

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

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **December 31, 2019**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number **001-31400**

**CACI International Inc**

(Exact name of registrant as specified in its charter)

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

**54-1345888**  
(I.R.S. Employer  
Identification No.)

**1100 North Glebe Road, Arlington, VA 22201**  
(Address of principal executive offices)

**(703) 841-7800**  
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	CACI	New York Stock Exchange

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of January 22, 2020, there were 25,071,717 shares outstanding of CACI International Inc's common stock, par value \$0.10 per share.



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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)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Revenue	\$ 1,395,469	\$ 1,181,641	\$ 2,758,861	\$ 2,347,505
Costs of revenue:				
Direct costs	904,867	790,849	1,783,748	1,573,609
Indirect costs and selling expenses	352,448	269,677	710,040	534,434
Depreciation and amortization	27,967	18,852	54,729	37,599
Total costs of revenue	1,285,282	1,079,378	2,548,517	2,145,642
Income from operations	110,187	102,263	210,344	201,863
Interest expense and other, net	14,714	9,421	31,525	18,307
Income before income taxes	95,473	92,842	178,819	183,556
Income tax expense	16,278	24,246	31,647	36,127
Net income	\$ 79,195	\$ 68,596	\$ 147,172	\$ 147,429
Basic earnings per share	\$ 3.16	\$ 2.76	\$ 5.89	\$ 5.95
Diluted earnings per share	\$ 3.11	\$ 2.71	\$ 5.78	\$ 5.81
Weighted-average basic shares outstanding	25,065	24,856	24,979	24,796
Weighted-average diluted shares outstanding	25,435	25,338	25,483	25,381

*See Notes to Unaudited Consolidated Financial Statements*

CACI INTERNATIONAL INC

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**  
(amounts in thousands)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Net income	\$ 79,195	\$ 68,596	\$ 147,172	\$ 147,429
Other comprehensive income (loss):				
Foreign currency translation adjustment	11,215	(3,436)	5,907	(5,431)
Change in fair value of interest rate swap agreements, net of tax	3,735	(3,778)	(1,229)	(3,561)
Other comprehensive loss, net of tax	14,950	(7,214)	4,678	(8,992)
Comprehensive income	<u>\$ 94,145</u>	<u>\$ 61,382</u>	<u>\$ 151,850</u>	<u>\$ 138,437</u>

*See Notes to Unaudited Consolidated Financial Statements*

CACI INTERNATIONAL INC

CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
(amounts in thousands, except per share data)

	December 31, 2019	June 30, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 68,645	\$ 72,028
Accounts receivable, net	828,795	869,840
Prepaid expenses and other current assets	126,629	89,652
Total current assets	1,024,069	1,031,520
Goodwill	3,411,817	3,336,079
Intangible assets, net	436,559	436,115
Property and equipment, net	168,786	149,676
Operating lease right-of-use assets	347,515	—
Supplemental retirement savings plan assets	95,288	92,736
Accounts receivable, long-term	9,702	7,381
Other long-term assets	32,960	33,336
Total assets	\$ 5,526,696	\$ 5,086,843
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 46,920	\$ 46,920
Accounts payable	135,125	118,917
Accrued compensation and benefits	294,444	290,274
Other accrued expenses and current liabilities	292,902	235,611
Total current liabilities	769,391	691,722
Long-term debt, net of current portion	1,550,809	1,618,093
Supplemental retirement savings plan obligations, net of current portion	100,973	92,291
Deferred income taxes	219,953	205,339
Operating lease liabilities, noncurrent	325,883	—
Other long-term liabilities	51,107	107,932
Total liabilities	\$ 3,018,116	\$ 2,715,377
<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; 42,505 shares issued and 25,071 outstanding at December 31, 2019 and 42,314 shares issued and 24,880 outstanding at June 30, 2019	4,250	4,231
Additional paid-in capital	561,521	576,277
Retained earnings	2,557,336	2,410,164
Accumulated other comprehensive loss	(38,478)	(43,156)
Treasury stock, at cost (17,434 and 17,434 shares, respectively)	(576,184)	(576,185)
Total CACI shareholders' equity	2,508,445	2,371,331
Noncontrolling interest	135	135
Total shareholders' equity	2,508,580	2,371,466
Total liabilities and shareholders' equity	\$ 5,526,696	\$ 5,086,843

See Notes to Unaudited Consolidated Financial Statements

CACI INTERNATIONAL INC

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
(amounts in thousands)

	Six Months Ended December 31,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 147,172	\$ 147,429
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	54,729	37,599
Amortization of deferred financing costs	1,176	1,156
Non-cash lease expense	35,850	—
Stock-based compensation expense	14,499	12,047
Deferred income taxes	14,104	9,123
Changes in operating assets and liabilities, net of effect of business acquisitions:		
Accounts receivable, net	51,458	(136,177)
Prepaid expenses and other assets	(28,921)	(2,739)
Accounts payable and other accrued expenses	8,121	110,007
Accrued compensation and benefits	1,529	(27,116)
Income taxes payable and receivable	(21,384)	(10,781)
Operating lease liabilities	(37,989)	—
Long-term liabilities	(3,319)	(1,008)
Net cash provided by operating activities	<u>237,025</u>	<u>139,540</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(41,035)	(17,813)
Cash paid for business acquisitions, net of cash acquired	(102,056)	(91,151)
Other	—	1,876
Net cash used in investing activities	<u>(143,091)</u>	<u>(107,088)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings under bank credit facilities	1,034,000	833,500
Principal payments made under bank credit facilities	(1,102,460)	(841,960)
Payment of contingent consideration	—	(616)
Proceeds from employee stock purchase plans	3,665	2,827
Repurchases of common stock	(3,596)	(2,756)
Payment of taxes for equity transactions	(29,083)	(18,039)
Net cash used in financing activities	<u>(97,474)</u>	<u>(27,044)</u>
Effect of exchange rate changes on cash and cash equivalents	157	(874)
Net increase (decrease) in cash and cash equivalents	(3,383)	4,534
Cash and cash equivalents at beginning of period	72,028	66,194
Cash and cash equivalents at end of period	<u>\$ 68,645</u>	<u>\$ 70,728</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period for income taxes, net of refunds	<u>\$ 38,048</u>	<u>\$ 39,975</u>
Cash paid during the period for interest	<u>\$ 28,410</u>	<u>\$ 18,830</u>
Non-cash financing and investing activities:		
Landlord sponsored tenant improvement	<u>\$ 759</u>	<u>\$ 3,518</u>
Accrued capital expenditures	<u>\$ 4,910</u>	<u>\$ 1,377</u>

See Notes to Unaudited Consolidated Financial Statements

**CACI INTERNATIONAL INC**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**  
(amounts in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total CACI Shareholders' Equity	Noncontrolling Interest	Total Shareholders' Equity
	Shares	Amount				Shares	Amount			
BALANCE, June 30, 2019	42,314	\$ 4,231	\$ 576,277	\$ 2,410,164	\$ (43,156)	17,434	\$(576,185)	\$ 2,371,331	\$ 135	\$ 2,371,466
Net income	—	—	—	147,172	—	—	—	147,172	—	147,172
Stock-based compensation expense	—	—	14,499	—	—	—	—	14,499	—	14,499
Tax withholdings on restricted share vestings	191	19	(29,089)	—	—	—	—	(29,070)	—	(29,070)
Change in fair value of interest rate swap agreements, net	—	—	—	—	(1,229)	—	—	(1,229)	—	(1,229)
Currency translation adjustment	—	—	—	—	5,907	—	—	5,907	—	5,907
Repurchases of common stock	—	—	(179)	—	—	17	(3,417)	(3,596)	—	(3,596)
Treasury stock issued under stock purchase plans	—	—	13	—	—	(17)	3,418	3,431	—	3,431
<b>BALANCE, December 31, 2019</b>	<b>42,505</b>	<b>\$ 4,250</b>	<b>\$ 561,521</b>	<b>\$ 2,557,336</b>	<b>\$ (38,478)</b>	<b>17,434</b>	<b>\$(576,184)</b>	<b>\$ 2,508,445</b>	<b>\$ 135</b>	<b>\$ 2,508,580</b>
BALANCE, June 30, 2018	42,139	\$ 4,214	\$ 570,964	\$ 2,126,790	\$ (19,030)	17,434	\$(576,186)	\$ 2,106,752	\$ 135	\$ 2,106,887
Net income	—	—	—	147,429	—	—	—	147,429	—	147,429
Cumulative effect adjustment of ASC 606, net of taxes	—	—	—	17,770	—	—	—	17,770	—	17,770
Stock-based compensation expense	—	—	12,047	—	—	—	—	12,047	—	12,047
Tax withholdings on restricted share vestings	157	16	(18,245)	—	—	—	—	(18,229)	—	(18,229)
Change in fair value of interest rate swap agreements, net	—	—	—	—	(3,561)	—	—	(3,561)	—	(3,561)
Currency translation adjustment	—	—	—	—	(5,431)	—	—	(5,431)	—	(5,431)
Repurchases of common stock	—	—	(185)	—	—	15	(2,571)	(2,756)	—	(2,756)
Treasury stock issued under stock purchase plans	—	—	5	—	—	(15)	2,572	2,577	—	2,577
<b>BALANCE, December 31, 2018</b>	<b>42,296</b>	<b>\$ 4,230</b>	<b>\$ 564,586</b>	<b>\$ 2,291,989</b>	<b>\$ (28,022)</b>	<b>17,434</b>	<b>\$(576,185)</b>	<b>\$ 2,256,598</b>	<b>\$ 135</b>	<b>\$ 2,256,733</b>
BALANCE, September 30, 2019	42,392	\$ 4,239	\$ 572,348	\$ 2,478,141	\$ (53,428)	17,434	\$(576,184)	\$ 2,425,116	\$ 135	\$ 2,425,251
Net income	—	—	—	79,195	—	—	—	79,195	—	79,195
Stock-based compensation expense	—	—	7,461	—	—	—	—	7,461	—	7,461
Tax withholdings on restricted share vestings	113	11	(18,221)	—	—	—	—	(18,210)	—	(18,210)
Change in fair value of interest rate swap agreements, net	—	—	—	—	3,735	—	—	3,735	—	3,735
Currency translation adjustment	—	—	—	—	11,215	—	—	11,215	—	11,215
Repurchases of common stock	—	—	(67)	—	—	9	(1,812)	(1,879)	—	(1,879)
Treasury stock issued under stock purchase plans	—	—	—	—	—	(9)	1,812	1,812	—	1,812
<b>BALANCE, December 31, 2019</b>	<b>42,505</b>	<b>\$ 4,250</b>	<b>\$ 561,521</b>	<b>\$ 2,557,336</b>	<b>\$ (38,478)</b>	<b>17,434</b>	<b>\$(576,184)</b>	<b>\$ 2,508,445</b>	<b>\$ 135</b>	<b>\$ 2,508,580</b>
BALANCE, September 30, 2018	42,282	\$ 4,228	\$ 559,295	\$ 2,223,393	\$ (20,808)	17,434	\$(576,185)	\$ 2,189,923	\$ 135	\$ 2,190,058
Net income	—	—	—	68,596	—	—	—	68,596	—	68,596
Stock-based compensation expense	—	—	6,349	—	—	—	—	6,349	—	6,349
Tax withholdings on restricted share vestings	14	2	(995)	—	—	—	—	(993)	—	(993)
Change in fair value of interest rate swap agreements, net	—	—	—	—	(3,778)	—	—	(3,778)	—	(3,778)
Currency translation adjustment	—	—	—	—	(3,436)	—	—	(3,436)	—	(3,436)
Repurchases of common stock	—	—	(63)	—	—	7	(1,300)	(1,363)	—	(1,363)
Treasury stock issued under stock purchase plans	—	—	—	—	—	(7)	1,300	1,300	—	1,300
<b>BALANCE, December 31, 2018</b>	<b>42,296</b>	<b>\$ 4,230</b>	<b>\$ 564,586</b>	<b>\$ 2,291,989</b>	<b>\$ (28,022)</b>	<b>17,434</b>	<b>\$(576,185)</b>	<b>\$ 2,256,598</b>	<b>\$ 135</b>	<b>\$ 2,256,733</b>



**CACI INTERNATIONAL INC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

1. Basis of Presentation

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

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and amounts included in other current assets and current liabilities that meet the definition of a financial instrument approximate fair value because of the short-term nature of these amounts. The fair value of the Company's debt outstanding as of December 31, 2019 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 11 and 18.

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, 2019. The results of operations for the three and six months ended December 31, 2019 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

***Accounting Standards Updates Issued but Not Yet Adopted***

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the capitalization requirements for implementation costs incurred in a hosting arrangement that is a service contract with the existing capitalization requirements for implementation costs associated with internal-use software (Subtopic 350-40). ASU 2018-15 becomes effective for the Company in the first quarter of FY2021 and may be adopted either retrospectively or prospectively. The Company is currently evaluating the impact of the adoption of this standard on its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*, which requires companies to record an allowance for expected credit losses over the contractual term of financial assets, including short-term trade receivables and contract assets, and expands disclosure requirements for credit quality of financial assets. ASU 2016-13 becomes effective for the Company in the first quarter of FY2021. We do not expect a significant impact to our operating results, financial position or cash flows as a result of adopting this new standard.

***Accounting Standards Updates Adopted***

In February 2016, the FASB issued ASU 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 was effective for the fiscal year, and interim periods within that fiscal year, beginning after December 15, 2018, and requires a modified retrospective approach.

The Company adopted this standard on July 1, 2019. As part of our implementation, the Company accumulated data required to measure its existing leases, reviewed lease contracts, implemented a new lease accounting solution and evaluated accounting policy and internal control changes. The Company adopted certain practical expedients provided under ASC 842, including reassessment of whether expired or existing contracts contain leases, reassessment of lease classification for expired or existing leases, reassessing initial direct costs for existing leases, and an election to separate lease from non-lease components.

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

Upon adoption of ASC 842, the Company recorded right of use assets of \$354.3 million and current and non-current lease liabilities of \$67.0 million and \$331.8 million, respectively, on the consolidated balance sheet, inclusive of required reclassifications for prepaid and deferred rent, lease incentives, and other lease-related balances.

The impact of adoption on our consolidated balance sheet is as follows (in thousands):

	<b>June 30, 2019</b> <b>As Reported</b> <b>Under</b> <b>ASC 840</b>	<b>Adjustments</b> <b>Due to</b> <b>ASC 842</b>	<b>July 1, 2019</b> <b>Balance</b> <b>Under ASC</b> <b>842</b>
<b>Assets:</b>			
Prepaid expenses and other current assets	\$ 89,652	\$ (3,199)	\$ 86,453
Operating lease right-of-use assets	—	354,317	354,317
<b>Liabilities and Shareholders' Equity:</b>			
Other accrued expenses and current liabilities	235,611	59,034	294,645
Operating lease liabilities, noncurrent	—	331,761	331,761
Other long-term liabilities	107,932	(39,677)	68,255

The standard had no impact on our results of operations or cash flows. In addition, new disclosures are provided to enable users to assess the amount, timing and uncertainty of cash flows arising from leases.

3. Summary of Significant Accounting Policies

The Company enters into contractual arrangements primarily for the use of real estate facilities, information technology equipment, and certain other equipment. These arrangements contain a lease when the Company controls the underlying asset and has the right to obtain substantially all of the economic benefits or outputs from the asset. All of our leases are operating leases.

The Company records a right of use (ROU) asset and lease liability as of the lease commencement date equal to the present value of the remaining lease payments. Most of our leases do not provide an implicit rate that can be readily determined. Therefore, we use a discount rate based on the Company's incremental borrowing rate, which is determined using our credit rating and information available as of the commencement date. The ROU asset is then adjusted for initial direct costs and certain lease incentives included in the contractual arrangement. The Company has elected to not apply the lease recognition guidance for short-term equipment leases and to separate lease from non-lease components. Our operating lease arrangements may contain options to extend the lease term or for early termination. We account for these options when it is reasonably certain we will exercise them. ROU assets are evaluated for impairment in a manner consistent with the treatment of other long-lived assets.

Operating lease expense is recognized on a straight-line basis over the lease term and is recorded primarily within indirect costs and selling expenses on the consolidated statement of operations. Variable lease expenses are generally recorded in the period they are incurred and are excluded from the ROU asset and lease liability.

4. Acquisitions

LGS

On March 1, 2019, CACI acquired all of the equity interests of Legos Intermediate Holdings, LLC and MDCP Legos Blocker, Inc., the parent companies of LGS Innovations (LGS). The purchase consideration was approximately \$757.1 million, which includes \$759.9 million of cash paid at close net of cash acquired and a \$2.8 million net purchase price payment for returnable consideration due from the seller, deferred consideration, and post-close net working capital adjustments. LGS is a leading provider of SIGINT and cyber products and solutions to the Intelligence Community and Department of Defense.

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

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

During the six months ended December 31, 2019, we continued to obtain information to refine estimated fair values. As a result of the additional information, the Company recorded measurement period adjustments that primarily increased receivables and goodwill by \$1.6 million and \$3.7 million, respectively, reduced accrued expenses and other current liabilities by \$1.9 million, and increased purchase consideration by \$6.6 million.

*Other Acquisitions*

During the second quarter of FY2020, CACI completed three strategic acquisitions adding key capabilities in the mission expertise and technology areas of our business. The aggregate purchase consideration was approximately \$105.8 million. The Company preliminarily recognized fair values of the assets acquired and liabilities assumed and allocated \$66.4 million to goodwill and \$29.5 million to intangible assets. At December 31, 2019, the Company had not finalized the determination of fair values allocated to assets and liabilities.

5. Intangible Assets

Intangible assets consisted of the following (in thousands):

	<b>December 31, 2019 (1)</b>	<b>June 30, 2019</b>
<b>Intangible assets:</b>		
Customer contracts and related customer relationships	\$ 576,285	\$ 549,552
Acquired technologies	138,176	137,959
Other	813	800
<b>Intangible assets</b>	<b>715,274</b>	<b>688,311</b>
<b>Less accumulated amortization:</b>		
Customer contracts and related customer relationships	(255,474)	(236,935)
Acquired technologies	(22,438)	(14,750)
Other	(803)	(511)
<b>Less accumulated amortization</b>	<b>(278,715)</b>	<b>(252,196)</b>
<b>Total intangible assets, net</b>	<b>\$ 436,559</b>	<b>\$ 436,115</b>

(1) During the six months ended December 31, 2019, the Company removed \$3.6 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 December 31, 2019 is 16.9 years, and the weighted-average remaining period of amortization is 14.0 years. The weighted-average period of amortization for acquired technologies as of December 31, 2019 is 10.3 years, and the weighted-average remaining period of amortization is 9.4 years.

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

Expected amortization expense for the remainder of the fiscal year ending June 30, 2020, and for each of the fiscal years thereafter, is as follows (in thousands):

Fiscal year ending June 30,	Amount
2020 (six months)	\$ 29,335
2021	58,358
2022	55,236
2023	50,127
2024	43,337
Thereafter	200,166
<b>Total intangible assets, net</b>	<b>\$ 436,559</b>

6. Goodwill

The changes in the carrying amount of goodwill for the year ended June 30, 2019 and the six months ended December 31, 2019 are as follows (in thousands):

	Domestic	International	Total
Balance at June 30, 2018	\$ 2,514,520	\$ 106,315	\$ 2,620,835
Goodwill acquired (1)	710,165	9,038	719,203
Foreign currency translation	—	(3,959)	(3,959)
Balance at June 30, 2019	\$ 3,224,685	\$ 111,394	\$ 3,336,079
Goodwill acquired (1)	54,484	17,001	71,485
Foreign currency translation	—	4,253	4,253
Balance at December 31, 2019	\$ 3,279,169	\$ 132,648	\$ 3,411,817

(1) Includes goodwill initially allocated to new business combinations as well as measurement period adjustments.

7. Revenue Recognition

We disaggregate our revenue arrangements by contract type, customer, and whether the Company performs on the contract as the prime or subcontractor. We believe that these categories allow for a better understanding of the nature, amount, timing, and uncertainty of revenue and cash flows arising from our contracts.

*Revenue by Contract Type*

The Company generated revenue on our cost-plus-fee, firm fixed-price, and time-and-materials contracts as follows during the three and six months ended December 31, 2019 and 2018 (in thousands):

	Three Months Ended December 31, 2019			Six Months Ended December 31, 2019		
	Domestic	International	Total	Domestic	International	Total
Cost-plus-fee	\$ 818,477	\$ —	\$ 818,477	\$ 1,566,191	\$ —	\$ 1,566,191
Firm fixed-price	361,016	27,851	388,867	752,552	54,291	806,843
Time and materials	174,300	13,825	188,125	359,823	26,004	385,827
<b>Total</b>	<b>\$ 1,353,793</b>	<b>\$ 41,676</b>	<b>\$ 1,395,469</b>	<b>\$ 2,678,566</b>	<b>\$ 80,295</b>	<b>\$ 2,758,861</b>

	Three Months Ended December 31, 2018			Six Months Ended December 31, 2018		
	Domestic	International	Total	Domestic	International	Total
Cost-plus-fee	\$ 657,050	\$ —	\$ 657,050	\$ 1,298,577	\$ —	\$ 1,298,577
Firm fixed-price	313,018	24,356	337,374	634,089	47,289	681,378
Time and materials	172,484	14,733	187,217	336,409	31,141	367,550
<b>Total</b>	<b>\$ 1,142,552</b>	<b>\$ 39,089</b>	<b>\$ 1,181,641</b>	<b>\$ 2,269,075</b>	<b>\$ 78,430</b>	<b>\$ 2,347,505</b>

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

*Customer Information*

The Company generated revenue from our primary customer groups as follows during the three and six months ended December 31, 2019 and 2018 (in thousands):

	<b>Three Months Ended</b>			<b>Six Months Ended</b>		
	<b>December 31, 2019</b>			<b>December 31, 2019</b>		
	<b>Domestic</b>	<b>International</b>	<b>Total</b>	<b>Domestic</b>	<b>International</b>	<b>Total</b>
Department of Defense	\$ 990,381	\$ —	\$ 990,381	\$ 1,928,021	\$ —	\$ 1,928,021
Federal civilian agencies	342,029	—	342,029	706,022	—	706,022
Commercial and other	21,383	41,676	63,059	44,523	80,295	124,818
<b>Total</b>	<b>\$ 1,353,793</b>	<b>\$ 41,676</b>	<b>\$ 1,395,469</b>	<b>\$ 2,678,566</b>	<b>\$ 80,295</b>	<b>\$ 2,758,861</b>

	<b>Three Months Ended</b>			<b>Six Months Ended</b>		
	<b>December 31, 2018</b>			<b>December 31, 2018</b>		
	<b>Domestic</b>	<b>International</b>	<b>Total</b>	<b>Domestic</b>	<b>International</b>	<b>Total</b>
Department of Defense	\$ 834,797	\$ —	\$ 834,797	\$ 1,653,063	\$ —	\$ 1,653,063
Federal civilian agencies	287,915	—	287,915	580,117	—	580,117
Commercial and other	19,840	39,089	58,929	35,895	78,430	114,325
<b>Total</b>	<b>\$ 1,142,552</b>	<b>\$ 39,089</b>	<b>\$ 1,181,641</b>	<b>\$ 2,269,075</b>	<b>\$ 78,430</b>	<b>\$ 2,347,505</b>

*Prime or Subcontractor*

The Company generated revenue as either the prime or subcontractor as follows during the three and six months ended December 31, 2019 and 2018 (in thousands):

	<b>Three Months Ended</b>			<b>Six Months Ended</b>		
	<b>December 31, 2019</b>			<b>December 31, 2019</b>		
	<b>Domestic</b>	<b>International</b>	<b>Total</b>	<b>Domestic</b>	<b>International</b>	<b>Total</b>
Prime contractor	\$ 1,227,317	\$ 41,676	\$ 1,268,993	\$ 2,424,951	\$ 80,295	\$ 2,505,246
Subcontractor	126,476	—	126,476	253,615	—	253,615
<b>Total</b>	<b>\$ 1,353,793</b>	<b>\$ 41,676</b>	<b>\$ 1,395,469</b>	<b>\$ 2,678,566</b>	<b>\$ 80,295</b>	<b>\$ 2,758,861</b>

	<b>Three Months Ended</b>			<b>Six Months Ended</b>		
	<b>December 31, 2018</b>			<b>December 31, 2018</b>		
	<b>Domestic</b>	<b>International</b>	<b>Total</b>	<b>Domestic</b>	<b>International</b>	<b>Total</b>
Prime contractor	\$ 1,052,867	\$ 39,089	\$ 1,091,956	\$ 2,103,398	\$ 78,430	\$ 2,181,828
Subcontractor	89,685	—	89,685	165,677	—	165,677
<b>Total</b>	<b>\$ 1,142,552</b>	<b>\$ 39,089</b>	<b>\$ 1,181,641</b>	<b>\$ 2,269,075</b>	<b>\$ 78,430</b>	<b>\$ 2,347,505</b>

### *Significant Estimates*

For many of our fixed price revenue arrangements and for revenue arrangements that have award or incentive fees, the Company uses an estimate at completion (EAC) to measure progress towards the complete satisfaction of its performance obligations. For these revenue arrangements, revenue is recognized over time primarily using a cost-to-cost input method based on the ratio of costs incurred to date to total estimated costs at completion. The EAC process requires the Company to use professional judgment when assessing risks, estimating contract revenue and costs, estimating variable consideration, and making assumptions for schedule and technical issues. The Company periodically reassesses its EAC assumptions and updates its estimates as needed. When estimates of total costs to be incurred on a contract exceed total revenue, a provision for the entire loss on the contract is recorded in the period in which the loss is determined.

Based on changes in a contract's EAC, a cumulative adjustment to revenue will be recorded. For the three and six months ended December 31, 2019, we recognized an increase to income before income taxes of \$17.2 million (\$0.50 per diluted share) and \$23.8 million (\$0.69 per diluted share), respectively, compared with \$4.2 million (\$0.12 per diluted share) and \$10.6 million (\$0.31 per diluted share) for the three and six months ended December 31, 2018, respectively, from EAC adjustments. The Company used its statutory tax rate when calculating the impact to diluted earnings per share.

Revenue recognized from previously satisfied performance obligations was \$9.8 million and \$10.2 million for the three and six months ended December 31, 2019, respectively, compared with an immaterial amount for the three and six months ended December 31, 2018. The change in revenue generally relates to final true-up adjustments to our estimated award or incentive fees in the period in which we receive the customer's final performance score or when we can determine that more objective, contractually-defined criteria have been fully satisfied. During the three months ended December 31, 2019, the Company received notification that certain contract close out risks had been mitigated on previously satisfied performance obligations and therefore recorded a reduction to its established reserve amount.

### *Remaining Performance Obligations*

The Company's remaining performance obligations balance as of period end represents the expected revenue to be recognized for the satisfaction of remaining performance obligations on our existing contracts. This balance excludes unexercised contract option years and task orders that may be issued underneath an Indefinite Delivery/Indefinite Quantity (IDIQ) vehicle until such task orders are awarded. The remaining performance obligations balance generally increases with the execution of new contracts and converts into revenue as our contractual performance obligations are satisfied.

The Company continues to monitor this balance as it is subject to change from execution of new contracts, contract modifications or extensions, government deobligations, or early terminations. Based on this analysis, an adjustment to the period end balance may be required. Our remaining performance obligations balance as of December 31, 2019 was \$6.4 billion.

The Company expects to recognize approximately 84 percent of our remaining performance obligations balance as revenue over the next twelve months and the remaining 16 percent thereafter.

## 8. Contract Balances

Contract assets are primarily comprised of unbilled receivables in which revenue has been recognized but our right to consideration is conditional on factors other than the passage of time. Contract assets exclude billed and billable receivables.

The incremental costs of obtaining a contract (e.g. sales commissions) are capitalized as an asset when the Company expects to recover them either directly or indirectly through the revenue arrangement's profit margins. These capitalized costs are subsequently expensed over the revenue arrangement's period of performance. Contract assets are not stated above their net realizable value.

Contract liabilities are primarily comprised of advance payments in which consideration is received in advance of satisfying a performance obligation. The advance payment is subsequently recognized into revenue as the performance obligation is satisfied.

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

Net contract assets (liabilities) consisted of the following (in thousands):

<u>Description of Contract Related Balance</u>	<u>Financial Statement Classification</u>	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
Contract assets – current:			
Unbilled receivables	Accounts receivable, net	\$ 86,692	\$ 90,073
Costs to obtain – short-term	Prepaid expenses and other current assets	3,138	2,685
Contract assets – noncurrent:			
Unbilled receivables	Accounts receivable, long-term	9,702	7,381
Costs to obtain – long-term	Other long-term assets	7,164	5,353
Contract liabilities – current:			
Deferred revenue and other contract liabilities – short-term	Other accrued expenses and current liabilities	(65,219)	(55,667)
Contract liabilities – noncurrent:			
Deferred revenue and other contract liabilities – long-term	Other long-term liabilities	(6,916)	(7,445)
Net contract assets (liabilities)		<u>\$ 34,561</u>	<u>\$ 42,380</u>

During the three and six months ended December 31, 2019, we recognized \$12.1 million and \$38.7 million of revenue, respectively, that was included in a previously recorded contract liability as of the beginning of the period.

9. Inventories

Inventories consisted of the following (in thousands):

	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
Materials, purchased parts and supplies	\$ 37,421	\$ 37,368
Work in process	10,062	6,021
Finished goods	10,373	3,834
Total	<u>\$ 57,856</u>	<u>\$ 47,223</u>

Inventories are stated at the lower of cost or net realizable value and are included in prepaid expenses and other current assets on the accompanying consolidated balance sheets. The Company periodically assesses its current inventory balances and records a provision for damaged, deteriorated, or obsolete inventory based on historical patterns and forecasted sales.

10. Sales of Receivables

On December 27, 2019, the Company amended its Master Accounts Receivable Purchase Agreement (MARPA) with MUFG Bank, Ltd. (the Purchaser), for the sale of certain designated eligible U.S. government receivables. The amendment extended the term of the MARPA to December 24, 2020. Under the MARPA, the Company can sell eligible receivables, including certain billed and unbilled receivables up to a maximum amount of \$200.0 million. The Company's receivables are sold under the MARPA without recourse for any U.S. government credit risk.

The Company accounts for receivable transfers under the MARPA as sales under ASC 860, *Transfers and Servicing*, and derecognizes the sold receivables from its balance sheets. The fair value of the sold receivables approximated their book value due to their short-term nature.

The Company does not retain an ongoing financial interest in the transferred receivables other than cash collection and administrative services. The Company estimated that its servicing fee was at fair value and therefore no servicing asset or liability related to these receivables was recognized as of December 31, 2019. Proceeds from the sold receivables are reflected in our operating cash flows on the statement of cash flows.

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

MARPA activity consisted of the following (in thousands):

	<b>As of and for the Six Months Ended December 31, 2019</b>
Outstanding balance – June 30, 2019:	\$ 192,527
Sales of receivables	1,144,293
Cash collections	<u>(1,139,382)</u>
Outstanding balance sold to Purchaser – December 31, 2019: (1)	197,438
Cash collected, not remitted to Purchaser (2)	<u>(53,904)</u>
Remaining sold receivables	<u>\$ 143,534</u>

- (1) For the six months ended December 31, 2019, the Company recorded a cash inflow in its cash flows from operating activities of \$4.9 million from sold receivables. The cash inflow is calculated as the change in the outstanding balance of sold receivables as of December 31, 2019, compared with the outstanding balance as of June 30, 2019.
- (2) Includes the cash collected on behalf of but not yet remitted to the Purchaser as of December 31, 2019. This balance represents an obligation to the Purchaser and is included in other accrued expenses and current liabilities in the accompanying consolidated balance sheet.

**11. Long-term Debt**

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

	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Bank credit facility – term loans	\$ 868,015	\$ 891,475
Bank credit facility – revolver loans	740,000	785,000
Principal amount of long-term debt	<u>1,608,015</u>	<u>1,676,475</u>
Less unamortized discounts and debt issuance costs	(10,286)	(11,462)
Total long-term debt	<u>1,597,729</u>	<u>1,665,013</u>
Less current portion	(46,920)	(46,920)
Long-term debt, net of current portion	<u>\$ 1,550,809</u>	<u>\$ 1,618,093</u>

**Bank Credit Facility**

The Company has a \$2,438.4 million credit facility (the Credit Facility), which consists of an \$1,500.0 million revolving credit facility (the Revolving Facility) and a \$938.4 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.

The Revolving Facility is a secured facility that permits continuously renewable borrowings of up to \$1,500.0 million. As of December 31, 2019, the Company had \$740.0 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 \$11.7 million until the balance is due in full on June 30, 2024. As of December 31, 2019, the Company had \$868.0 million outstanding under the Term Loan.

The interest rates applicable to loans under the Credit Facility are floating interest rates that, at the Company's option, equal a base rate or a Eurodollar rate plus, in each case, an applicable rate based upon the Company's consolidated total leverage ratio. As of December 31, 2019, 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 3.12 percent.



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

The Credit Facility requires the Company to comply with certain financial covenants, including a maximum total leverage ratio and a minimum interest coverage ratio. The Credit Facility also includes customary negative covenants restricting or limiting the Company's ability to guarantee or incur additional indebtedness, grant liens or other security interests to third parties, make loans or investments, transfer assets, declare dividends or redeem or repurchase capital stock or make other distributions, prepay subordinated indebtedness and engage in mergers, acquisitions or other business combinations, in each case except as expressly permitted under the Credit Facility. As of December 31, 2019, 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.

The aggregate maturities of long-term debt at December 31, 2019 are as follows (in thousands):

Twelve months ending December 31,		
2020	\$	46,920
2021		46,920
2022		46,920
2023		46,920
2024		1,420,335
Principal amount of long-term debt		1,608,015
Less unamortized discounts and debt issuance costs		(10,286)
Total long-term debt	\$	<u>1,597,729</u>

### **Cash Flow Hedges**

The Company periodically uses derivative financial instruments as part of a strategy to manage exposure to market risks associated with interest rate fluctuations. The Company has entered into several floating-to-fixed interest rate swap agreements for an aggregate notional amount of \$900.0 million which hedge a portion of the Company's floating rate indebtedness. The swaps mature at various dates through 2026. 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. Realized gains and losses in connection with each required interest payment are reclassified from accumulated other comprehensive income or loss to interest expense. The Company does not hold or issue derivative financial instruments for trading purposes.

The effect of derivative instruments in the consolidated statements of operations and accumulated other comprehensive loss for the three and six months ended December 31, 2019 and 2018 is as follows (in thousands):

	<u>Three Months Ended</u> <u>December 31,</u>		<u>Six Months Ended</u> <u>December 31,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Gain (loss) recognized in other comprehensive income	\$ 3,557	\$ (2,598)	\$ (639)	\$ (1,573)
Amounts reclassified to earnings from accumulated other comprehensive loss	178	(1,180)	(590)	(1,988)
Net current period other comprehensive income (loss)	<u>\$ 3,735</u>	<u>\$ (3,778)</u>	<u>\$ (1,229)</u>	<u>\$ (3,561)</u>

### 12. Leases

All of the Company's leases are operating leases. The current portion of operating lease liabilities is included in other accrued expenses and current liabilities in our consolidated balance sheets. Lease balances in our consolidated balance sheet are as follows (in thousands):

	<u>December 31,</u> <u>2019</u>
Operating lease right-of-use assets	\$ 347,515
Operating lease liabilities, current	66,692
Operating lease liabilities, noncurrent	325,883
	<u>\$ 392,575</u>

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

The Company's total lease cost is recorded primarily within indirect costs and selling expenses and had the following impact on the consolidated statement of operations (in thousands):

	<b>Three Months Ended December 31, 2019</b>	<b>Six Months Ended December 31, 2019</b>
Operating lease cost	\$ 21,382	\$ 42,588
Short-term and variable lease cost	3,623	6,993
Sublease income	(438)	(902)
<b>Total lease cost</b>	<b>\$ 24,567</b>	<b>\$ 48,679</b>

The Company's future minimum lease payments under non-cancelable operating leases for the remainder of the fiscal year ending June 30, 2020, and for each of the fiscal years thereafter, are as follows (in thousands):

<b>Fiscal year ending June 30,</b>	
2020 (six months)	\$ 36,834
2021	81,978
2022	69,921
2023	60,464
2024	49,391
Thereafter	140,656
<b>Total undiscounted lease payments</b>	<b>439,244</b>
Less: imputed interest	(46,669)
<b>Total discounted lease liabilities</b>	<b>\$ 392,575</b>

The weighted-average remaining lease term (in years) and weighted-average discount rate was 6.45 years and 3.35 percent, respectively.

Cash paid for operating leases was \$44.4 million for the six months ended December 31, 2019. During the six months ended December 31, 2019 operating lease liabilities arising from obtaining new ROU assets was \$28.6 million, which includes all noncash changes arising from new or remeasured operating lease arrangements.

13. 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 T&M 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 has completed audits of the Company's annual incurred cost proposals through fiscal year 2018. 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.

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

14. Stock-Based Compensation

For the six months ended December 31, 2019 and 2018, the Company recognized \$14.5 million and \$12.0 million of stock-based compensation, respectively, that was related to restricted stock units (RSUs). The stock-based compensation was included in indirect costs and selling expenses in the consolidated statements of operations.

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.

The Company granted performance-based stock awards to key employees in October of 2019, October of 2018 and September of 2017. The final number of PRSUs that are earned by participants and vest is based on the achievement of a specified EPS for the fiscal year and on the average share price for the 90-day period ended for the following three years. If the 90-day average share price of the Company's stock in years one, two and three exceeds the 90-day average share price at the grant date by 100 percent or more the number of shares ultimately awarded could range up to 200 percent of the specified target award. In addition to the performance and market conditions, there is a service vesting condition that stipulates 50 percent of the award will vest approximately three years from the grant date and 50 percent will vest approximately four years from the grant date, depending on the award date.

The annual performance-based awards granted for each of the fiscal years presented were as follows:

	<b>Performance- based stock awards granted</b>	<b>Number of additional shares earned under performance-based stock awards</b>
Fiscal year 2020	108,844	—
Fiscal year 2019	129,108	5,874
Fiscal year 2018	185,056	51,808

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 December 31, 2019, cumulative grants of 855,895 equity instruments underlying the shares authorized have been awarded, and 174,418 of these instruments have been forfeited.

Activity related to RSUs during the six months ended December 31, 2019 is as follows:

	<b>RSUs</b>
Unvested at June 30, 2019	628,806
Granted	263,007
Vested	(319,710)
Forfeited	(36,235)
Unvested at December 31, 2019	<u>535,868</u>

As of December 31, 2019, there was \$58.0 million of total unrecognized compensation costs related to RSUs scheduled to be recognized over a weighted-average period of 2.8 years.

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

15. Earnings Per Share

Earnings per share and the weighted-average number of diluted shares are computed as follows (in thousands, except per share data):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net income	\$ 79,195	\$ 68,596	\$ 147,172	\$ 147,429
Weighted-average number of basic shares outstanding during the period	25,065	24,856	24,979	24,796
Dilutive effect of RSUs after application of treasury stock method	370	482	504	585
Weighted-average number of diluted shares outstanding during the period	25,435	25,338	25,483	25,381
Basic earnings per share	\$ 3.16	\$ 2.76	\$ 5.89	\$ 5.95
Diluted earnings per share	\$ 3.11	\$ 2.71	\$ 5.78	\$ 5.81

16. 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 the Internal Revenue Service for the year 2015, one state jurisdiction for the years 2011 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 December 31, 2019 and June 30, 2019 was \$1.8 million and \$1.5 million, respectively. The \$1.8 million unrecognized tax benefit at December 31, 2019, if recognized, would positively impact the Company's effective tax rate.

The effective income tax rate was 17.1 percent and 17.7 percent for the three and six months ended December 31, 2019, respectively, compared with 26.1 percent and 19.7 percent, respectively, for the three and six months ended December 31, 2018. For the three months ended December 31, 2019, the Company's effective income tax rate decreased primarily due to the timing of excess tax benefits under ASU 2016-09, *Stock Compensation*. For the six months ended December 31, 2019, the Company's effective income tax rate decreased primarily due to the amount of excess tax benefits under ASU 2016-09. If gains or losses on the value of assets invested in COLI throughout the rest of the current fiscal year vary from our estimates, our FY2020 effective tax rate will fluctuate in future quarters for the year ending June 30, 2020.

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

17. 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 customers. 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):

	<b>Domestic Operations</b>	<b>International Operations</b>	<b>Total</b>
<b>Three Months Ended December 31, 2019</b>			
Revenue from external customers	\$ 1,353,793	\$ 41,676	\$ 1,395,469
Net income	74,684	4,511	79,195
<b>Three Months Ended December 31, 2018</b>			
Revenue from external customers	\$ 1,142,552	\$ 39,089	\$ 1,181,641
Net income	64,557	4,039	68,596
<b>Six Months Ended December 31, 2019</b>			
Revenue from external customers	\$ 2,678,566	\$ 80,295	\$ 2,758,861
Net income	138,895	8,277	147,172
<b>Six Months Ended December 31, 2018</b>			
Revenue from external customers	\$ 2,269,075	\$ 78,430	\$ 2,347,505
Net income	140,006	7,423	147,429

18. 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.

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

The Company's financial instruments measured at fair value included interest rate swap agreements and contingent consideration in connection with business combinations. The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and June 30, 2019, and the level they fall within the fair value hierarchy (in thousands):

<b>Description of Financial Instrument</b>	<b>Financial Statement Classification</b>	<b>Fair Value Hierarchy</b>	<b>Fair Value</b>	
			<b>December 31, 2019</b>	<b>June 30, 2019</b>
Contingent consideration	Other accrued expenses and current liabilities	Level 3	\$ 14,900	\$ 12,000
Interest rate swap agreements	Other long-term assets	Level 2	\$ 1,064	\$ 2,081
Interest rate swap agreements	Other accrued expenses and current liabilities	Level 2	\$ 1	\$ 43
Interest rate swap agreements	Other long-term liabilities	Level 2	\$ 12,957	\$ 12,264

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 six months ended December 31, 2019, this remeasurement resulted in a \$2.9 million change to the liability recorded.

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

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.

### **Information Relating to Forward-Looking Statements**

There are statements made herein that 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 risk factors that could cause actual results to be materially different from anticipated results. These risk factors include, but are not limited to, the following:

- our reliance on U.S. government contracts, which includes general risk around the government contract procurement process (such as bid protest, small business set asides, loss of work due to organizational conflicts of interest, etc.) and termination risks;
- significant delays or reductions in appropriations for our programs and broader changes in U.S. government funding and spending patterns;
- legislation that amends or changes discretionary spending levels;
- legal, regulatory, and political change from successive presidential administrations 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;
- 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;
- competitive factors such as pricing pressures and/or competition to hire and retain employees (particularly those with security clearances);
- failure to achieve contract awards in connection with re-compete for present business and/or competition for new business;
- regional and national economic conditions in the United States and globally, including but not limited to: terrorist activities or war, changes in interest rates, currency fluctuations, significant fluctuations in the equity markets, and market speculation regarding our continued independence;
- our ability to meet contractual performance obligations, including technologically complex obligations dependent on factors not wholly within our control;
- changes in tax law, the interpretation of associated rules and regulations, or any other events impacting our effective tax rate;
- changes in technology;
- the potential impact of the announcement or consummation of a proposed transaction and our ability to successfully integrate the operations of our recent and any future acquisitions;
- our ability to achieve the objectives of near term or long-term business plans.

The above non-inclusive list of risk factors may impact the forward-looking statements contained in this Quarterly Report on Form 10-Q. In addition, other risk factors include, but are not limited to, those described in "Item 1A. Risk Factors" within our Annual Report on Form 10-K. The forward-looking statements contained in this Quarterly Report on Form 10-Q are as of the date of its filing.

## **Overview**

During the six months ended December 31, 2019, the Company generated \$2.6 billion or 95.5 percent of our revenue from contracts with U.S. government agencies compared with \$2.2 billion or 95.1 percent for the same period in 2018. Our contract revenues were generated from both prime and subcontractor relationships. In addition to U.S. government agencies, we also provide services to commercial customers and, through our international operations, to non-U.S. government agencies.

The Company provides Expertise and Technology to Enterprise and Mission customers in support of national security missions and government transformation.

- **Enterprise** – CACI’s Enterprise business provides capabilities that enable the internal operations of an agency. This includes business systems, business process reengineering, and enterprise information technology (IT). For example, CACI customizes, implements, and maintains commercial-off-the-shelf (COTS) and custom enterprise resource planning (ERP) systems. This includes financial, human capital, asset and material, and logistics and supply chain management systems. CACI also designs, develops, integrates, deploys and sustains enterprise-wide IT systems in a variety of models. As an Amazon Web Services (AWS) Premier Consulting Partner and Microsoft Cloud Solution Provider for Government, we deliver cloud-powered solutions, performance-based service management, mobility, defensive cyber and network security, end-user services, and infrastructure services.
- **Mission** – CACI’s Mission business provides capabilities that enable the execution of an agency’s primary function, or “mission”. For example, we support strategic and tactical Mission customers with capabilities in areas such as command and control, communications, intelligence collection and analysis, signals intelligence (SIGINT), electronic warfare (EW), and cyber operations. CACI develops tools and offerings in an open, software-defined architecture with multi-domain and multi-mission capabilities.
- **Expertise** – CACI provides Expertise to both Enterprise and Mission customers. For Enterprise customers, we deliver talent with the specific technical and *functional* knowledge to support internal agency operations. And for Mission customers, we deliver talent with technical and *domain* knowledge to support the execution of an agency’s mission.
- **Technology** – CACI delivers Technology to both Enterprise and Mission customers. For Enterprise customers, Technology includes developing and implementing business systems, enterprise applications, and end-to-end IT systems. We also modernize infrastructure through migration to the cloud and IT or software as-a-service. For Mission customers, Technology includes developing and deploying multi-domain offerings for signals intelligence, electronic warfare, and cyber operations. We also deliver actionable intelligence through multi-source collection and analysis. And we generate unique intellectual property through advanced research and development.

## **Budgetary Environment**

We carefully follow federal budget, legislative and contracting trends and activities and evolve our strategies to take these into consideration. In late July 2019, Congress passed the Bipartisan Budget Act of 2019 (BBA 2019), which increased the caps for defense and non-defense spending for GFY 2020 and GFY 2021, established discretionary spending caps for GFY 2020 and GFY 2021, and suspended the national debt limit through July 2021. On August 2, 2019, the President signed the measure into law. BBA 2019 called for defense spending, including Overseas Contingency Operations funds, of \$738 billion in GFY 2020 and \$740.5 billion in GFY 2021. Both represent increases from GFY 2019 levels of \$716 billion, which itself represented an increase over GFY 2018 levels. In December 2019, Congress passed two GFY 2020 appropriations bills totaling \$1.4 trillion: \$738 billion for defense and \$632 billion for non-defense agencies, which represent increases over GFY 2019 of \$22 billion and \$27 billion, respectively. On December 20, 2019, the President signed both bills into law. We believe that bipartisan support remains for continued investment in the areas of defense and national security.

During those periods of time when appropriations bills have not been passed and signed into law, government agencies operate under a continuing resolution (CR). Depending on their scope, duration, and other factors, CRs can negatively impact our business due to delays in new program starts, delays in contract award decisions, and other factors. When a CR expires, unless appropriations bills have been passed by Congress and signed by the President, or a new CR is passed and signed into law, the government must cease operations, or shutdown, except in certain emergency situations or when the law authorizes continued activity. We continuously review our operations in an attempt to identify programs potentially at risk from CRs so that we can consider appropriate contingency plans.



## **Market Environment**

Across our addressable market, we provide expertise and technology to government enterprise and mission customers. Based on the analysis of an independent market consultant retained by the Company, we believe that the total addressable market for our offerings is approximately \$220 billion, comprised of approximately \$130 billion for the enterprise market area and approximately \$90 billion for the mission market area. Our addressable market is expected to continue to grow over the next several years. Approximately 70 percent of our revenue comes from defense-related customers, including those in the Intelligence Community (IC), with additional revenue coming from non-defense IC, homeland security, and other federal civilian customers.

We continue to align the Company's capabilities with well-funded budget priorities and took steps to maintain a competitive cost structure in line with our expectations of future business opportunities. In light of these actions, as well as the budgetary environment discussed above, we believe we are well positioned to continue to win new business in our large addressable market. We believe that the following trends will influence the USG's spending in our addressable market:

- A favorable USG budget environment, particularly in defense and intelligence-related areas;
- A shift in focus from readiness toward increased capabilities, effectiveness, and responsiveness;
- Increased USG interest in faster contracting and acquisition processes;
- Increased focus on cyber, space, and the electromagnetic spectrum as key domains for National Security;
- Continued focus on counterterrorism, counterintelligence, and counter proliferation as key U.S. security concerns;
- Balanced focus on enterprise cost reductions through efficiency, with increased spend on infrastructure modernization and enhancements to cyber security protections; and
- Increased investments in advanced technologies (e.g., Artificial Intelligence, 5G).

We believe that our customers' use of lowest price/technically acceptable (LPTA) procurements, which contributed to pricing pressures in prior years, has moderated, though price still remains an important factor in procurements. We also continue to see protests of major contract awards and delays in USG 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. Additional factors that could affect USG spending in our addressable market include changes in set-asides for small businesses and budgetary priorities limiting or delaying federal government spending in general.

## Results of Operations for the Three Months Ended December 31, 2019 and 2018

The following table provides the relative percentage that certain items of expense and earnings bear to revenue for the three months ended December 31, 2019 and 2018, respectively.

(dollars in thousands)	Dollar Amount		Percentage of Revenue		Change	
	Three Months Ended December 31,		Three Months Ended December 31,		\$	%
	2019	2018	2019	2018		
Revenue	\$ 1,395,469	\$ 1,181,641	100.0%	100.0%	\$ 213,828	18.1%
Costs of revenue						
Direct costs	904,867	790,849	64.8	66.9	114,018	14.4
Indirect costs and selling expenses	352,448	269,677	25.3	22.8	82,771	30.7
Depreciation and amortization	27,967	18,852	2.0	1.6	9,115	48.4
Total costs of revenue	1,285,282	1,079,378	92.1	91.3	205,904	19.1
Income from operations	110,187	102,263	7.9	8.7	7,924	7.7
Interest expense and other, net	14,714	9,421	1.1	0.8	5,293	56.2
Income before income taxes	95,473	92,842	6.8	7.9	2,631	2.8
Income tax expense	16,278	24,246	1.2	2.1	(7,968)	(32.9)
Net income	\$ 79,195	\$ 68,596	5.7%	5.8%	\$ 10,599	15.5%

For the three months ended December 31, 2019, total revenue increased by 18.1 percent, or \$213.8 million, compared with the same period a year ago. This increase was attributable to organic growth on existing programs, new contract awards, higher award and incentive fees, and acquired revenues, partially offset by the completion of certain contracts. In addition, during the three months ended December 31, 2019, the Company received notification that certain contract close out risks had been mitigated on previously satisfied performance obligations and therefore recorded a reduction to its established reserve amount. Out of our primary customer groups, Department of Defense and Federal Civilian revenue increased by \$155.6 million and \$54.1 million, respectively, compared with the same period a year ago.

For the three months ended December 31, 2019, direct costs increased 14.4 percent or \$114.0 million, compared with the same period a year ago. The increase in direct costs is primarily related to increased direct labor expenses due to organic growth on existing programs and acquired contracts. As a percentage of revenue, direct costs were 64.8 percent and 66.9 percent for the three months ended December 31, 2019 and 2018, respectively. Direct costs include direct labor, subcontract labor, material expenses, and other direct costs.

Indirect costs and selling expenses increased \$82.8 million or 30.7 percent for the three months ended December 31, 2019, compared with the same period a year ago. As a percentage of revenue, indirect costs and selling expenses were 25.3 percent and 22.8 percent for the three months ended December 31, 2019 and 2018, respectively. This percentage increase is driven primarily by increased independent research and development (IR&D) efforts, increased bid and proposal (B&P) costs, increased indirect labor from recent acquisitions and additional fringe benefits for our larger workforce.

Depreciation and amortization expense increased \$9.1 million or 48.4 percent for the three months ended December 31, 2019, compared with the same period a year ago. The increase is primarily attributable to intangible amortization from recent acquisitions and depreciation from the Company's higher average property and equipment.

For the three months ended December 31, 2019, interest expense and other, net increased \$5.3 million or 56.2 percent, compared with the same period a year ago. The increase in interest expense is primarily attributable to higher outstanding debt balances on the Company's Credit Facility as a result of recent acquisitions.

For the three months ended December 31, 2019, the effective income tax rate was 17.1 percent compared with 26.1 percent for the same period last year. The Company's effective income tax rate decreased primarily due to the timing of excess tax benefits under ASU 2016-09, *Stock Compensation*. For both comparative reporting periods, the Company's effective tax rate was impacted by excess tax benefits under ASU 2016-09, *Stock Compensation*. If gains or losses on the value of assets invested in COLI throughout the rest of the current fiscal year vary from our estimates, our FY2020 effective tax rate will fluctuate in future quarters for the year ending June 30, 2020.

## Results of Operations for the Six Months Ended December 31, 2019 and 2018

The following table provides the relative percentage that certain items of expense and earnings bear to revenue for the six months ended December 31, 2019 and 2018, respectively.

(dollars in thousands)	Dollar Amount		Percentage of Revenue		Change	
	Six Months Ended December 31,		Six Months Ended December 31,		\$	%
	2019	2018	2019	2018		
Revenue	\$ 2,758,861	\$ 2,347,505	100.0%	100.0%	\$ 411,356	17.5%
Costs of revenue						
Direct costs	1,783,748	1,573,609	64.7	67.0	210,139	13.4
Indirect costs and selling expenses	710,040	534,434	25.7	22.8	175,606	32.9
Depreciation and amortization	54,729	37,599	2.0	1.6	17,130	45.6
Total costs of revenue	2,548,517	2,145,642	92.4	91.4	402,875	18.8
Income from operations	210,344	201,863	7.6	8.6	8,481	4.2
Interest expense and other, net	31,525	18,307	1.1	0.8	13,218	72.2
Income before income taxes	178,819	183,556	6.5	7.8	(4,737)	(2.6)
Income tax expense	31,647	36,127	1.1	1.5	(4,480)	(12.4)
Net income	\$ 147,172	\$ 147,429	5.3%	6.3%	\$ (257)	(0.2)%

For the six months ended December 31, 2019, total revenue increased by 17.5 percent, or \$411.4 million, compared with the same period a year ago. This increase was attributable to organic growth on existing programs, new contract awards, and acquired revenues, partially offset by the completion of certain contracts. Out of our primary customer groups, Department of Defense and Federal Civilian revenue increased by \$275.0 million and \$125.9 million, respectively, compared with the same period a year ago.

For the six months ended December 31, 2019, direct costs increased 13.4 percent or \$210.1 million, compared with the same period a year ago. The increase in direct costs is primarily related to increased direct labor expenses due to organic growth on existing programs and acquired contracts. As a percentage of revenue, direct costs were 64.7 percent and 67.0 percent for the six months ended December 31, 2019 and 2018, respectively. Direct costs include direct labor, subcontractor labor, material expenses, and other direct costs.

Indirect costs and selling expenses increased \$175.6 million or 32.9 percent for the six months ended December 31, 2019, compared with the same period a year ago. As a percentage of revenue, indirect costs and selling expenses were 25.7 percent and 22.8 percent for the six months ended December 31, 2019 and 2018, respectively. This percentage increase is driven primarily by increased independent research and development (IR&D) efforts, increased bid and proposal (B&P) costs, increased indirect labor from recent acquisitions and additional fringe benefits for our larger workforce.

Depreciation and amortization expense increased \$17.1 million or 45.6 percent for the six months ended December 31, 2019, compared with the same period a year ago. The increase is primarily attributable to intangible amortization from recent acquisitions and depreciation from the Company's higher average property and equipment.

For the six months ended December 31, 2019, interest expense and other, net increased \$13.2 million or 72.2 percent, compared with the same period a year ago. The increase in interest expense is primarily attributable to higher outstanding debt balances on the Company's Credit Facility as a result of recent acquisitions.

For the six months ended December 31, 2019, the effective income tax rate was 17.7 percent compared with 19.7 percent for the same period last year. The Company's effective income tax rate decreased primarily due to the amount of excess tax benefits under ASU 2016-09, *Stock Compensation*. For both comparative reporting periods, the Company's effective tax rate was impacted by excess tax benefits under ASU 2016-09, *Stock Compensation*. If gains or losses on the value of assets invested in COLI throughout the rest of the current fiscal year vary from our estimates, our FY2020 effective tax rate will fluctuate in future quarters for the year ending June 30, 2020.

## Contract Backlog

The Company's backlog represents total value on our existing contracts that has the potential to be recognized into revenue as work is performed. The Company includes unexercised option years in its backlog amount and excludes task orders that may be issued underneath a multiple award IDIQ vehicle until such task orders are issued.

The Company's backlog as of period end is either funded or unfunded:

- Funded backlog represents contract value appropriated by a customer that is expected to be recognized into revenue.
- Unfunded backlog represents the sum of unappropriated contract value on executed contracts and unexercised option years that is expected to be recognized into revenue.

As of December 31, 2019, the Company had total backlog of \$20.3 billion, of which \$2.8 billion was funded. The total backlog consists of remaining performance obligations (see Note 7 – Revenue Recognition) plus unexercised options.

There is no assurance that all funded or potential contract value will result in revenue being recognized. The Company continues to monitor our backlog as it is subject to change from execution of new contracts, contract modifications or extensions, government deobligations, or early terminations. Based on this analysis, an adjustment to the period end balance may be required.

## Liquidity and Capital Resources

Existing cash and cash equivalents and cash generated by operations are our primary sources of liquidity, as well as sales of receivables under our MARPA (as defined and discussed in Note 10) and available borrowings under our Credit Facility (as defined in Note 11) described below.

The Company has a \$2,438.4 million Credit Facility, which consists of an \$1,500.0 million Revolving Facility and a \$938.4 million Term Loan. 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 December 31, 2019, we had \$740.0 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 \$11.7 million until the balance is due in full on June 30, 2024. As of December 31, 2019, \$868.0 million was outstanding under the Term Loan.

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 total leverage ratio and a minimum interest 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 \$68.6 million and \$70.7 million as of December 31, 2019 and 2018, respectively. A summary of cash flow information is presented below:

	Six Months Ended	
	December 31,	
	2019	2018
Net cash provided by operating activities	\$ 237,025	\$ 139,540
Net cash used in investing activities	(143,091)	(107,088)
Net cash used in financing activities	(97,474)	(27,044)
Effect of exchange rate changes on cash	157	(874)
Net increase (decrease) in cash and cash equivalents	\$ (3,383)	\$ 4,534

Our operating cash flow was \$237.0 million for the six months ended December 31, 2019. This represents an increase of \$97.5 million or 69.9 percent, from our operating cash flows of \$139.5 million for the six months ended December 31, 2018. The year-over-year increase is primarily related to strong cash collections on our accounts receivable. Days sales outstanding (DSO) was 51 days at December 31, 2019, compared with 73 days at December 31, 2018.

Cash used in investing activities was \$143.1 million and \$107.1 million during the six months ended December 31, 2019 and 2018, respectively. During the six months ended December 31, 2019, we paid \$102.1 million for business acquisitions, as compared to \$91.2 million during the same period a year ago. Purchases of office and computer related equipment of \$41.0 million and \$17.8 million during the first six months of FY2020 and FY2019, respectively, accounted for a majority of the remaining funds used in investing activities.

Cash used in financing activities was \$97.5 million and \$27.0 million during the six months ended December 31, 2019 and 2018. During the six months ended December 31, 2019 and 2018, we had net repayments under our Credit Facility of \$68.5 million and \$8.5 million, respectively. During the six months ended December 31, 2019 and December 31, 2018, we also used cash within financing activities of \$29.1 million and \$18.0 million, respectively, 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.

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

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 \$900.0 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 six months ended December 31, 2019 would have fluctuated by approximately \$3.6 million.

Approximately 2.9 percent and 3.3 percent of our total revenue in six months ended December 31, 2019 and 2018, 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 December 31, 2019, we held a combination of euros and pounds sterling in the U.K. and in the Netherlands equivalent to approximately \$24.1 million. This allows us to better utilize our cash resources on behalf of our foreign subsidiaries, thereby mitigating foreign currency conversion risks.

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

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

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. 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 December 31, 2019.

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 December 31, 2019.

**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, 2019 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.

In 2015, 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. The Court subsequently stayed the part of the action against John Does 1-60.

On April 13, 2018, the Plaintiffs filed a motion to reinstate Plaintiff Rashid, which CACI opposed. On April 20, 2018, the District Court granted that motion subject to Plaintiff Rashid appearing for a deposition. On May 21, 2018, CACI filed a motion to dismiss for lack of subject matter jurisdiction based on a recent Supreme Court decision. On June 25, 2018, the District Court denied that motion. On October 25, 2018, the District Court conducted a pre-trial conference at which the District Court addressed remaining discovery matters, the scheduling for dispositive motions that CACI intends to file, and set a date of April 23, 2019 for trial, if needed, to start. On December 20, 2018, CACI filed a motion for summary judgment and a motion to dismiss based on the state secrets privilege. On January 3, 2019, CACI filed a motion to dismiss for lack of subject matter jurisdiction. On February 15, 2019, the United States filed a motion for summary judgment with respect to CACI's third-party complaint. On February 27, 2019, the District Court denied CACI's motion for summary judgment and motions to dismiss for lack of subject matter jurisdiction and on the state secrets privilege. On February 28, 2019, CACI filed a motion seeking dismissal on grounds of derivative sovereign immunity.

On March 22, 2019, the District Court denied the United States' motion to dismiss on grounds of sovereign immunity and CACI's motion to dismiss on grounds of derivative sovereign immunity. The District Court also granted the United States' motion for summary judgment with respect to CACI's third-party complaint. On March 26, 2019, CACI filed a Notice of Appeal of the District Court's March 22, 2019 decision. On April 2, 2019, the U.S. Court of Appeals for the Fourth Circuit issued an Accelerated Briefing Order for the appeal. On April 3, 2019, the District Court issued an Order cancelling the trial schedule and holding matters in abeyance pending disposition of the appeal. On July 10, 2019, the U.S. Court of Appeals for the Fourth Circuit heard oral argument in Spartanburg, South Carolina on CACI's appeal. On August 23, 2019, the Court of Appeals issued an unpublished opinion dismissing the appeal. A majority of the panel that heard the appeal held that rulings denying derivative sovereign immunity are not immediately appealable even where they present pure questions of law. The panel also ruled, in the alternative, that even if such a ruling was immediately appealable, review was barred because there remained disputes of material fact with respect to CACI's derivative sovereign immunity defenses. The Court of Appeals subsequently denied CACI's request for rehearing *en banc*. CACI then filed a motion to stay issuance of the mandate pending the filing of a petition for a writ of *certiorari*. On October 11, 2019, the Court of Appeals, by a 2-1 vote, denied the motion to stay issuance of the mandate. CACI then filed an application to stay issuance of the mandate with Chief Justice Roberts in his capacity as Circuit Justice for the U.S. Court of Appeals for the Fourth Circuit. After CACI filed that application, the Court of Appeals issued the mandate on October 21, 2019, returning jurisdiction to the district court. On October 23, Chief Justice Roberts denied the stay application "without prejudice to applicants filing a new application after seeking relief in the district court." CACI then filed a motion in the district court to stay the action pending filing and disposition of a petition for a writ of *certiorari*. On November 1, 2019, the district court granted CACI's motion and issued an Order staying the action until further order of the court. On November 15, 2019, CACI filed a petition for a writ of *certiorari* in the U.S. Supreme Court. On January 27, 2020, the U.S. Supreme Court issued an Order inviting the Solicitor General to file a brief in the case expressing the views of the United States.

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, 2019 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, 2019. 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:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased As Part of Publicly Announced Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u>
October 2019	8,250	\$ 227.81	1,200,017	49,983
November 2019	—	—	—	—
December 2019	—	—	—	—
Total	<u>8,250</u>	<u>\$ 227.81</u>	<u>1,200,017</u>	<u>49,983</u>

#### **Item 3. Defaults Upon Senior Securities**

None

#### **Item 4. Mine Safety Disclosures**

Not applicable

#### **Item 5. Other Information**

None



**Item 6. Exhibits**

Exhibit No.	Description	Filed with this Form 10-Q	Incorporated by Reference		Exhibit No.
			Form	Filing Date	
10.1	<a href="#"><u>Amendment No. 1 to Master Accounts Receivable Purchase Agreement dated December 28, 2018, among CACI, International Inc, CACI, Inc.-Federal, certain subsidiaries from time to time party thereto, MUFG Bank, Ltd., as Administrative Agent, and certain purchasers from time to time party thereto</u></a>		8-K	December 31, 2019	10.1
31.1	<a href="#"><u>Section 302 Certification John S. Mengucci</u></a>	X			
31.2	<a href="#"><u>Section 302 Certification Thomas A. Mutryn</u></a>	X			
32.1	<a href="#"><u>Section 906 Certification John S. Mengucci</u></a>	X			
32.2	<a href="#"><u>Section 906 Certification Thomas A. Mutryn</u></a>	X			
101.INS	XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)				
101.SCH	Inline XBRL Taxonomy Extension Schema Document				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)				

## 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: January 30, 2020

By: /s/ John S. Mengucci

John S. Mengucci  
President,  
Chief Executive Officer and Director  
(Principal Executive Officer)

Date: January 30, 2020

By: /s/ Thomas A. Mutryn

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

Date: January 30, 2020

By: /s/ Christopher A. Voci

Christopher A. Voci  
Senior Vice President, Corporate Controller  
and Chief Accounting Officer  
(Principal Accounting Officer)

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## Section 2: EX-31.1 (EX-31.1)

**Exhibit 31.1**

### Section 302 Certification

I, John S. Mengucci, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CACI International Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

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

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

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

Date: January 30, 2020

/s/ JOHN S. MENGUCCI  
\_\_\_\_\_  
John S. Mengucci  
President,  
Chief Executive Officer and Director  
(Principal Executive Officer)

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## Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

### Section 302 Certification

I, Thomas A. Mutryn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CACI International Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

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

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

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

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

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

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

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

Date: January 30, 2020

/s/ THOMAS A. MUTRYN  
\_\_\_\_\_  
Thomas A. Mutryn  
Executive Vice President, Chief Financial Officer

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## Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

### Section 906 Certification

In connection with the quarterly report on Form 10-Q of CACI International Inc (the Company) for the three months ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned President and Chief Executive Officer of the Company certifies, to the best of his knowledge and belief pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: January 30, 2020

/s/ JOHN S. MENGUCCI  
\_\_\_\_\_  
John S. Mengucci  
President,  
Chief Executive Officer and Director  
(Principal Executive Officer)

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## Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

### Section 906 Certification

In connection with the quarterly report on Form 10-Q of CACI International Inc (the Company) for the three months ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned Executive Vice President, Chief Financial Officer and Treasurer of the Company certifies, to the best of his knowledge and belief pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: January 30, 2020

/s/ THOMAS A. MUTRYN  
\_\_\_\_\_  
Thomas A. Mutryn  
Executive Vice President, Chief Financial Officer  
and Treasurer  
(Principal Financial Officer)

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