back to you because I'm sure that they can calculate that for you and get back to you.

#### **QUESTIONS ON THE GROWTH OF REVENUE FROM THE S3 CONTRACT AND THE RECOMPETITION OF THAT AWARD**

**Cai von Rumohr:** Okay. That's great. And then the other one is it looks like you had S3 was 44 percent of your awards, on account of it was a bigger percent of your awards in the second half than the first half. And clearly that's an ODC heavy contract. Could you, maybe, while you can't tell us how big it is as a percent, is it fair to assume that it's growing kind of close to 20 percent or so year over year? And what are you doing to prepare for its recompetete that comes up toward the end of this fiscal year?

**Paul Cofoni:** Recompetete. Bill, do you want to talk about the recompetete?

**Bill Fairl:** Yes. The recompetete - the timing of that, Cai, is a bit uncertain now. I don't expect to see anything happen this [fiscal] year. They're still working on their acquisition strategies and finalizing that. So think about that as being a next [fiscal] year event at the earliest.

In terms of preparing for it, we do what we always do, which is just do a terrific job, meet with our clients including people like Randy, Paul and myself going out and meeting with them on a regular basis. How are we doing? What can we do better for you? What are the new challenges you're facing? Paul's very eloquent description he gave of the battlefield of the future, that's what we do for them. How can we partner better together? I really love our position there—the growth on the program.

The other thing here is we recently won the recompetete of our former ETOSS contract, now the TESS contract. As you know, that ETOSS contract was such a best seller that we used up all the contracts that (they had). So, while they were putting the new one in place, they used the S3 vehicle. So now we have the TESS vehicle, and I would expect to see some of that work over time migrate back off of S3 onto the TESS vehicle.

**Operator:** And as a gentle reminder, ladies and gentlemen, that is star 0 if you'd like to signal for a question or star 1. I do apologize. Star 1 to signal for a question. It is one question and one follow up. We will go next to Mark Jordan of Noble Financial.

#### **QUESTION ON STOCK-BASED COMPENSATION EXPENSE DURING FY10**

**Mark Jordan:** Good morning, everyone. Historically, you have had a much higher level of stock compensation expense in the first quarter, and then it's lesser for the latter part of the year. Could you detail what it was in the quarter and what should be the run rate for the second, third and fourth quarters?

**Tom Mutryn:** Yes. This is Tom. For the first quarter, non-cash, stock compensation expenses were \$6.7 million. You can see that in our Statement of Cash Flows—in the schedule. For the full year, we're expecting stock compensation expense to be around \$23 million, approximately \$5 million in quarters 2, 3 and 4.

### QUESTION ON THE COST OF RAISING CAPITAL BEYOND CACI'S CURRENT BANK LINES

**Mark Jordan:** Okay. Second question - you talked about M&A and the willingness to go out and raise incremental capital. If you were to go out today and raise capital with maturity beyond your bank lines, what would be the cost of that? And what potential vehicles have you been looking at?

**Tom Mutryn:** Mark, there are two sources of cash would readily available to us, or so I understand. One would be an institutional loan and we would expect the all-in costs of the institutional loan to be around 5 percent. LIBOR rates borrowing, LIBOR floor would be 2 percent with a 300 basis point spread. So 5 percent for institutional loan. If we went to a seven-to-ten-year fixed rate public bond, we would expect the borrowing costs to be approximately 8 percent.

**Operator:** And we'll take our next question from Brian Kinstlinger of Sidoti & Company.

### QUESTIONS ON HOW MUCH OF CACI'S BUSINESS IS CYBER RELATED AND CYBER AWARDS AND FUNDING IN THE LAST SIX MONTHS

**Brian Kinstlinger:** Yeah. Good morning.

**Paul Cofoni:** Good morning.

**Brian Kinstlinger:** Excuse me. You mentioned that \$1 billion of what you're going to bid on is cyber related. I'm curious what percentage of revenue is cyber? And then also if you can update us on contract awards and funding orders as they relate to cyber over the last couple of quarters. Thanks.

**Paul Cofoni:** I'll take it and then hand it off to Randy down there. I think Randy has got some information on this. But remember: cyber is not the kind of thing that is concentrated all in one area. In a company like ours that does IT services for many, many clients, we're doing cyber related work across that entire portfolio of clients. And we don't necessarily strip all that work out and measure it that way.

We have some that is concentrated as pure cyber –let's say where the contract task order or contract itself is pure cyber. I think that percentage is about 2 percent of our business. That's pure. But it'd be far greater than that if you were to look at the full amount of cyber we do built into all of the other contracts we have.

Randy, do you want to add anything?

**Randy Fuerst:** Yeah, Paul. This is Randy Fuerst. I mean Paul is absolutely right. We have cyber virtually as part of every one of our IT services contracts. And the pipeline remains pretty healthy as Bill indicated, about \$1 billion. We're supporting, on average, about 15 opportunities a month in terms of bids that we're responding to our requirements. So I would say that we continue to see pretty healthy. There are very few large cyber-specific contracts out there and we don't really see that trend changing.

**Paul Cofoni:** Where the cyber contracts are likely to come as pure cyber contracts will be in things like setting of standards or certain specifications for companies to reach beyond architecture type work. But it's unlikely that there will be many large cyber - I mean in our view - many large cyber contracts to go in and "cyber-ize" an agency. It's much more likely that the agencies will take the standards that are evolved out of a central function and put plans and programs together to take their IT infrastructure from where it is to that set of standards and to be certified at that new level. And that would naturally happen through the existing vehicles that agencies have for doing IT services work.

**Brian Kinstlinger:** To clarify, when you are bidding on \$1 billion of cyber-related contracts, what you're saying is there is \$1 billion of contracts and there is a fraction of that that is cyber-related on that \$1 billion of work?

**Paul Cofoni:** Yeah. That's correct. I mean I would say that—for example, we're focusing on a lot of opportunities right now in the Navy. They have just stood up their Tenth Fleet, which is their cyber command. And we are tracking them very closely in terms of emerging requirements that they have coming out of that brand new command.

**Brian Kinstlinger:** Thank you.

**Operator:** And we'll go next to Chidozie Ugwumba of Neuberger Berman.

#### **QUESTION ON UPDATING CACI'S PROGRESS IN THE ENERGY AND HEALTHCARE AREAS**

**Chidozie Ugwumba:** Hi. Thanks for taking my question. I wanted to ask if you had any updates on energy and healthcare, how sort of the integration of the new executives you have hired is going and kind of what the next steps are there in terms of generating revenue? Thanks.

**Paul Cofoni:** Okay. Good. Thanks for the question. In the healthcare area we have a business there with the federal government of about \$100 million a year run rate. And we have put together a strategy for growing that business. It's focused in the area of medical logistics and IT support for government healthcare systems. And we have a business plan or a strategy and a business plan to grow that at about double digit per year type of growth. So we would expect something in the neighborhood of 15 percent growth per year for the healthcare business, starting from a base of about \$100 million right now. That discounts any acquisition we might do. Part of our strategic plan calls for us to - we have made some strategic hires also due to some acquisitions in this space. We are currently evaluating a number of possibilities, and we have them in a pipeline. So it's reasonable to expect that we would do some acquisition in this space, which would be above and beyond the 15 percent type growth.

In the energy space, this is an area where we have no capabilities today, except we have brought in an expert, a world class expert, Dr. Larry Hare, who has been in this industry for over 30 years. And he is sort of putting together the strategy for our energy and energy-related market spaces.

And I'd say we're making good progress on the development of the strategy. I wouldn't say we have it to the point where we would be comfortable communicating any expectations related to revenue at this time. But when we get to the point where our strategy is being sort of wrung out by our executive team, we'll be happy to share with you our plans for that. And I would expect we'll be able to do that sometime over the next three to six months.

#### **QUESTION ON CACI'S STRATEGY FOR GROWING FEDERAL CIVILIAN REVENUE**

**Chidozie Ugwumba:** And just a quick follow up if I may. There are some I guess industry experts or estimates of industry growth that suggest that growth in the non-defense federal government IT budget will be faster than defense area.

What's sort of your current level of non-defense related revenue and how do you think about that growing or how do you think about making acquisitions in that area? Thanks.

**Paul Cofoni:** Well, we have about I want to say 25 percent-ish of our business is in the civil side of government as opposed to defense. And, of course, we are focused in cyber. It spreads across that entire spectrum. We do quite a bit of work in cyber in the civil side of things. We do a lot of work related to healthcare also in that space. And, for example, in intell, which is all considered—some of the intell space is civil as well. So we're 25 percent today. We don't have a specific goal in mind to change that percentage necessarily although we are pursuing this healthcare area and

energy area. Those would naturally and cyber would naturally cause us to grow faster in the civil side.

[Note: As of September 30, 2009, 18 percent of CACI's revenue base was from Federal Civilian Agencies.]

**Operator:** And we have no further questions at this time. I'd like to turn the conference back over to Mr. Paul Cofoni for any closing remarks.

**Paul Cofoni:** Okay. Thank you, Angel, for all your help today. We certainly appreciate it. And we'd like to thank everyone on the call today for your questions and interest in our company. That's very important to us. That concludes our conference call. Thank you all very much.

**Operator:** And that concludes today's conference. We thank you for your participation.

END

*The information contained in this transcript, by its nature, reflects facts known to the company and its management at the time of the earnings release and conference call. All information contained in this transcript, including references to other press releases or public filings, should be read in the context of the latest available information in the company's releases or filings.*