CACI INTERNATIONAL INC /DE/
Form 10-Q
May 02, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 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	54-1345888
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1100 North Glebe Road, Arlington, VA 22201

(Address of principal executive offices)

(703) 841-7800

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant has submitted electronically 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	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

As of April 22, 2019, there were 24,870,769 shares outstanding of CACI International Inc's common stock, par value $0.10 per share.

CACI INTERNATIONAL INC

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

CACI INTERNATIONAL INC

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(amounts in thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Revenue	$1,264,958	$1,124,100	$3,612,463	$3,297,774
Costs of revenue:				
Direct costs	824,024	728,444	2,397,633	2,195,282
Indirect costs and selling expenses	324,828	273,145	859,262	788,569
Depreciation and amortization	21,198	17,717	58,797	53,563
Total costs of revenue	1,170,050	1,019,306	3,315,692	3,037,414
Income from operations	94,908	104,794	296,771	260,360
Interest expense and other, net	13,466	10,566	31,773	32,769
Income before income taxes	81,442	94,228	264,998	227,591
Income tax expense (benefit)	13,297	29,729	49,424	(21,749)
Net income	$68,145	$64,499	$215,574	$249,340
Basic earnings per share	$2.74	$2.62	$8.69	$10.14
Diluted earnings per share	$2.69	$2.56	$8.50	$9.88
Weighted-average basic shares outstanding	24,866	24,656	24,819	24,588
Weighted-average diluted shares outstanding	25,348	25,234	25,369	25,229

See Notes to Unaudited Consolidated Financial Statements

CACI INTERNATIONAL INC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(amounts in thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Net income	$68,145	$64,499	$215,574	$249,340
Other comprehensive income (loss):				
Foreign currency translation adjustment	3,059	5,779	(2,372)	11,333
Change in fair value of interest rate swap agreements, net of tax	(2,075)	3,344	(5,636)	6,465
Other comprehensive income (loss), net of tax	984	9,123	(8,008)	17,798
Comprehensive income	$69,129	$73,622	$207,566	$267,138

See Notes to Unaudited Consolidated Financial Statements

CACI INTERNATIONAL INC

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(amounts in thousands, except per share data)

	March 31, 2019	June 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$93,806	$66,194
Accounts receivable, net	889,662	806,871
Prepaid expenses and other current assets	99,586	58,126
Total current assets	1,083,054	931,191
Goodwill	3,322,982	2,620,835
Intangible assets, net	450,838	241,755
Property and equipment, net	136,212	101,140
Supplemental retirement savings plan assets	91,585	91,490
Accounts receivable, long-term	11,836	8,620
Other long-term assets	36,512	39,175
Total assets	$5,133,019	$4,034,206
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$46,920	$46,920
Accounts payable	136,933	82,017
Accrued compensation and benefits	263,586	259,442
Other accrued expenses and current liabilities	255,035	150,602
Total current liabilities	702,474	538,981
Long-term debt, net of current portion	1,710,640	1,015,420
Supplemental retirement savings plan obligations, net of current portion	91,992	86,851
Deferred income taxes	204,331	200,880
Other long-term liabilities	92,099	85,187
Total liabilities	2,801,536	1,927,319
COMMITMENTS AND CONTINGENCIES		
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; 42,304 shares issued and 24,871 outstanding at March 31, 2019 and 42,139 shares issued and 24,704 outstanding at June 30, 2018	4,230	4,214
Additional paid-in capital	570,207	570,964
Retained earnings	2,360,134	2,126,790
Accumulated other comprehensive loss	(27,038)	(19,030)
Treasury stock, at cost (17,434 and 17,434 shares, respectively)	(576,185)	(576,186)

Total CACI shareholders’ equity	2,331,348	2,106,752
Noncontrolling interest	135	135
Total shareholders’ equity	2,331,483	2,106,887
Total liabilities and shareholders’ equity	$5,133,019	$4,034,206

See Notes to Unaudited Consolidated Financial Statements

CACI INTERNATIONAL INC

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(amounts in thousands)

	Nine Months Ended March 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$215,574	$249,340
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	58,797	53,563
Amortization of deferred financing costs	1,796	3,311
Stock-based compensation expense	18,351	18,183
Deferred income taxes	(1,193)	(69,405)
Changes in operating assets and liabilities, net of effect of business acquisitions:		
Accounts receivable, net	85,995	(53,410)
Prepaid expenses and other assets	(13,284)	(15,583)
Accounts payable and other accrued expenses	101,473	68,505
Accrued compensation and benefits	(18,536)	(12,047)
Income taxes payable and receivable	(1,945)	(572)
Long-term liabilities	5,813	8,945
Net cash provided by operating activities	452,841	250,830
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(29,545)	(31,810)
Cash paid for business acquisitions, net of cash acquired	(1,071,023)	(50,368)
Other	1,875	3,629
Net cash used in investing activities	(1,098,693)	(78,549)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings under bank credit facilities	2,109,500	397,000
Principal payments made under bank credit facilities	(1,414,690)	(547,974)
Payment of financing costs under bank credit facilities	(1,386)	—
Payment of contingent consideration	(616)	(11,553)
Proceeds from employee stock purchase plans	4,265	3,673
Repurchases of common stock	(4,310)	(3,802)
Payment of taxes for equity transactions	(18,837)	(20,692)
Net cash provided by (used in) financing activities	673,926	(183,348)
Effect of exchange rate changes on cash and cash equivalents	(462)	1,498
Net increase (decrease) in cash and cash equivalents	27,612	(9,569)
Cash and cash equivalents at beginning of period	66,194	65,539
Cash and cash equivalents at end of period	$93,806	$55,970
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for income taxes, net of refunds	$55,967	$45,771
Cash paid during the period for interest	$31,083	$30,346
Non-cash financing and investing activities:		
Landlord sponsored tenant improvement	$3,518	$—

Accrued capital expenditures	$3,557	$818

See Notes to Unaudited Consolidated Financial Statements

CACI INTERNATIONAL INC

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

(amounts in thousands)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury Stock		Total CACI Shareholders'	Noncontrolling	Total Shareholders'
	Shares	Amount	Capital	Earnings	Income (Loss)	Shares	Amount	Equity	Interest	Equity
BALANCE, December 31, 2018	42,296	$4,230	$564,586	$2,291,989	$(28,022)	17,434	$(576,185)	$2,256,598	$135	2,256,733
Net income	—	—	—	68,145	—	—	—	68,145	—	68,145
Stock-based compensation expense	—	—	6,304	—	—	—	—	6,304	—	6,304
Tax withholdings on restricted share vesting	8		(567)	—	—	—	—	(567)	—	(567)
Change in fair value of interest rate swap agreements, net	—	—	—	—	(2,075)	—	—	(2,075)	—	(2,075)
Currency translation adjustment	—	—	—	—	3,059	—	—	3,059	—	3,059
Repurchases of common stock	—	—	(116)	—	—	11	(1,438)	(1,554)	—	(1,554)
Treasury stock issued under stock purchase plans	—	—		—	—	(11)	1,438	1,438	—	1,438
BALANCE, March 31, 2019	42,304	4,230	570,207	2,360,134	(27,038)	17,434	(576,185)	2,331,348	135	2,331,483
	42,059	4,206	568,646	2,010,460	(20,441)	17,434	(576,186)	1,986,685	135	1,986,820

BALANCE, December 31, 2017										
Net income	—	—	—	64,499	—	—	—	64,499	—	64,499
Stock-based compensation expense	—	—	5,794	—	—	—	—	5,794	—	5,794
Tax withholdings on restricted share vesting	68	7	(8,043)	—	—	—	—	(8,036)	—	(8,036)
Change in fair value of interest rate swap agreements, net	—	—	—	—	3,344	—	—	3,344	—	3,344
Currency translation adjustment	—	—	—	—	5,779	—	—	5,779	—	5,779
Repurchases of common stock	—	—	(125)	—	—	9	(1,214)	(1,339)	—	(1,339)
Treasury stock issued under stock purchase plans	—	—	—	—	—	(9)	1,214	1,214	—	1,214
BALANCE, March 31, 2018	42,127	$4,213	$566,272	$2,074,959	$(11,318)	17,434	$(576,186)	$2,057,940	$135	$2,058,075
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	—	—	—	215,574	—	—	—	215,574	—	215,574
Cumulative effect adjustment of ASC 606, net of taxes	—	—	—	17,770	—	—	—	17,770	—	17,770
Stock-based compensation expense	—	—	18,351	—	—	—	—	18,351	—	18,351
Tax withholdings on restricted share vesting	165	16	(18,812)	—	—	—	—	(18,796)	—	(18,796)
Change in fair value of interest rate swap	—	—	—	—	(5,636)	—	—	(5,636)	—	(5,636)

agreements, net										
Currency translation adjustment	—	—	—	—	(2,372)	—	—	(2,372)	—	(2,372)
Repurchases of common stock	—	—	(301)	—	—	26	(4,009)	(4,310)	—	(4,310)
Treasury stock issued under stock purchase plans	—	—	5	—	—	(26)	4,010	4,015	—	4,015
BALANCE, March 31, 2019	42,304	4,230	570,207	2,360,134	(27,038)	17,434	(576,185)	2,331,348	135	2,331,483
BALANCE, June 30, 2017	41,896	4,190	569,080	1,825,619	(29,116)	17,435	(576,187)	1,793,586	135	1,793,721
Net income	—	—	—	249,340	—	—	—	249,340	—	249,340
Stock-based compensation expense	—	—	18,183	—	—	—	—	18,183	—	18,183
Tax withholdings on restricted share vesting	231	23	(20,695)	—	—	—	—	(20,672)	—	(20,672)
Change in fair value of interest rate swap agreements, net	—	—	—	—	6,465	—	—	6,465	—	6,465
Currency translation adjustment	—	—	—	—	11,333	—	—	11,333	—	11,333
Repurchases of common stock	—	—	(303)	—	—	27	(3,499)	(3,802)	—	(3,802)
Treasury stock issued under stock purchase plans	—	—	7	—	—	(28)	3,500	3,507	—	3,507
BALANCE, March 31, 2018	42,127	$4,213	$566,272	$2,074,959	$(11,318)	17,434	$(576,186)	$2,057,940	$135	$2,058,075

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CACI INTERNATIONAL INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

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

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and amounts included in other current assets and current liabilities that meet the definition of a financial instrument approximate fair value because of the short-term nature of these amounts. The fair value of the Company's debt outstanding as of March 31, 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 10 and 16.

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, 2018. The results of operations for the three and nine months ended March 31, 2019 are not necessarily indicative of the results to be expected for any subsequent interim period or for the full fiscal year.

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

2. Recent Accounting Pronouncements

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. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this standard on its financial statements.

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedge Activities. This ASU simplifies the application of hedge accounting and improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities. The Company early adopted this standard effective as of July 1, 2018. Adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which changes the presentation of net periodic pension and postretirement cost (net benefit cost) on the consolidated statements of operations. The service cost component of net benefit cost will continue to be part of operating income while all other components of net benefit cost (interest costs, actuarial gains and losses and amortization of prior service cost) will be shown outside of operating income. The Company adopted this standard on July 1, 2018 and applied the standard retrospectively. The adoption of this standard did not have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which clarifies how certain cash receipts and cash payments are presented and classified on the statement of cash flows to reduce diversity in practice. The Company adopted this standard on July 1, 2018 and applied the standard retrospectively. As a result of adoption, the Company reclassified $3.7 million of proceeds received from the settlement of corporate owned life insurance (COLI) policies from operating activities to investing activities on the Consolidated Statement of Cash Flows for the nine months ended March 31, 2018. During the nine months ended March 31, 2019, $1.9 million of COLI proceeds are presented as investing activities.

CACI INTERNATIONAL INC

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

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 is effective for the fiscal year, and interim periods within that fiscal year, beginning after December 15, 2018, and requires a modified retrospective approach. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements. The Company will adopt this standard on July 1, 2019 and is currently in the process of accumulating data required to measure its existing leases, reviewing lease contracts, implementing a new lease accounting solution and evaluating accounting policy and internal control changes. We expect that upon adoption we will recognize a material right-of-use asset and lease liability on our balance sheet. We do not expect the standard to have a material impact on our cash flows or results of operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, as amended (ASC 606), which superseded nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than were required under previous GAAP. In addition, ASU 2014-09 added ASC 340-40 to codify guidance on other assets and deferred costs for contracts with customers.

Effective July 1, 2018, we adopted ASC 606 using the modified retrospective method, whereby the cumulative effect of applying the standard was recognized through shareholders' equity on the date of adoption. In addition, for our fiscal year ending June 30, 2019 and the interim reporting periods therein, the Company is required to disclose the amount by which each financial statement line item was affected by the new standard. The Company's comparative information, for prior periods presented before July 1, 2018, has not been restated and continues to be reported under ASC 605.

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

	June 30, 2018 As Reported Under ASC 605	Adjustments Due to ASC 606	July 1, 2018 Balance Under ASC 606
Assets:			
Accounts receivable, net	$806,871	$ 20,454	$827,325
Prepaid expenses and other current assets	58,126	2,342	60,468
Other long-term assets	39,175	3,923	43,098
Liabilities and Shareholders' Equity:			
Other accrued expenses and current liabilities	150,602	2,212	152,814

Deferred income taxes	200,880	6,639	207,519
Other long-term liabilities	85,187	98	85,285
Retained earnings	2,126,790	17,770	2,144,560

ASC 606 changed the pattern of revenue recognition for some of our contracts with customers. For our award and incentive fee contracts, we recognize an estimated amount of variable consideration throughout the performance period rather than defer recognition of the relevant portion of fee until customer notification of the amount earned. Some of our fixed price services-type contracts in which revenue was previously recognized on a straight-line basis over the performance period converted to recognition of revenue using a cost-to-cost input method to measure our progress towards the complete satisfaction of the performance obligation. The cumulative effect of these changes in the pattern of revenue recognition resulted in an increase to accounts receivable with an offset to retained earnings.

In addition, ASC 606 changed the timing of revenue recognition for license renewal performance obligations. Under prior GAAP, license renewals were generally recognized in the period the renewal contract was executed. However, upon adoption of ASC 606, revenue for a license renewal may not be recognized until the start of the term of the renewal. The cumulative effect of this change resulted in an increase to contract liabilities with an offset to retained earnings.

The adoption of ASC 606 did not have a material impact on the Company’s revenue recognition for cost-plus-fee, fixed price/level-of-effort, time-and-materials (T&M), fixed price contracts previously recognized under ASC 605-35, and fixed price product revenue arrangements.

CACI INTERNATIONAL INC

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

Under ASC 340-40, the Company capitalizes certain costs to fulfill and obtain a contract. The cumulative effect of this change resulted in an increase to contract assets with an offset to retained earnings. These capitalized costs are amortized over the period of contract performance as revenue is recognized from the transfer of goods or services and the underlying performance obligation is satisfied.

The table below presents the impact of adoption of ASC 606 on our consolidated statement of operations for the three and nine months ended March 31, 2019 (in thousands, except per share data):

	Three Months Ended March 31, 2019			Nine Months Ended March 31, 2019		
	As Adjusted Under ASC 605	Effect of ASC 606	As Reported Under ASC 606	As Adjusted Under ASC 605	Effect of ASC 606	As Reported Under ASC 606
Revenue	$1,263,174	$1,784	$1,264,958	$3,599,511	$12,952	$3,612,463
Costs of revenue:						
Direct costs	824,024	—	824,024	2,397,633	—	2,397,633
Indirect costs and selling expenses	324,597	231	324,828	860,294	(1,032)	859,262
Depreciation and amortization	21,198	—	21,198	58,797	—	58,797
Total costs of revenue	1,169,819	231	1,170,050	3,316,724	(1,032)	3,315,692
Income from operations	93,355	1,553	94,908	282,787	13,984	296,771
Interest expense and other, net	13,466	—	13,466	31,773	—	31,773
Income before taxes	79,889	1,553	81,442	251,014	13,984	264,998
Income tax expense	12,875	422	13,297	45,820	3,604	49,424
Net income	$67,014	$1,131	$68,145	$205,194	$10,380	$215,574
Basic earnings per share	$2.70	$0.05	$2.74	$8.27	$0.42	$8.69
Diluted earnings per share	$2.64	$0.04	$2.69	$8.09	$0.41	$8.50

For the three months ended March 31, 2019, the effect of ASC 606 was primarily related to certain fixed price services-type contracts in which revenue was previously recognized on a straight-line basis that converted to a cost-to-cost input method to measure the Company's progress towards the complete satisfaction of the performance obligation. For the nine months ended March 31, 2019, the effect of ASC 606 was primarily related to the timing of award and incentive fee revenue recognition.

The table below presents the impact of adoption of ASC 606 on our consolidated balance sheet as of March 31, 2019 (in thousands):

	As Adjusted	Effect of	As Reported

	Under ASC 605	ASC 606	Under ASC 606
Assets:			
Accounts receivable, net	$858,963	$30,699	$889,662
Prepaid expenses and other current assets	96,962	2,624	99,586
Other long-term assets	31,840	4,672	36,512
Liabilities and Shareholders' Equity:			
Other accrued expenses and current liabilities	251,007	4,028	255,035
Deferred income taxes	198,513	5,818	204,331
Other long-term liabilities	92,099	—	92,099
Retained earnings	2,331,985	28,149	2,360,134

CACI INTERNATIONAL INC

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

3. Summary of Significant Accounting Policies

Revenue Recognition

The Company generates almost all of our revenue from three different types of contractual arrangements with the U.S. government: cost-plus-fee, time-and-materials (T&M), and fixed-price contracts. Our contracts with the U.S. government are generally subject to the Federal Acquisition Regulation (FAR) and are competitively priced based on estimated costs of providing the contractual goods or services.

We account for a contract when the parties have approved the contract and are committed to perform on it, the rights of each party and the payment terms are identified, the contract has commercial substance, and it is probable that we will collect substantially all of the consideration.

At contract inception, the Company determines whether the goods or services to be provided are to be accounted for as a single performance obligation or as multiple performance obligations. This evaluation requires significant professional judgment as it may impact the timing and pattern of revenue recognition. If multiple performance obligations are identified, we generally use the cost plus a margin approach to determine the relative standalone selling price of each performance obligation.

When determining the total transaction price, the Company identifies both fixed and variable consideration elements within the contract. Variable consideration includes any amount within the transaction price that is not fixed, such as: award or incentive fees; performance penalties; unfunded contract value; or other similar items. For our contracts with award or incentive fees, the Company estimates the total amount of award or incentive fee expected to be recognized into revenue. Throughout the performance period, we recognize as revenue a constrained amount of variable consideration only to the extent that it is probable that a significant reversal of the cumulative amount recognized to date will not be required in a subsequent period. Our estimate of variable consideration is periodically adjusted based on significant changes in relevant facts and circumstances. In the period in which we can calculate the final amount of award or incentive fee earned - based on the receipt of the customer’s final performance score or determining that more objective, contractually-defined criteria have been fully satisfied - the Company will adjust our cumulative revenue recognized to date on the contract. This adjustment to revenue will be disclosed as the amount of revenue recognized in the current period for a previously satisfied performance obligation.

We generally recognize revenue over time throughout the performance period as the customer simultaneously receives and consumes the benefits provided on our services-type revenue arrangements. This continuous transfer of control for our U.S. government contracts is supported by the unilateral right of our customer to terminate the contract for a variety of reasons without having to provide justification for its decision. For our services-type revenue arrangements in which there are a repetitive amount of services that are substantially the same from one month to the next, the Company applies the series guidance. We use a variety of input and output methods that approximate the progress towards complete satisfaction of the performance obligation, including: costs incurred, labor hours expended, and time-elapsed measures for our fixed-price stand ready obligations. For certain contracts, primarily our cost-plus and T&M services-type revenue arrangements, we apply the right-to-invoice practical expedient in which revenue is recognized in direct proportion to our present right to consideration for progress towards the complete satisfaction of the performance obligation.

When a performance obligation has a significant degree of interrelation or interdependence between one month’s deliverables and the next, when there is an award or incentive fee, or when there is a significant degree of customization or modification, the Company generally records revenue using a percentage of completion methodology. For these revenue arrangements, substantially all revenue is recognized over time using a cost-to-cost input method based on the ratio of costs incurred to date to total estimated costs at completion. 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.

Contract modifications are reviewed to determine whether they should be accounted for as part of the original performance obligation or as a separate contract. When a contract modification changes the scope or price and the additional performance obligations are at their standalone selling price, the original contract is terminated and the Company accounts for the change prospectively when the new goods or services to be transferred are distinct from those already provided. When the contract modification includes goods or services that are not distinct from those already provided, the Company records a cumulative adjustment to revenue based on a remeasurement of progress towards the complete satisfaction of the not yet fully delivered performance obligation.

Based on the critical nature of our contractual performance obligations, the Company may proceed with work based on customer direction prior to the completion and signing of formal contract documents. The Company has a formal review process for approving any such work that considers previous experiences with the customer, communications with the customer regarding funding status, and our knowledge of available funding for the contract or program.

CACI INTERNATIONAL INC

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

Contract Assets

Contract assets include unbilled receivables in which our right to consideration is conditional on factors other than the passage of time. Contract assets exclude billed and billable receivables.

In addition, the costs to fulfill a contract are considered for capitalization based on contract specific facts and circumstances. The incremental costs to fulfill a contract (e.g. ramp up costs at the beginning of the period of performance) may be capitalized when expenses are incurred prior to satisfying a performance obligation.

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. The Company has elected to apply the practical expedient to immediately expense the costs to obtain a contract when the performance obligation will be completed within twelve months of contract inception.

Contract assets are periodically reassessed based on reasonably available information as of the balance sheet date to ensure they do not exceed their net realizable value.

Contract Liabilities

Contract liabilities include advance payments received from the customer in excess of revenue that may be recognized as of the balance sheet date. The advance payment is subsequently recognized into revenue as the performance obligation is satisfied.

Remaining Performance Obligations

The Company's remaining performance obligations balance represents the expected revenue to be recognized for the satisfaction of remaining performance obligations on our existing contracts as of period end. The remaining performance obligations balance excludes unexercised contract option years and task orders that may be issued underneath an Indefinite Delivery/Indefinite Quantity (IDIQ) vehicle. 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 our remaining performance obligations 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.

4. Acquisitions

SE&A BU

On August 15, 2018, CACI acquired certain assets of the systems engineering and acquisition support services business unit (SE&A BU) of CSRA LLC, a managed affiliate of General Dynamics Information Technology, Inc. The initial purchase consideration paid at closing to acquire the SE&A BU was $84.0 million plus $6.0 million representing a preliminary net working capital adjustment. Subsequent to closing, CACI estimated that an additional payment may be due to the sellers for the final net working capital adjustment. The Company recognized fair values of the assets acquired and liabilities assumed and allocated $42.8 million to goodwill and $8.9 million to intangible assets. The intangible assets consist of customer relationships. The final purchase price allocation, which is provisional and is expected to be completed by Q1 FY2020, will be based on final appraisals and other analysis of fair values of acquired assets and liabilities. The Company does not expect that differences between the preliminary and final purchase price allocation will have a material impact on its results of operations or financial position.

Mastodon

On January 29, 2019, CACI acquired all of the equity interests of Mastodon Design LLC (Mastodon) for a purchase consideration of $225.0 million, which includes a $220.0 million initial cash payment and $5.0 million of deferred consideration. Mastodon specializes in the rapid design of rugged tactical communications, signals intelligence (SIGINT) and electronic warfare (EW) equipment.

CACI INTERNATIONAL INC

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

The Company recognized fair values of the assets acquired and liabilities assumed and allocated $139.3 million to goodwill and $83.9 million to intangible assets. The goodwill of $139.3 million is largely attributable to the assembled workforce of Mastodon and expected synergies between the Company and Mastodon. The intangible assets consist of customer relationships of $19.8 million and technology of $64.1 million. The estimated fair value attributed to intangible assets is being amortized on an accelerated basis over approximately 20 years for customer relationships and over a range of approximately 5 to 9 years for technology. The fair value attributed to the intangible assets acquired was based on preliminary estimates, assumptions, and other information compiled by management, including independent valuations that utilized established valuation techniques. Of the value attributed to goodwill and intangible assets, approximately $223.1 million is deductible for income tax purposes. The final purchase price allocation, which is provisional and is expected to be completed by Q3 FY2020, will be based on final appraisals and other analysis of fair values of acquired assets and liabilities.

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 is approximately $759.5 million, which includes $759.9 million of cash paid at close net of cash acquired and a $0.4 million estimated net purchase price reduction for returnable consideration due from the seller, deferred consideration, and estimated 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 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 presented in the table below. Based on the Company’s preliminary valuation, the total estimated consideration of $759.5 million has been allocated to assets acquired and liabilities assumed as follows (in thousands):

Accounts receivable	$92,876
Prepaid expenses and other current assets	21,033
Property and equipment	23,282
Intangible assets	147,650
Goodwill	521,630
Accounts receivable, long-term	2,180
Other long-term assets	877
Accounts payable	(10,309)
Accrued compensation and benefits	(22,339)
Other accrued expenses and current liabilities	(9,185)
Deferred income taxes	71

Other long-term liabilities	(8,288)
Total estimated consideration	$759,478

The goodwill of $521.6 million is largely attributable to the assembled workforce of LGS and expected synergies between the Company and LGS. The intangible assets consist of customer relationships of $86.9 million and technology of $60.8 million. The estimated fair value attributed to intangible assets is being amortized on an accelerated basis over approximately 20 years for customer relationships and over a range of approximately 5 to 15 years for technology. The fair value attributed to the intangible assets acquired was based on preliminary estimates, assumptions, and other information compiled by management, including independent valuations that utilized established valuation techniques. Of the value attributed to goodwill and intangible assets, approximately $615.8 million is deductible for income tax purposes.

From the March 1, 2019 acquisition date through March 31, 2019, LGS generated $32.8 million of revenue and $1.3 million of net income. LGS' net income includes the impact of $1.3 million of amortization of intangibles. LGS' net income does not include the impact of acquisition-related expenses incurred by CACI.

CACI INTERNATIONAL INC

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

CACI incurred $11.3 million of acquisition-related expenses during the nine months ended March 31, 2019, which are included in indirect costs and selling expenses. Additionally, CACI incurred $2.7 million of integration and restructuring costs from the acquisition date through March 31, 2019.

The following pro forma results are prepared for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisition occurred at the beginning of the years presented or the results which may occur in the future. The following unaudited pro forma results of operations assume the LGS acquisition had occurred on July 1, 2017 (in thousands, except per share amounts):

	Nine Months Ended March 31,	
	2019	2018
Revenue	$3,897,994	$3,558,381
Net income	225,538	238,453
Basic EPS	9.09	9.70
Diluted EPS	8.89	9.45

Significant pro forma adjustments incorporated into the pro forma results above include the recognition of additional amortization expense related to acquired intangible assets and additional interest expense related to debt incurred to finance the acquisition. Significant nonrecurring adjustments include the elimination of non-recurring acquisition-related expenses incurred during the nine months ended March 31, 2019.

5. Intangible Assets

Intangible assets consisted of the following (in thousands):

	March 31, 2019 (1)	June 30, 2018
Intangible assets:		
Customer contracts and related customer relationships	$550,646	$435,933
Acquired technologies	138,010	13,237
Other	800	804
Intangible assets	689,456	449,974
Less accumulated amortization:		
Customer contracts and related customer relationships	(226,769)	(199,018)
Acquired technologies	(11,357)	(8,761)
Other	(492)	(440)

Less accumulated amortization	(238,618)	(208,219)
Total intangible assets, net	$450,838	$241,755

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(1) During the nine months ended March 31, 2019, the Company removed $0.7 million in fully amortized intangible assets.

Intangible assets are primarily amortized on an accelerated basis over periods ranging from one to twenty years. The weighted-average period of amortization for all customer contracts and related customer relationships as of March 31, 2019 is 16.6 years, and the weighted-average remaining period of amortization is 14.0 years. The weighted-average period of amortization for acquired technologies as of March 31, 2019 is 10.2 years, and the weighted-average remaining period of amortization is 10.1 years.

CACI INTERNATIONAL INC

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

Expected amortization expense for the remainder of the fiscal year ending June 30, 2019, and for each of the fiscal years thereafter, is as follows (in thousands):

Fiscal year ending June 30,	Amount
2019 (three months)	$14,620
2020	57,638
2021	56,486
2022	53,335
2023	48,158
Thereafter	220,601
Total intangible assets, net	$450,838

6. Goodwill

The changes in the carrying amount of goodwill for the year ended June 30, 2018 and the nine months ended March 31, 2019 are as follows (in thousands):

	Domestic	International	Total
Balance at June 30, 2017	$2,479,496	$ 97,939	$2,577,435
Goodwill acquired (1)	35,024	6,867	41,891
Foreign currency translation	—	1,509	1,509
Balance at June 30, 2018	2,514,520	106,315	2,620,835
Goodwill acquired (1)	703,825	(99)	703,726
Foreign currency translation	—	(1,579)	(1,579)
Balance at March 31, 2019	$3,218,345	$ 104,637	$3,322,982

(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 (including proprietary software product sales), and time-and-materials contracts as follows during the three and nine months ended March 31, 2019 (in thousands):

	Three Months Ended March 31, 2019			Nine Months Ended March 31, 2019		
	Domestic	International	Total	Domestic	International	Total
Cost-plus-fee	$704,627	$ —	$704,627	$2,003,204	$ —	$2,003,204
Firm fixed-price	348,143	25,863	374,006	982,232	73,152	1,055,384
Time and materials	172,761	13,564	186,325	509,170	44,705	553,875
Total	$1,225,531	$ 39,427	$1,264,958	$3,494,606	$ 117,857	$3,612,463

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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 nine months ended March 31, 2019 (in thousands):

	Three Months Ended March 31, 2019			Nine Months Ended March 31, 2019		
	Domestic	International	Total	Domestic	International	Total
Department of Defense	$887,030	$ —	$887,030	$2,540,093	$ —	$2,540,093
Federal civilian agencies	318,374	—	318,374	898,491	—	898,491
Commercial and other	20,127	39,427	59,554	56,022	117,857	173,879
Total	$1,225,531	$ 39,427	$1,264,958	$3,494,606	$ 117,857	$3,612,463

Prime or Subcontractor

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

	Three Months Ended March 31, 2019			Nine Months Ended March 31, 2019		
	Domestic	International	Total	Domestic	International	Total
Prime contractor	$1,114,172	$ 39,427	$1,153,599	$3,217,570	$ 117,857	$3,335,427
Subcontractor	111,359	—	111,359	277,036	—	277,036
Total	$1,225,531	$ 39,427	$1,264,958	$3,494,606	$ 117,857	$3,612,463

Significant Estimates

The Company uses an estimate at completion (EAC) as the basis to measure progress towards the complete satisfaction of its contractual performance obligations, for each of its contracts in which revenue is recognized using a percentage of completion calculation. 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. Based on changes in a contract's EAC, a cumulative adjustment to revenue will be recorded. During the three and nine months ended March 31, 2019, we recognized an increase to income before income taxes of $6.3 million ($0.18 per diluted share) and $16.9 million ($0.49 per diluted share), respectively, from EAC adjustments. The Company used its statutory tax rate when calculating the impact to diluted earnings per share.

The Company records final true-up adjustments to its 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. These final true-up adjustments are disclosed as revenue recognized from previously satisfied performance obligations. For the three and nine months ended March 31, 2019, the revenue recognized from previously satisfied performance obligations was $0.8 million and $1.1 million, respectively.

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 IDIQ vehicle. Our remaining performance obligations balance as of March 31, 2019 was $6.7 billion.

The Company expects to recognize approximately 72.0 percent of our remaining performance obligations balance as revenue over the next year and the remaining 28.0 percent thereafter.

CACI INTERNATIONAL INC

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

8. Contract Balances

Contract assets are primarily comprised of conditional unbilled receivables in which revenue has been recognized but an invoice has not yet been issued to the customer as of the balance sheet date. Contract assets exclude billed and billable receivables and 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.

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

Description of Contract Related Balance	Financial Statement Classification	March 31, 2019	July 1, 2018 (1)
Contract assets – current:			
Unbilled receivables	Accounts receivable, net	$82,105	$72,511
Costs to obtain – short-term	Prepaid expenses and other current assets	2,624	2,342
Contract assets – noncurrent:			
Unbilled receivables	Accounts receivable, long-term	9,647	8,620
Costs to obtain – long-term	Other long-term assets	4,672	3,923
Contract liabilities – current:			
Deferred revenue	Other accrued expenses and current liabilities	(48,106)	(43,940)
Contract liabilities – noncurrent:			
Deferred revenue	Other long-term liabilities	(7,041)	(4,740)
Net contract assets (liabilities)		$43,901	$38,716

(1) Includes the cumulative effect to the Company’s opening balance sheet from the adoption of ASU 2014-09, Revenue from Contracts with Customers, using the modified retrospective method.

During the three and nine months ended March 31, 2019, we recognized $6.6 million and $33.3 million of revenue, respectively, that was included in a previously recorded contract liability as of the beginning of the period.

9. Sales of Receivables

On December 28, 2018, the Company entered into a Master Accounts Receivable Purchase Agreement (MARPA Facility) with MUFG Bank, Ltd. (the Purchaser), for the sale of certain designated eligible U.S. government receivables. The MARPA Facility has an initial term of one-year. Under the MARPA Facility, 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 Facility without recourse for any U.S. government credit risk.

The Company accounts for receivable transfers under the MARPA Facility 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. As such, there were no gains or losses related to sales of these receivables.

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 March 31, 2019. Proceeds from the sold receivables are reflected in our operating cash flows on the statement of cash flows.

During the three and nine months ended March 31, 2019, the Company sold $563.5 million of receivables. The amount outstanding as of March 31, 2019 was $200.0 million. As of March 31, 2019, collections not remitted to the Purchaser related to the sold receivables were $72.0 million. This amount represents an obligation to the Purchaser and is included in other accrued expenses and current liabilities in the accompanying consolidated balance sheet.

During the three and nine months ended March 31, 2019, the Company incurred purchase discount fees of $1.4 million, which are recorded within interest expense and other, net in our accompanying consolidated statements of operations.

CACI INTERNATIONAL INC

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

MARPA Facility activity consisted of the following (in thousands):

	As of and for the Three Months Ended March 31, 2019	As of and for the Nine Months Ended March 31, 2019
Beginning balance:		
Sales of receivables	$563,502	$563,502
Cash collections	(363,502)	(363,502)
Outstanding balance sold to Purchaser: (1)	200,000	200,000
Cash collected, not remitted to Purchaser (2)	(71,970)	(71,970)
Remaining sold receivables	$128,030	$128,030

(1) Represents the increase to cash flows from operations.
(2) Includes the cash collected on behalf of but not yet remitted to the Purchaser as of March 31, 2019. This balance is included in other accrued expenses and current liabilities as of the balance sheet date.

10. Long-term Debt

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

	March 31, 2019	June 30, 2018
Bank credit facility – term loans	$903,204	$938,394
Bank credit facility – revolver loans	865,000	135,000
Principal amount of long-term debt	1,768,204	1,073,394
Less unamortized discounts and debt issuance costs	(10,644)	(11,054)
Total long-term debt	1,757,560	1,062,340
Less current portion	(46,920)	(46,920)
Long-term debt, net of current portion	$1,710,640	$1,015,420

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 March 31, 2019, the Company had $865.0 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 through June 30, 2021 and $23.5 million thereafter until the balance is due in full on June 30, 2023. As of March 31, 2019, the Company had $903.2 million outstanding under the Term Loan.

The interest rates applicable to loans under the Credit Facility are floating interest rates that, at the Company's option, equal a base rate or a Eurodollar rate plus, in each case, an applicable rate based upon the Company's consolidated total leverage ratio. As of March 31, 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 3.53 percent.

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

CACI INTERNATIONAL INC

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

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

Cash Flow Hedges

The Company periodically uses derivative financial instruments as part of a strategy to manage exposure to market risks associated with interest rate fluctuations. The Company has entered into several floating-to-fixed interest rate swap agreements for an aggregate notional amount of $400.0 million which hedge a portion of the Company's floating rate indebtedness. The swaps mature at various dates through 2022. The Company has designated the swaps as cash flow hedges. Unrealized gains are recognized as assets while unrealized losses are recognized as liabilities. The interest rate swap agreements are highly correlated to the changes in interest rates to which the Company is exposed. 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 nine months ended March 31, 2019 and 2018 is as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Gain (loss) recognized in other comprehensive income	$(1,107)	$3,257	$(2,680)	$4,778
Amounts reclassified to earnings from accumulated other comprehensive loss	(968)	87	(2,956)	1,687
Net current period other comprehensive income	$(2,075)	$3,344	$(5,636)	$6,465

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

Twelve months ending March 31,	
2020	$46,920
2021	46,920
2022	82,109
2023	93,839
2024	1,498,416
Principal amount of long-term debt	1,768,204
Less unamortized discounts and debt issuance costs	(10,644)
Total long-term debt	$1,757,560

11. 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 is nearing completion of audits of the Company’s annual incurred cost submissions through fiscal year 2016 and is auditing the Company’s incurred cost submissions for its fiscal years 2017 and 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)

12. Stock-Based Compensation

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Stock-based compensation related to RSUs included in indirect costs and selling expense	$6,304	$5,794	$18,351	$18,183
Income tax benefit recognized for stock-based compensation expense	$1,032	$1,905	$3,422	$5,979

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

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

The Company granted performance-based stock awards to key employees in October of 2018 and September of 2017 and 2016. 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:

	Performance-based stock awards granted	Number of additional shares earned under performance-based stock awards
Fiscal year 2019	101,976	—
Fiscal year 2018	185,056	20,116
Fiscal year 2017	193,420	73,065

The total number of shares authorized by shareholders for grants under the 2016 Plan and its predecessor plan is 1,200,000 plus any forfeitures from the 2006 Plan. The aggregate number of grants that may be made may exceed this approved amount as forfeited RSUs become available for future grants. As of March 31, 2019, cumulative grants of 589,893 equity instruments underlying the shares authorized have been awarded, and 134,010 of these instruments have been forfeited.

CACI INTERNATIONAL INC

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

Activity related to RSUs during the nine months ended March 31, 2019 is as follows:

	RSUs
Unvested at June 30, 2018	663,987
Granted	271,266
Vested	(263,702)
Forfeited	(28,643)
Unvested at March 31, 2019	642,908
Weighted-average grant date fair value for RSUs	$201.31

As of March 31, 2019, there was $48.8 million of total unrecognized compensation costs related to RSUs scheduled to be recognized over a weighted-average period of 2.7 years.

13. Earnings Per Share

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Net income	$68,145	$64,499	$215,574	$249,340
Weighted-average number of basic shares outstanding during the period	24,866	24,656	24,819	24,588
Dilutive effect of RSUs after application of treasury stock method	482	578	550	641
Weighted-average number of diluted shares outstanding during the period	25,348	25,234	25,369	25,229

Basic earnings per share	$2.74	$2.62	$8.69	$10.14
Diluted earnings per share	$2.69	$2.56	$8.50	$9.88

14. 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 2015 through 2017 and one foreign jurisdiction for the years 2011 through 2015. The Company does not expect resolution of these examinations to have a material impact on its results of operations, financial condition or cash flows.

The Company's total liability for unrecognized tax benefits as of March 31, 2019 and June 30, 2018 was $4.4 million and $4.1 million, respectively. The $4.4 million unrecognized tax benefit at March 31, 2019, if recognized, would impact the Company's effective tax rate.

For the three months ended March 31, 2019, the effective income tax rate was 16.3 percent compared with 31.6 percent for the same period last year. The Company's effective income tax rate decreased primarily due to: the full-year impact of the lower U.S. income tax rate pursuant to the Tax Cuts and Jobs Act of 2017 (TCJA); writing off certain historic deferred tax balances due to an internal reorganization related to the integration of an acquired company; and from changes in our estimated benefit from the federal research and development tax credit. For both comparative reporting periods, the Company's effective tax rate was impacted by excess tax benefits under ASU 2016-09, Stock Compensation, and the change in value of assets invested in COLI policies. If gains or losses on the COLI investments throughout the rest of the current fiscal year vary from our estimates, our FY2019 effective tax rate will fluctuate in future quarters for the year ending June 30, 2019.

CACI INTERNATIONAL INC

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

For the nine months ended March 31, 2019, the effective income tax rate was 18.7 percent compared with (9.6) percent for the same period last year. For the nine months ended March 31, 2019, the Company's effective income tax rate increased year-over-year due to the favorable remeasurement of the Company's deferred tax liability pursuant to the TCJA in the prior year, partially offset by: the full-year impact of the lower U.S. income tax rate pursuant to the TCJA; writing off certain historic deferred tax balances due to an internal reorganization related to the integration of an acquired company; and from changes in our estimated benefit from the federal research and development tax credit. For both comparative reporting periods, the Company's effective tax rate was impacted by excess tax benefits under ASU 2016-09 and the change in value of assets invested in COLI policies. If gains or losses on the COLI investments throughout the rest of the current fiscal year vary from our estimates, our FY2019 effective tax rate will fluctuate in future quarters for the year ending June 30, 2019.

Tax Cuts and Jobs Act

The TCJA was enacted on December 22, 2017. Among other things, the TCJA reduced the U.S. federal corporate tax rate from 35.0 percent to 21.0 percent effective January 1, 2018. Prior to the expiration of the one-year measurement period of Staff Accounting Bulletin No. 118 on December 22, 2018, the Company finalized its tax reform positions related to: (1) transition tax liability; (2) remeasurement of deferred taxes; and (3) the limitation on the deductibility of certain executive compensation. In prior periods, the Company was able to make reasonable estimates and record provisional amounts for each of these elements.

During the nine months ended March 31, 2019, the Company recognized a $2.2 million tax benefit related to the reduction of our provisional calculation of the one-time transition tax liability and a $0.5 million tax benefit related to its final analysis of its deferred tax remeasurement. No other adjustments were made to FY2018 provisional amounts during the nine months ended March 31, 2019.

15. 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):

	Domestic Operations	International Operations	Total
Three Months Ended March 31, 2019			

Revenue from external customers	$1,225,531	$ 39,427	$1,264,958
Net income	63,759	4,386	68,145
Three Months Ended March 31, 2018			
Revenue from external customers	$1,079,953	$ 44,147	$1,124,100
Net income	60,779	3,720	64,499
Nine Months Ended March 31, 2019			
Revenue from external customers	$3,494,606	$ 117,857	$3,612,463
Net income	203,765	11,809	215,574
Nine Months Ended March 31, 2018			
Revenue from external customers	$3,177,659	$ 120,115	$3,297,774
Net income	238,542	10,798	249,340

CACI INTERNATIONAL INC

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

16. 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.

The Company’s financial instruments measured at fair value included interest rate swap agreements and contingent consideration in connection with business combinations. The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2019 and June 30, 2018, and the level they fall within the fair value hierarchy (in thousands):

Description of Financial Instrument	Financial Statement Classification	Fair Value Hierarchy	March 31, 2019 Fair Value	June 30, 2018 Fair Value
Contingent consideration	Other accrued expenses and current liabilities	Level 3	$11,300	$693
Contingent consideration	Other long-term liabilities	Level 3	$—	$11,000
Interest rate swap agreements	Prepaid expenses and other current assets	Level 2	$227	$672
Interest rate swap agreements	Other long-term assets	Level 2	$6,203	$13,405

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 nine months ended March 31, 2019 this remeasurement resulted in a $0.3 million change to the liability recorded.

17. Subsequent Events

In April 2019, the Company entered into three additional floating-to-fixed interest rate swap agreements for an aggregate notional amount of $300.0 million. These swaps will become effective on July 1, 2019 and mature at various dates through FY2026. The Company has designated these swaps as cash flow hedges.

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

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

Overview

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

During the nine months ended March 31, 2019, $3.4 billion or 95.2 percent of our revenue was derived from contracts with U.S. government agencies compared with $3.1 billion or 94.8 percent for the same period in 2018. Our contract revenues were generated from both prime and subcontractor relationships. We also provide services to commercial customers and, through our international operations, to non-U.S. government agencies. We provide our services and solutions to our customers in the following market areas:

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

- Command and Control (C2) – CACI develops, integrates, sustains, and operates agile and flexible C2 solutions, consisting of hardware, software, and interfaces that enhance our customers' situational awareness, planning, execution, and assessment. CACI's solutions enable network-centric operations to generate decision advantage in the most demanding environments.
- Communications – CACI's broad-based solutions offer communications capabilities for soldier systems, mobile platforms, fixed facilities, and the enterprise. We leverage our expertise to design, develop, integrate, and provide field support to deliver rapidly deployable communications solutions when they are required anywhere in the world. CACI develops and integrates solutions that deliver secure multi-level unified communications from the enterprise directly to and from the tactical edge. We rapidly tailor and implement our products, services, and solutions to fit the specific missions and operating contexts of our customers.
- Cyber Security – CACI's cyber security solutions combine years of cyber and electronic warfare experience with cutting-edge signals intelligence and radio frequency (RF) expertise. We help protect vulnerable platforms – including airplanes, cell phones, weapons systems, and unmanned aerial vehicles – from cyber attacks, and we provide comprehensive cyber support to a number of federal customers and the Intelligence Community (IC). We also have a world-class cyber team that provides tailored support to the IC and Department of Defense (DoD). CACI's full-spectrum cyber security capabilities span platform defense and exploitation, advanced network operations, and cyber engineering of resilient systems. Our rapid research and development, prototyping, and integration capabilities enable us to combat shifting and emerging threats.

- Enterprise Information Technology (IT) – CACI's Enterprise IT solutions support our customers' missions. Our experts secure operational IT environments in the defense, intelligence, homeland security, and civilian communities. We provide tailored, end-to-end, enterprise-wide information solutions and services for the design, development, integration, deployment, operations and management, sustainment, and security of our customers' IT solutions. An Amazon Web Services (AWS) Premier Consulting Partner, we deliver cloud-powered solutions, performance-based service management, development operations and mobility, defensive cyber, end-user services, and infrastructure services. We support customers in the adoption of virtualized cloud services and mobile solutions that are revolutionizing the efficiency, reliability, and cost-effectiveness of IT services. We provide managed services and technical services that enhance efficiency, improve mission uptime, and reduce costs. Our operational, analytic, consulting, and transformational services use industry leading-edge practices, standards, and innovations to enable and optimize the full lifecycle of the enterprise IT environment.
- Health – CACI supports federal civilian and military health missions to improve healthcare delivery systems, integrate electronic health records, improve health outcomes for communities, and enhance the speed and efficiency of emergency responsiveness. To improve cost efficiencies in healthcare, we use data analytics to better predict clinical, financial, and operational needs to reduce financial waste and fraud. We solve challenges in bio-surveillance, outbreak detection, disease prevention systems, health systems security, medical supply logistics and rapid disaster/emergency response. We provide capabilities that address evolving healthcare regulations and establish more efficient and interoperable healthcare delivery systems through program management, strategic planning, software engineering, operation and maintenance, and IT facility support.
- Intelligence Services – CACI's intelligence specialists support our customers' mission to convert data collected from all information sources into knowledge that enables event forecasting and empowers decisions. Our support is provided at the strategic and tactical levels, and consists of intelligence analysis, operations and planning, policy, doctrine, and security support. We work within the United States and internationally, providing analysis of data received from a variety of sources, and we provide direct support such as ground truth and intelligence gathering internationally.
- Intelligence Systems and Support – CACI designs, develops, integrates, deploys, and rapidly prototypes hardware- and software-enabled tools and applications in support of data collection, processing, and analysis for our IC and DoD customers. An industry leader in signals intelligence (SIGINT) collection, processing, and dissemination systems, we deliver end-to-end SIGINT capabilities, including virtualized signal processing. We also provide significant support to the federal government in foreign instrumentation signals intelligence. We employ multi-intelligence fusion analysis of vast data from multiple intelligence sources, displayed using robust visualization techniques, to support a wide range of intelligence products and services for our customers to deliver actionable information in near real-time. We embed advanced artificial intelligence techniques within production-ready, cost-effective architectures to meet customers' evolving strategic and tactical needs. Our deep neural network frameworks have yielded proven solutions for large-scale automation of object detection and classification for classified customers. We design and develop software-defined radio systems capable of hosting a range of SIGINT capabilities. The capabilities include the SkyTracker™ product suite of counter-unmanned aerial systems (C-UAS) solutions, which accurately and reliably detects, identifies, and tracks UAS threats against valuable assets and national airspace. We also deliver quick reaction capabilities for integrating SIGINT and RF systems into platforms to deliver precision electronic warfare solutions to meet the rising tempo of missions.
- Investigation and Litigation Support – CACI assists the U.S. government in investigating and litigating cases. We continually monitor and develop new document and data capture methodologies that increase efficiency and lower costs for our customers in high-stakes situations such as trials, investigations, hearings, and regulatory and enforcement activities. We are a proven provider with decades of experience delivering start-to-finish investigation and litigation support, leveraging technology to help customers manage documents and acquire and present evidence from pre-filing investigation through complaint, discovery, and trial; then post-trial and appeals. With our American Society of Crime Laboratory Directors/Laboratory Accreditation Board (ASCLD/LAB) International-accredited computer and audio/video forensics lab, we analyze digital evidence to support criminal and civil investigations, litigations, and security inquiries. We offer scalable cloud hosting solutions that are stable, secure, and fast, with access to industry-leading e-Discovery tools. As the premier contractor for delivering background investigations to

the U.S. federal government, our fully trained and cleared investigators provide cost-efficient, high-quality personnel security investigations.

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

- Space Operations and Resiliency – CACI provides the advanced technology and mission support capabilities required to launch, operate, and exploit systems in the space domain. Our unique solutions predict outcomes, allowing decision-makers more time and better options for executing the mission. Our advanced analytics capabilities are used across the mission space and range from the execution of launch operations planning to the mission management of complex on-orbit systems. We use advanced big data and deep learning solutions to enhance the ability of our mission partners to solve their most complex problems. We also provide engineering, logistics, and modification solutions to globally deployed ground systems used to provide critical mission capabilities to ongoing missions as well as launch and early orbit events.
- Surveillance and Reconnaissance – CACI integrates surveillance and reconnaissance technologies into platforms that support identification of potential targets and enhance troop safety. We develop and integrate state-of-the-art surveillance and reconnaissance sensors into air and ground systems, leveraging our mission-customized software and electronics. We provide integration, development, quick-reaction solutions and technical support services in support of military, intelligence, and homeland security missions throughout the U.S. and around the world.

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

On September 21, 2018, the president signed into law a $148 billion "minibus" of three FY2019 appropriations bills, which included military construction and Veterans Affairs. On September 28, 2018, the president signed into law an $855 billion "minibus" of two more FY2019 appropriations bills, Defense and Labor-HHS-Education, along with a continuing resolution (CR) for the remaining appropriations bills that kept the entire government operating through December 7, 2018. From December 8 to December 21, 2018, the nine Cabinet departments and dozens of smaller agencies whose appropriations bills were not passed operated under a CR. From December 22, 2018 to January 25, 2019, these departments and agencies were shutdown. On January 25, 2019, the president signed into law a short-term measure that funded the government through February 15, 2019. Government shutdowns necessitate furloughs of several hundred thousand federal employees, require cessation or reduction of many government activities, and affect numerous sectors of the economy. The government shutdown that ended in January 2019 did not have a material impact on the Company's results of operations for the three and nine months ended March 31, 2019. On February 15, 2019, the president signed into law a $333 billion omnibus appropriations bill that funded for the remainder of the government fiscal year the nine Cabinet departments and dozens of smaller agencies that were affected by the government shutdown.

With the passage of the BBA 2018, the statutory debt limit of the federal government was suspended through March 1, 2019, allowing the government to borrow whatever it needed through that time to fully finance operations. On March 2, 2019, the statutory debt limit was reinstated, at which time the Secretary of the Treasury declared a "debt issuance suspension" and began implementing "extraordinary measures" to borrow additional funds without breaching the debt limit. The Congressional Budget Office estimates that, if the debt limit remains unchanged, the ability of the Department of Treasury to borrow using these measures will be exhausted near the end of this government fiscal year or early in the next one. When the debt limit is exceeded, some federal payments to creditors, vendors, contractors, state and local governments, beneficiaries, and other entities would either be delayed or limited. These delays in payments would, in effect, be borrowings from contractors such as us, and would create a backlog of unpaid bills until the government collects more revenue or other sources of cash than its outlays. In some cases, delaying federal payments incurs interest penalties under some statutes such as the Prompt Payment Act, which directs the government to pay interest penalties to contractors if it does not pay them by the required payment date. Were there to be a delay in paying for all federal obligations, it is expected that this would result in significant economic and financial consequences that may have a lasting impact on federal programs and the federal government's ability to borrow in the future.

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

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

Revenue. The table below sets forth revenue by customer type with related percentages of total revenue for the three months ended March 31, 2019 and 2018, respectively:

	Three Months Ended March 31,				Change	
(dollars in thousands)	2019		2018		$	%
Department of Defense	$887,030	70.1 %	$762,752	67.9 %	$124,278	16.3%
Federal civilian agencies	318,374	25.2	299,349	26.6	19,025	6.4
Commercial and other	59,554	4.7	61,999	5.5	(2,445)	(3.9)
Total	$1,264,958	100.0%	$1,124,100	100.0%	$140,858	12.5%

For the three months ended March 31, 2019, total revenue increased by 12.5 percent, or $140.9 million, compared with the same period a year ago. This increase was attributable to both acquired revenues and organic growth. Acquired revenues accounted for $110.7 million of the increase while organic growth accounted for $30.2 million.

DoD revenue increased 16.3 percent, or $124.3 million, for the three months ended March 31, 2019, compared with the same period a year ago. Acquired revenues accounted for $94.7 million of this increase while organic growth accounted for $29.6 million. DoD revenue includes services provided to the U.S. Army, our largest customer, where our services focus on tactical military intelligence and communications systems. DoD revenue also includes work with the U.S. Navy and other DoD agencies across all of our major service offerings.

Revenue from federal civilian agencies increased 6.4 percent, or $19.0 million, for the three months ended March 31, 2019, compared with the same period a year ago. This increase was primarily attributable to $15.9 million of acquired revenues and organic growth in enterprise information technology support services. Federal civilian agency revenue also includes services provided to non-DoD national intelligence agencies.

Commercial and other revenue decreased 3.9 percent, or $2.4 million for the three months ended March 31, 2019, compared with the same period a year ago. This decrease was primarily attributable to lower international and state and local services partially offset by acquired businesses within both our international and domestic operations. Of the total commercial and other revenue, international operations accounted for 66.2 percent, or $39.5 million for the three months ended March 31, 2019, compared with 71.2 percent or $44.1 million for the same period a year ago. Domestic operations accounted for 33.8 percent or $20.1 million, compared with 28.8 percent or $17.9 million for the same period a year ago.

Income from Operations. The following table sets forth the relative percentage that certain items of expense and earnings bear to revenue for the three months ended March 31, 2019 and 2018, respectively.

	Dollar Amount		Percentage of Revenue			
	Three Months Ended March 31,		Three Months Ended March 31,		Change	
(dollars in thousands)	2019	2018	2019	2018	$	%
Revenue	$1,264,958	$1,124,100	100.0%	100.0%	$140,858	12.5 %
Costs of revenue						
Direct costs	824,024	728,444	65.1	64.8	95,580	13.1
Indirect costs and selling expenses	324,828	273,145	25.7	24.3	51,683	18.9
Depreciation and amortization	21,198	17,717	1.7	1.6	3,481	19.6
Total costs of revenue	1,170,050	1,019,306	92.5	90.7	150,744	14.8
Income from operations	94,908	104,794	7.5	9.3	(9,886)	(9.4)
Interest expense and other, net	13,466	10,566	1.1	0.9	2,900	27.4
Income before income taxes	81,442	94,228	6.4	8.4	(12,786)	(13.6)
Income tax expense	13,297	29,729	1.0	2.7	(16,432)	(55.3)
Net income	$68,145	$64,499	5.4 %	5.7 %	$3,646	5.7 %

For the three months ended March 31, 2019, income from operations was $94.9 million. This represents a decrease of $9.9 million, or 9.4 percent, compared with the same period a year ago. Our operating margin of 7.5 percent for the period ended March 31, 2019 decreased from 9.3 percent during the period ended March 31, 2018. This decrease in operating margins for the three months ended March 31, 2019, is primarily related to an increase in indirect costs and selling expenses related to the LGS acquisition. In addition, for the three months ended March 31, 2018, the Company had increased profitability in program performance on fixed price and fixed unit price contracts.

For the three months ended March 31, 2019, direct costs increased 13.1 percent or $95.6 million, compared with the same period a year ago. The increase in direct costs is related to organic growth of programs and acquisitions. As a percentage of revenue, direct costs were 65.1 percent and 64.8 percent for the three months ended March 31, 2019 and 2018, respectively. Direct costs include direct labor and other direct costs (ODCs), which include, among other expenses, subcontracted labor and material purchases.

Indirect costs and selling expenses include fringe benefits (attributable to both direct and indirect labor), facilities, marketing and bid and proposal (B&P) costs, indirect labor, and other discretionary expenses. Indirect costs and selling expenses increased $51.7 million or 18.9 percent for the three months ended March 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 24.3 percent for the three months ended March 31, 2019 and 2018, respectively. This percentage increase is driven primarily by transaction costs related to the LGS acquisition.

Depreciation and amortization expense increased $3.5 million or 19.6 percent for the three months ended March 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 March 31, 2019, interest expense and other, net increased $2.9 million or 27.4 percent, compared with the same period a year ago. The increase is interest expense is primarily attributable to higher outstanding debt balances on the Company's Credit Facility that occurred in the three months ended March 31, 2019 in support of acquisitions. In addition, the Company incurred $1.4 million of purchase discount fees on its MARPA Facility.

For the three months ended March 31, 2019, the effective income tax rate was 16.3 percent compared with 31.6 percent for the same period last year. The Company's effective income tax rate decreased primarily due to: the full-year impact of the lower U.S. income tax rate pursuant to the TCJA; writing off certain historic deferred tax balances due to an internal reorganization related to the integration of an acquired company; and from changes in our estimated benefit from the federal research and development tax credit. For both comparative reporting periods, the Company's effective tax rate was impacted by excess tax benefits under ASU 2016-09, Stock Compensation, and the change in value of assets invested in COLI policies. If gains or losses on the COLI investments throughout the rest of the current fiscal year vary from our estimates, our FY2019 effective tax rate will fluctuate in future quarters for the year ending June 30, 2019.

Results of Operations for the Nine Months Ended March 31, 2019 and 2018

Revenue. The table below sets forth revenue by customer type with related percentages of total revenue for the nine months ended March 31, 2019 and 2018, respectively:

	Nine Months Ended March 31,				Change	
(dollars in thousands)	2019		2018		$	%
Department of Defense	$2,540,093	70.3 %	$2,224,469	67.4 %	$315,624	14.2%
Federal civilian agencies	898,491	24.9	902,185	27.4	(3,694)	(0.4)
Commercial and other	173,879	4.8	171,120	5.2	2,759	1.6
Total	$3,612,463	100.0%	$3,297,774	100.0%	$314,689	9.5 %

For the nine months ended March 31, 2019, total revenue increased by 9.5 percent, or $314.7 million, compared with the same period a year ago. This increase was attributable to both acquired revenues and organic growth. Acquired revenues accounted for $222.9 million of the increase while organic growth accounted for $91.8 million.

DoD revenue increased 14.2 percent, or $315.6 million, for the nine months ended March 31, 2019, compared with the same period a year ago. Acquired revenues accounted for $199.7 million of this increase while organic growth accounted for $115.9. DoD revenue includes services provided to the U.S. Army, our largest customer, where our services focus on tactical military intelligence and communications systems. DoD revenue also includes work with the U.S. Navy and other DoD agencies across all of our major service offerings.

Revenue from federal civilian agencies decreased 0.4 percent, or $3.7 million, for the nine months ended March 31, 2019, compared with the same period a year ago. This decrease was primarily attributable to reduced intelligence and litigation support services offset by $16.0 million in acquisition revenue and organic growth in enterprise information technology support services. Federal civilian agency revenue also includes services provided to non-DoD national intelligence agencies.

Commercial and other revenue increased 1.6 percent, or $2.8 million for the nine months ended March 31, 2019, compared with the same period a year ago. This increase was primarily attributable to acquired businesses within both our international and domestic operations. Of the total commercial and other revenue, international operations accounted for 67.8 percent, or $117.9 million for the nine months ended March 31, 2019, compared with 70.2 percent or $120.1 million for the same period a year ago. Domestic operations accounted for 32.2 percent or $56.0 million, compared with 29.8 percent or $51.0 million for the same period a year ago.

Income from Operations. The following table sets forth the relative percentage that certain items of expense and earnings bear to revenue for the nine months ended March 31, 2019 and 2018, respectively.

	Dollar Amount		Percentage of Revenue			
	Nine Months Ended March 31,		Nine Months Ended March 31,		Change	
(dollars in thousands)	2019	2018	2019	2018	$	%
Revenue	$3,612,463	$3,297,774	100.0%	100.0%	$314,689	9.5 %
Costs of revenue						
Direct costs	2,397,633	2,195,282	66.4	66.6	202,351	9.2
Indirect costs and selling expenses	859,262	788,569	23.8	23.9	70,693	9.0
Depreciation and amortization	58,797	53,563	1.6	1.6	5,234	9.8
Total costs of revenue	3,315,692	3,037,414	91.8	92.1	278,278	9.2
Income from operations	296,771	260,360	8.2	7.9	36,411	14.0
Interest expense and other, net	31,773	32,769	0.9	1.0	(996)	(3.0)
Income before income taxes	264,998	227,591	7.3	6.9	37,407	16.4
Income tax expense	49,424	(21,749)	1.3	(0.7)	71,173	(327.2)
Net income	$215,574	$249,340	6.0 %	7.6 %	$(33,766)	(13.5)%

For the nine months ended March 31, 2019, income from operations was $296.8 million. This represents an increase of $36.4 million, or 14.0 percent, compared with the same period a year ago. Our operating margin of 8.2 percent for the period ended March 31, 2019 increased from 7.9 percent during the period ended March 31, 2018. This increase is primarily attributable to increased gross margins on our revenue arrangements from program performance and acquisitions.

For the nine months ended March 31, 2019, direct costs increased 9.2 percent or $202.4 million, compared with the same period a year ago. The increase in direct costs is related to organic growth of programs and acquisitions. As a percentage of revenue, direct costs were 66.4 percent and 66.6 percent for the nine months ended March 31, 2019 and 2018, respectively. Direct costs include direct labor and ODCs, which include, among other expenses, subcontracted labor and material purchases.

Indirect costs and selling expenses include fringe benefits (attributable to both direct and indirect labor), facilities, marketing and B&P costs, indirect labor, and other discretionary expenses. Indirect costs and selling expenses increased $70.7 million or 9.0 percent for the nine months ended March 31, 2019, compared with the same period a year ago. As a percentage of revenue, indirect costs and selling expenses were 23.8 percent and 23.9 percent for the nine months ended March 31, 2019 and 2018, respectively.

Depreciation and amortization expense increased $5.2 million or 9.8 percent for the nine months ended March 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 nine months ended March 31, 2019, interest expense and other, net decreased $1.0 million or 3.0 percent, compared with the same period a year ago. The decrease is primarily attributable to lower average outstanding debt balances.

For the nine months ended March 31, 2019, the effective income tax rate was 18.7 percent compared with (9.6) percent for the same period last year. For the nine months ended March 31, 2019, the Company’s effective income tax rate increased year-over-year due to the favorable remeasurement of the Company's deferred tax liability pursuant to the TCJA in the prior year, partially offset by: the full-year impact of the lower U.S. income tax rate pursuant to the TCJA; writing off certain historic deferred tax balances due to an internal reorganization related to the integration of an acquired company; and from changes in our estimated benefit from the federal research and development tax credit. For both comparative reporting periods, the Company’s effective tax rate was impacted by excess tax benefits under ASU 2016-09 and the change in value of assets invested in COLI policies. If gains or losses on the COLI investments throughout the rest of the current fiscal year vary from our estimates, our FY2019 effective tax rate will fluctuate in future quarters for the year ending June 30, 2019.

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.

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 March 31, 2019, the Company had total backlog of $14.9 billion, of which $2.9 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 Facility (as defined and discussed in Note 9) and available borrowings under our Credit Facility (as defined in Note 10) 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 March 31, 2019, we had $865.0 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 through June 30, 2021 and $23.5 million thereafter until the balance is due in full on June 30, 2023. As of March 31, 2019, $903.2 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 fixed charge coverage ratio. The Credit Facility also includes customary negative covenants restricting or limiting our ability to guarantee or incur additional indebtedness, grant liens or other security interests to third parties, make loans or investments, transfer assets, declare dividends or redeem or repurchase capital stock or make other distributions, prepay subordinated indebtedness and engage in mergers, acquisitions or other business combinations, in each case except as expressly permitted under the Credit Facility. Since the inception of the Credit Facility, we have been in compliance with all of the financial covenants. A majority of our assets serve as collateral under the Credit Facility.

Cash and cash equivalents were $93.8 million and $66.2 million as of March 31, 2019 and June 30, 2018, respectively. Our operating cash flow was $452.8 million for the nine months ended March 31, 2019. This represents an increase of $202.0 million or 80.5 percent, from our operating cash flows of $250.8 million for the nine months ended March 31, 2018. The year-over-year increase is primarily related to the proceeds from sold receivables to the Company's MARPA Facility. Days sales outstanding (DSO) was 57 days at March 31, 2019, compared with 62 days at March 31, 2018.

Cash used in investing activities was $1.1 billion and $78.5 million during the nine months ended March 31, 2019 and 2018, respectively. During the nine months ended March 31, 2019, we paid $1.07 billion for business acquisitions, as compared to $50.4 million during the same period a year ago. Purchases of office and computer related equipment of $29.5 million and $31.8 million in the nine months of FY2019 and FY2018, respectively, accounted for a majority of the remaining funds used in investing activities.

Cash provided by financing activities was $673.9 million during the nine months ended March 31, 2019, while cash used in financing activities was $183.3 million during the nine months ended March 31, 2018. During the nine months ended March 31, 2019, we had net borrowings under our Credit Facility of $693.4 million as compared to net repayments of $151.0 million the period ended March 31, 2018. During the nine months ended March 31, 2019 and 2018, we paid contingent consideration related to various prior acquisitions of $0.6 million and $11.6 million, respectively. During the nine months ended March 31, 2019 and March 31, 2018, we also used cash within financing activities of $18.8 million and $20.7 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

We use off-balance sheet arrangements to finance the lease of operating facilities. We have financed the use of all of our current office and warehouse facilities through operating leases. Operating leases are also used to finance the use of computers, servers, phone systems, motor vehicles in the U.K., and to a lesser extent, other fixed assets, such as furnishings, that are obtained in connection with business acquisitions. We generally assume the lease rights and obligations of companies acquired in business combinations and continue financing equipment under operating leases until the end of the lease term following the acquisition date. For domestic operations, we generally do not finance capital expenditures with operating leases, but instead finance such purchases with available cash balances. For additional information regarding our operating lease commitments, see Note 14 in the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended June 30, 2018. 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 $400.0 million related to a portion of our floating rate indebtedness. All remaining balances under our Term Loan, and any additional amounts that may be borrowed under our Revolving Facility, are currently subject to interest rate fluctuations. With every one percent fluctuation in the applicable interest rates, interest expense on our variable rate debt for the nine months ended March 31, 2019 would have fluctuated by approximately $4.3 million.

Approximately 3.3 percent and 3.6 percent of our total revenue in nine months ended March 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 March 31, 2019, we held a combination of euros and pounds sterling in the U.K. and in the Netherlands equivalent to approximately $37.4 million. This allows us to better utilize our cash resources on behalf of our foreign subsidiaries, thereby mitigating foreign currency conversion risks.

Item 4. Controls and Procedures

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

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. The effectiveness of a system of disclosure controls and procedures is subject to various inherent limitations, including cost limitation, judgments used in decision making, assumptions about the likelihood of future events, the soundness of internal controls, and fraud. Due to such inherent limitations, there can be only reasonable, and not absolute, assurance that any system of disclosure controls and procedures will be successful in preventing all errors or fraud, or in making all material information known in a timely manner to appropriate levels of management.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were operating and effective at March 31, 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 March 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, 2018 for the most recently filed information concerning the suit filed in the United States District Court for the Southern District of Ohio. The lawsuit names CACI International Inc, CACI Premier Technology, Inc. and former CACI employee Timothy Dugan as Defendants, along with L-3 Services, Inc. Plaintiffs seek, inter alia, compensatory damages, punitive damages, and attorney's fees.

Since the filing of Registrant's report described above, on remand, Defendant CACI Premier Technology, Inc. moved to dismiss Plaintiffs' claims based upon the political question doctrine. On June 18, 2015, the Court issued an Order granting Defendant CACI Premier Technology, Inc.'s motion to dismiss, and on June 26, 2015 entered a final judgment in favor of Defendant CACI Premier Technology, Inc.

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

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

Reference is made to Part I, Item 3, Legal Proceedings in the Registrant’s Annual Report on Form 10-K for the year ended June 30, 2018 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, 2018. There have been no material changes from the risk factors described in that report.

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

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 2019	10,506	$ 147.92	1,175,201	74,799
February 2019	—	—	—	—
March 2019	—	—	—	—
Total	10,506	$ 147.92	1,175,201	74,799

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 Form	Filing Date	Exhibit No.
10.1	Incremental Facility Amendment dated January 17, 2019, to the Credit Agreement, dated October 21, 2010, between CACI International Inc, Bank of America, N.A. and a consortium of participating banks		8-K	January 24, 2019	10.1
10.2			8-K		10.2

	Purchase and Sale Agreement dated January 25, 2019, by and among Legos Holdings, LLC, Legos Intermediate Holdings, LLC, CoVant Technologies II LLC – Series LGS, Madison Dearborn Capital Partners VI-C, L.P., MDCP Legos Blocker, Inc., CACI, Inc.-Federal and Legos Holdings, LLC in its capacity as the initial seller representative		January 30, 2019
31.1	Section 302 Certification Kenneth Asbury	X	
31.2	Section 302 Certification Thomas A. Mutryn	X	
32.1	Section 906 Certification Kenneth Asbury	X	
32.2	Section 906 Certification Thomas A. Mutryn	X	
101	The following materials from the CACI International Inc Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements. *		

* Submitted electronically herewith.

SIGNATURES

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

	CACI International Inc Registrant
Date: May 2, 2019	By: /s/ Kenneth Asbury Kenneth Asbury President, Chief Executive Officer and Director (Principal Executive Officer)
Date: May 2, 2019	By: /s/ Thomas A. Mutryn Thomas A. Mutryn Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
Date: May 2, 2019	By: /s/ Christopher A. Voci Christopher A. Voci Senior Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)