

CACI INTERNATIONAL INC /DE/  
Form 10-Q  
February 07, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2007

OR

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

Commission File Number 001-31400

**CACI International Inc**

(Exact name of registrant as specified in its charter)

|  |  |
|--|--|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization) | <b>54-1345888</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>1100 North Glebe Road, Arlington, VA 22201</b>                                    |  |
| (Address of principal executive offices)   |  |
| <b>(703) 841-7800</b>  |  |
| (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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock, as of February 5, 2008: CACI International Inc Common Stock, \$0.10 par value, 30,083,709 shares.

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

|   | <b>Three Months Ended<br/>December 31,</b> |             |
|---|--|-------------|
|   | <b>2007</b>                                | <b>2006</b> |
| Revenue                                     | \$ 577,784                                 | \$ 476,909  |
| Costs of revenue:                           |  |             |
| Direct costs                                | 386,427                                    | 311,464     |
| Indirect costs and selling expenses         | 140,735                                    | 119,426     |
| Depreciation and amortization               | 12,309                                     | 9,054       |
| Total costs of revenue                      | 539,471                                    | 439,944     |
| Income from operations                      | 38,313                                     | 36,965      |
| Interest expense and other, net             | 6,738                                      | 5,362       |
| Income before income taxes                  | 31,575                                     | 31,603      |
| Income taxes                                | 12,385                                     | 11,140      |
| Net income                                  | \$ 19,190                                  | \$ 20,463   |
| Basic earnings per share                    | \$ 0.64                                    | \$ 0.67     |
| Diluted earnings per share                  | \$ 0.63                                    | \$ 0.65     |
| Weighted-average basic shares outstanding   | 30,033                                     | 30,696      |
| Weighted-average diluted shares outstanding | 30,580                                     | 31,440      |

*See Notes to Unaudited Condensed Consolidated Financial Statements*

**Table of Contents****CACI INTERNATIONAL INC****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****(amounts in thousands, except per share data)**

|   | <b>Six Months Ended<br/>December 31,</b> |             |
|---|--|-------------|
|   | <b>2007</b>                              | <b>2006</b> |
| Revenue                                     | \$ 1,131,364                             | \$ 944,532  |
| Costs of revenue:                           |  |             |
| Direct costs                                | 758,825                                  | 612,191     |
| Indirect costs and selling expenses         | 276,492                                  | 239,281     |
| Depreciation and amortization               | 23,055                                   | 19,560      |
| Total costs of revenue                      | 1,058,372                                | 871,032     |
| Income from operations                      | 72,992                                   | 73,500      |
| Interest expense and other, net             | 11,890                                   | 11,571      |
| Income before income taxes                  | 61,102                                   | 61,929      |
| Income taxes                                | 23,620                                   | 22,663      |
| Net income                                  | \$ 37,482                                | \$ 39,266   |
| Basic earnings per share                    | \$ 1.25                                  | \$ 1.28     |
| Diluted earnings per share                  | \$ 1.23                                  | \$ 1.25     |
| Weighted-average basic shares outstanding   | 30,013                                   | 30,662      |
| Weighted-average diluted shares outstanding | 30,549                                   | 31,378      |

*See Notes to Unaudited Condensed Consolidated Financial Statements*

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

(amounts in thousands, except per share data)

|  | December 31,<br>2007 | June 30,<br>2007 |
|--|----------------------|------------------|
| <b>ASSETS</b>  |                      |                  |
| Current assets:  |                      |                  |
| Cash and cash equivalents  | \$ 11,690            | \$ 285,682       |
| Accounts receivable, net   | 472,265              | 386,150          |
| Prepaid expenses and other current assets  | 41,129               | 37,171           |
| Total current assets   | 525,084              | 709,003          |
| Goodwill   | 1,039,047            | 848,820          |
| Intangible assets, net   | 142,148              | 113,270          |
| Property and equipment, net  | 25,004               | 22,695           |
| Accounts receivable, long-term, net  | 9,218                | 10,657           |
| Other long-term assets   | 79,911               | 87,502           |
| Total assets   | \$ 1,820,412         | \$ 1,791,947     |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                      |                  |
| Current liabilities:   |                      |                  |
| Current portion of long-term debt  | \$ 12,937            | \$ 7,643         |
| Accounts payable   | 76,861               | 59,827           |
| Accrued compensation and benefits  | 103,072              | 96,978           |
| Other accrued expenses and current liabilities   | 79,942               | 130,573          |
| Total current liabilities  | 272,812              | 295,021          |
| Long-term debt, net of current portion   | 634,398              | 635,772          |
| Other long-term liabilities  | 51,776               | 47,307           |
| Total liabilities  | 958,986              | 978,100          |
| <b>Commitments and contingencies</b>   |                      |                  |
| Shareholders' equity:  |                      |                  |
| Preferred stock \$0.10 par value, 10,000 shares authorized, no shares issued   |                      |                  |
| Common stock \$0.10 par value, 80,000 shares authorized, 38,810 and 38,750 shares issued and outstanding, respectively | 3,881                | 3,875            |
| Additional paid-in capital   | 359,218              | 347,207          |
| Retained earnings  | 558,245              | 521,234          |
| Accumulated other comprehensive income   | 7,076                | 8,605            |
| Treasury stock, at cost (8,753 and 8,772 shares, respectively)   | (66,994)             | (67,074)         |
| Total shareholders' equity   | 861,426              | 813,847          |
| Total liabilities and shareholders' equity   | \$ 1,820,412         | \$ 1,791,947     |

See Notes to Unaudited Condensed Consolidated Financial Statements



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

(amounts in thousands)

|  | <b>Six Months Ended<br/>December 31,</b> |             |
|--|--|-------------|
|  | <b>2007</b>                              | <b>2006</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |  |             |
| Net income   | \$ 37,482                                | \$ 39,266   |
| Reconciliation of net income to net cash provided by operating activities:           |  |             |
| Depreciation and amortization  | 23,055                                   | 19,560      |
| Amortization of deferred financing costs   | 1,228                                    | 710         |
| Stock-based compensation expense   | 10,012                                   | 7,269       |
| Deferred income tax expense  | 3,333                                    | 290         |
| Changes in operating assets and liabilities, net of effect of business acquisitions: |  |             |
| Accounts receivable, net   | (59,300)                                 | 15,308      |
| Prepaid expenses and other current assets  | (1,329)                                  | (3,170)     |
| Accounts payable and other accrued expenses  | 1,204                                    | 2,934       |
| Accrued compensation and benefits  | (961)                                    | (9,690)     |
| Income taxes payable and receivable  | (3,170)                                  | (6,358)     |
| Other liabilities  | 4,249                                    | 4,273       |
| Net cash provided by operating activities  | 15,803                                   | 70,392      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |  |             |
| Capital expenditures   | (7,481)                                  | (4,036)     |
| Cash paid for business acquisitions, net of cash acquired                            | (293,307)                                | (261)       |
| Other  | 64                                       | (952)       |
| Net cash used in investing activities  | (300,724)                                | (5,249)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |  |             |
| Proceeds from borrowings under bank credit facilities                                | 9,790                                    |             |
| Principal payments made under bank credit facilities                                 | (5,869)                                  | (26,771)    |
| Proceeds from note receivable  | 3,891                                    |             |
| Proceeds from employee stock purchase plans  | 2,321                                    | 3,392       |
| Proceeds from exercise of stock options  | 1,988                                    | 3,993       |
| Repurchases of common stock  | (949)                                    | (2,684)     |
| Other  | (193)                                    | 975         |
| Net cash provided by (used in) financing activities                                  | 10,979                                   | (21,095)    |
| Effect of exchange rate changes on cash and cash equivalents                         | (50)                                     | 637         |
| Net (decrease) increase in cash and cash equivalents                                 | (273,992)                                | 44,685      |
| Cash and cash equivalents, beginning of period                                       | 285,682                                  | 24,650      |
| Cash and cash equivalents, end of period   | \$ 11,690                                | \$ 69,335   |



**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

|  |           |           |
|--|-----------|-----------|
| Cash paid during the period for income taxes | \$ 19,544 | \$ 26,496 |
| Cash paid during the period for interest     | \$ 13,182 | \$ 10,219 |

*See Notes to Unaudited Condensed Consolidated Financial Statements*

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

|  | <b>Three Months Ended<br/>December 31,</b> |             | <b>Six Months Ended<br/>December 31,</b> |             |
|--|--|-------------|--|-------------|
|  | <b>2007</b>                                | <b>2006</b> | <b>2007</b>                              | <b>2006</b> |
| Net income   | \$ 19,190                                  | \$ 20,463   | \$ 37,482                                | \$ 39,266   |
| Change in foreign currency translation adjustment          | (1,917)                                    | 2,233       | (756)                                    | 2,996       |
| Change in fair value of interest rate swap agreements, net | (511)                                      | (200)       | (773)                                    | (647)       |
| Comprehensive income                                       | \$ 16,762                                  | \$ 22,496   | 35,953                                   | \$ 41,615   |

*See Notes to Unaudited Condensed Consolidated Financial Statements*

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**CACI INTERNATIONAL INC**

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

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of CACI International Inc and subsidiaries (CACI or the Company) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and include the assets, liabilities, results of operations and cash flows for the Company, including its subsidiaries and joint ventures that are more than 50% 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.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all necessary adjustments and reclassifications (all of which are of a normal, recurring nature) that are necessary for fair presentation for the periods presented. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's latest annual report to the SEC on Form 10-K for the year ended June 30, 2007. The results of operations for the three and six months ended December 31, 2007 are not necessarily indicative of the results to be expected for any subsequent interim period or for the full fiscal year.

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

**2. New Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board (the FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48), which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on the recognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. See Note 12. FIN No. 48 was effective for CACI July 1, 2007, and its adoption did not have a material impact on the Company's result of operations or financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, the application of SFAS No. 157 may change current practice for some entities. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect the adoption of SFAS No. 157 to have a material impact on its results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure certain financial instruments and other items at fair value. The fair value option generally may be applied instrument by instrument, is irrevocable, and is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has not yet evaluated what impact, if any, SFAS No. 159 will have on its results of operations or financial position.

In August 2007, the FASB published its proposed Staff Position No. APB 14-a, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* (FSP 14-a). The proposed standard, if adopted, would require the Company to recognize interest expense on its \$300.0 million of 2.125% convertible senior subordinated notes that mature on May 1, 2014 (the Notes) issued May 16, 2007 (see Note 7) using an interest rate in effect for comparable debt instruments that do not contain conversion features. The interest rate to be used under the proposed standard would be higher than the rate which is currently used, which is equal to the coupon rate of 2.125%. If adopted in its current form, FSP 14-a would be effective for the Company beginning July 1, 2008, and would require retrospective application to the date the Notes were issued. Based on the provisions of the current proposal, the Company estimates that annual interest expense would increase, and annual diluted earnings per share would decrease, by approximately \$10.5 million and \$0.21 per share, respectively. The proposed standard should have no effect on cash flows.



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

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how companies recognize and measure identifiable assets acquired, liabilities assumed, and any noncontrolling interest in connection with a business combination; recognize and measure the goodwill acquired in a business combination or a gain from a bargain purchase; and determine what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company has not yet evaluated what impact, if any, SFAS No. 141R will have on its results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 applies to all companies that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company has not yet evaluated what impact, if any, SFAS No. 160 will have on its results of operations or financial position.

### 3. Acquisitions

On October 31, 2007, the Company acquired all of the outstanding shares of Athena Holding Corp., a holding company which owned 100% of the outstanding shares of Athena Innovative Solutions, Inc. (AIS), headquartered in Arlington, Virginia. AIS and its wholly owned subsidiaries provide specialized professional services and solutions to United States intelligence organizations. AIS contributed revenue of \$16.8 million for the period October 31, 2007 to December 31, 2007.

On November 1, 2007, the Company acquired all of the outstanding shares of Dragon Development Corporation (DDC), headquartered in Columbia, Maryland. DDC provides professional, technical, and engineering services to United States intelligence organizations. DDC contributed revenue of \$4.8 million for the period November 1, 2007 to December 31, 2007.

The combined purchase consideration to acquire AIS and DDC was approximately \$241 million, of which \$13.3 million has been deposited into escrow accounts (the Indemnification Escrow Accounts) pending final determination of the net worth of the assets acquired and to secure the sellers' indemnification obligations and \$2.4 million has been deposited into a separate earn-out escrow account to be paid to the former DDC shareholders upon receipt of extension of certain contracts or achievement of a specified gross margin, as defined in the purchase agreement and schedules thereto. Remaining funds, if any, in the Indemnification Escrow Accounts will be distributed to the sellers on or around January 31, 2009 with respect to AIS and April 1, 2009 with respect to DDC.

Based on a preliminary analysis, approximately \$187.6 million of the combined purchase consideration has been allocated to goodwill, based on a value of net tangible assets of \$17.1 million, and an estimated combined value of \$41.2 million of identifiable intangible assets, consisting primarily of contract backlog and customer relationship value. The value attributed to the identifiable intangible assets is being amortized on an accelerated basis over periods ranging from one to nine years.

For both of these acquisitions, the Company is in the process of completing its detailed valuation of the assets acquired and liabilities assumed. The final results of the valuation may differ from management's estimate currently recorded, and the balances will be adjusted to reflect final results. The Company does not expect adjustments arising from the final valuations to have a significant impact on its financial position or results of operations.

The following unaudited pro forma combined condensed statement of operations information sets forth the consolidated revenue, net income, and diluted earnings per share of the Company for the three and six months ended December 31, 2007 and 2006, as if both of the above-mentioned acquisitions had occurred as of the beginning of each period presented. This unaudited pro forma information does not purport to be indicative of the actual results that would have occurred if the acquisitions had actually been completed on the dates indicated.



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

| (amounts in thousands, except per share amounts) | Three Months Ended |            | Six Months Ended |              |
|--|--------------------|------------|------------------|--------------|
|  | December 31,       |            | December 31,     |              |
|  | 2007               | 2006       | 2007             | 2006         |
| Revenue  | \$ 590,615         | \$ 507,530 | \$ 1,181,252     | \$ 1,001,743 |
| Net income                                       | 19,236             | 19,612     | 37,716           | 37,430       |
| Diluted earnings per share                       | 0.63               | 0.62       | 1.23             | 1.19         |

4. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following (cost approximates fair value):

|  | December 31,<br>2007   | June 30,<br>2007  |
|--|------------------------|-------------------|
|  | (amounts in thousands) |                   |
| Money market funds                     | \$                     | \$ 223,771        |
| Cash                                   | 11,690                 | 61,911            |
| <b>Total cash and cash equivalents</b> | <b>\$ 11,690</b>       | <b>\$ 285,682</b> |

Included in the cash balance at June 30, 2007 is \$49.0 million of cash paid in July 2007 in connection with the acquisition of The Wexford Group International, Inc. (WGI).

5. Accounts Receivable

Total accounts receivable are net of allowance for doubtful accounts of approximately \$3.8 million and \$3.5 million at December 31, 2007 and June 30, 2007, respectively. Accounts receivable consisted of the following:

|  | December 31,<br>2007   | June 30,<br>2007  |
|--|------------------------|-------------------|
|  | (amounts in thousands) |                   |
| Billed receivables   | \$ 379,569             | \$ 301,005        |
| Billable receivables at end of period  | 57,149                 | 44,510            |
| Unbilled pending receipt of contractual documents authorizing billing                    | 35,547                 | 40,635            |
| <b>Total accounts receivable, current</b>  | <b>472,265</b>         | <b>386,150</b>    |
| Unbilled retainages and fee withholdings expected to be billed beyond the next 12 months | 9,218                  | 10,657            |
| <b>Total accounts receivable, net</b>  | <b>\$ 481,483</b>      | <b>\$ 396,807</b> |

6. Intangible Assets

Intangible assets consisted of the following:

|   | <b>December 31,<br/>2007</b>  | <b>June 30,<br/>2007</b> |
|---|-------------------------------|--------------------------|
|   | <b>(amounts in thousands)</b> |                          |
| Customer contracts and related customer relationships | \$ 229,366                    | \$ 185,923               |
| Covenants not to compete                              | 2,312                         | 1,682                    |
| Other   | 749                           | 746                      |
| Intangible assets                                     | 232,427                       | 188,351                  |
| Less accumulated amortization                         | (90,279)                      | (75,081)                 |
| Total intangible assets, net                          | \$ 142,148                    | \$ 113,270               |



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

Intangible assets are primarily amortized on an accelerated basis over periods ranging from 12 to 120 months. The weighted-average period of amortization for all intangible assets as of December 31, 2007 is 8.2 years, and the weighted-average remaining period of amortization is 6.6 years. Expected amortization expense for the remainder of the fiscal year ending June 30, 2008, and for each of the fiscal years thereafter, is as follows (in thousands):

|                                     | <b>Amount</b>     |
|-------------------------------------|-------------------|
| Year ending June 30, 2008           | \$ 17,595         |
| Year ending June 30, 2009           | 32,527            |
| Year ending June 30, 2010           | 29,431            |
| Year ending June 30, 2011           | 23,705            |
| Year ending June 30, 2012           | 14,779            |
| Thereafter                          | 24,111            |
| <b>Total intangible assets, net</b> | <b>\$ 142,148</b> |

7. **Notes Payable and Credit Facilities**

The details of notes payable are as follows:

|   | <b>December 31,<br/>2007</b>  | <b>June 30,<br/>2007</b> |
|---|-------------------------------|--------------------------|
|   | <b>(dollars in thousands)</b> |                          |
| Bank credit facility term loans               | \$ 336,875                    | \$ 338,625               |
| Revolving credit facility                     | 9,390                         |                          |
| Convertible notes payable                     | 300,000                       | 300,000                  |
| Acquired note payable                         |                               | 4,097                    |
| Other   | 1,070                         | 693                      |
| <b>Total long-term debt</b>                   | <b>\$ 647,335</b>             | <b>\$ 643,415</b>        |
| <b>Less current portion</b>                   | <b>(12,937)</b>               | <b>(7,643)</b>           |
| <b>Long term debt, net of current portion</b> | <b>\$ 634,398</b>             | <b>\$ 635,772</b>        |

**Convertible Notes Payable**

Effective May 16, 2007, the Company issued an aggregate of \$300.0 million of 2.125% convertible senior subordinated notes that mature on May 1, 2014 in a private placement. The Notes were issued at par value and are subordinate to the Company's senior secured debt. Interest on the Notes is payable on May 1 and November 1 of each year. The Company's registration statement filed with the SEC to register resales of the Notes and the common stock issuable upon conversion of the Notes became effective on October 11, 2007.

Holder may convert their notes at a conversion rate of 18.2989 shares of CACI common stock for each \$1,000 of note principal (an initial conversion price of \$54.65 per share) under the following circumstances: 1) if the last reported sale price of CACI stock is greater than or equal to 130% of the applicable conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; 2) during the five consecutive business day period immediately after any five consecutive trading day period (the

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note measurement period) in which the average of the trading price per \$1,000 principal amount of convertible note was equal to or less than 97% of the average product of the closing price of a share of the Company's common stock and the conversion rate of each date during the note measurement period; 3) upon the occurrence of certain corporate events constituting a fundamental change, as defined in the indenture governing the Notes; or 4) during the last three-month period prior to maturity. CACI is required to satisfy 100% of the principal amount of these notes solely in cash, with any amounts above the principal amount to be satisfied in common stock. As of December 31, 2007, none of the conditions permitting conversion of the Notes had been satisfied.

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

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**CACI INTERNATIONAL INC**

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

The fair value of the Notes as of December 31, 2007 was \$301.3 million based on quoted market values.

The contingently issuable shares are not included in CACI's diluted share count for the three or six month periods ended December 31, 2007, because CACI's average stock price during that period was below the conversion price. Debt issuance costs of approximately \$7.5 million are being amortized to interest expense over seven years. Upon closing of the sale of the Notes, \$45.5 million of the net proceeds was used to concurrently repurchase one million shares of CACI's common stock.

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

For income tax reporting purposes, the Notes and the Call Options are integrated. This created an original issue discount for income tax reporting purposes, and therefore the cost of the Call Options is being accounted for as interest expense over the term of the Notes for income tax reporting purposes. The associated income tax benefit of \$32.8 million to be realized for income tax reporting purposes over the term of the Notes was recorded as an increase in additional paid-in capital and a long-term deferred tax asset.

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

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

***Bank Credit Facilities***

In connection with an acquisition completed in May 2004, the Company entered into a \$550.0 million credit facility (the 2004 Credit Facility), consisting of a \$200.0 million revolving credit facility (the Revolving Facility) and a \$350.0 million institutional term loan (the Term Loan). On May 10, 2007, in connection with the issuance of the Notes, the 2004 Credit Facility was amended in order to, among other things, permit the issuance of the Notes and address certain related matters. The 2004 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.

The Revolving Facility is a five-year, secured facility that permits continuously renewable borrowings of up to \$200.0 million, with an expiration date of May 3, 2009, and annual sub-limits on amounts borrowed for acquisitions. The Revolving Facility contains an accordion feature under which the facility may be expanded to \$300.0 million with applicable lender approvals. The Revolving Facility permits one, two, three and six month interest rate options. The Company pays a fee on the unused portion of the Revolving Facility, based on its leverage ratio, as defined. Any outstanding balances under the Revolving Facility are due in full May 4, 2009. As of December 31, 2007, the Company had \$9.4 million outstanding under the Revolving Facility and no outstanding letters of credit. Accordingly, \$190.6 million was available for borrowing under the Revolving Facility as of that date.

The Term Loan is a seven-year secured facility under which principal payments are due in quarterly installments of \$0.9 million at the end of each fiscal quarter through March 2011, and the balance of \$325.5 million is due in full on May 3, 2011.

Borrowings under both the Revolving Facility and the Term Loan bear interest at rates based on the London Inter-Bank Offered Rate (LIBOR), or the higher of the prime rate or federal funds rate plus 0.5 percent, as elected by the Company, plus applicable margins based on the leverage ratio as determined quarterly. To date, the Company has elected to apply LIBOR to outstanding borrowings. As of December 31, 2007 and 2006, the effective interest rate, excluding the effect of amortization of debt financing costs for the outstanding borrowings under the 2004 Credit

Facility, was 6.52 percent and 6.75 percent, respectively.

The 2004 Credit Facility contains financial covenants that stipulate a minimum amount of net worth, a minimum fixed-charge coverage ratio, and a maximum leverage ratio. Substantially all of the Company's assets serve as collateral under the 2004 Credit Facility. As of December 31, 2007, the Company was in compliance with all of the financial covenants of the 2004 Credit Facility.

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

The Company capitalized \$8.2 million of debt issuance costs in May 2004 associated with the origination of the 2004 Credit Facility and capitalized an additional \$0.5 million of financing costs to amend the 2004 Credit Facility in May 2005 by re-pricing downward the margins that are applied to the interest rate options. Other key terms of the 2004 Credit Facility were not changed with this amendment. All debt financing costs are being amortized from the date incurred to the expiration date of the Term Loan. The unamortized balance of \$3.6 million and \$4.3 million at December 31, 2007 and June 30, 2007, respectively, is included in Other long-term assets on the accompanying condensed consolidated balance sheets.

As a condition of its 2004 Credit Facility, the Company entered into two forward interest rate swap agreements in May 2005 (the 2005 Swap), under which it exchanged floating-rate interest payments for fixed-rate interest payments. The agreements cover a combined notional amount of debt totaling \$98.0 million, provide for swap payments over a twenty-seven month period beginning in March 2006, and are settled on a quarterly basis. The weighted-average fixed interest rate provided by the agreements is 4.22 percent.

In December 2007, the Company entered into two additional interest rate swaps (the 2007 Swap) under which it exchanged floating-rate interest payments for fixed-rate interest payments on a notional amount of debt totaling \$100.0 million. The agreements provide for swap payments over a twenty-four month period beginning in December 2007 and are settled on a quarterly basis. The weighted-average fixed interest rate provided by the agreements is 4.04 percent.

The Company accounts for its interest rate swap agreements under the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and has determined that the above mentioned swap agreements qualify as effective hedges. Accordingly, the fair values of the 2005 Swap and the 2007 Swap at December 31, 2007 of \$0.2 million and (\$0.5) million, respectively, have been reported in Prepaid expenses and other current assets and in Other accrued expenses and current liabilities, respectively, with an offset, net of an income tax effect, included in Accumulated other comprehensive income in the accompanying condensed consolidated balance sheet. The decreases in fair value of \$0.5 million and \$0.8 million for the three and six months ended December 31, 2007, respectively, which are net of income tax effects of \$0.3 million and \$0.5 million, respectively, are reported as Other comprehensive loss in the accompanying consolidated statements of comprehensive income. The fair value of the swaps will be recorded in interest expense as yield adjustments in the period during which the related floating-rate interest is incurred.

**Acquired Note Payable**

The Company assumed obligations under a note payable agreement in connection with its acquisition of WGI in June 2007. The outstanding balance of \$4.1 million was paid in full on July 3, 2007.

**Other**

In connection with its investment in eVenture Technologies, LLC, a joint venture between the Company and ActioNet, Inc., the Company entered into a \$1.5 million revolving credit facility (the JV Facility). The JV Facility is a four-year, guaranteed facility that permits continuously renewable borrowings of up to \$1.5 million with an expiration date of the earliest of September 14, 2011, the date of any restatement, refinancing, or replacement of the 2004 Credit Facility without the lender acting as the sole and exclusive administrative agent, or termination of the 2004 Credit Facility. Borrowings under the JV Facility bear interest at the lender's prime rate plus 1.0 percent. The Company pays a fee of 0.25% on the unused portion of the JV Facility. As of December 31, 2007 the Company had \$0.4 million outstanding under the JV Facility and the effective interest rate was 8.26 percent.

Long-term debt as of December 31, 2007 also includes \$0.7 million due under a mortgage note payable agreement. The Company assumed obligations of the mortgage as part of its acquisition of MTL Systems, Inc. in January 2004. Outstanding balances under the mortgage note payable bear interest at 5.88 percent and are secured by an interest in real property located in Dayton, Ohio.

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

The aggregate maturities of long-term debt at December 31, 2007 are as follows (in thousands):

|  |                   |
|--|-------------------|
| <b>Twelve months ending December 31,</b> |                   |
| 2008                                     | \$ 12,937         |
| 2009                                     | 3,550             |
| 2010                                     | 3,553             |
| 2011                                     | 326,832           |
| 2012                                     | 60                |
| Thereafter                               | 300,403           |
| <b>Total long-term debt</b>              | <b>\$ 647,335</b> |

8. **Commitments and Contingencies**

***General Legal Matters***

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

***Iraq Matters***

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

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

***Potential Recovery of Defense Costs***

The Company is currently in discussions with its insurance carrier to negotiate a settlement for the defense costs it has incurred to date as well as future defense costs of defending civil lawsuits and related matters arising from professional services provided by the Company in Iraq (the Iraq-Related Matters) and for any liability that may arise from such litigation. While the insurance company previously filed a lawsuit against the Company seeking a declaration that its policies provided no coverage for the Iraq-Related Matters, that lawsuit was voluntarily dismissed in November 2004 and, since that time, the parties' respective causes of action have been placed on hold pursuant to a written agreement between the parties. The Company's defense costs to date for the Iraq-Related Matters are in excess of \$5.0 million.

***Subcontract Purchase Commitment***

The Company has entered into a subcontract agreement with a vendor to purchase a number of directional finding units to be ordered in connection with the performance of one of the Company's contracts. The subject subcontract provides for unit price decreases as the number of units purchased under the subcontract increases. Based on the present status of contract performance, management believes that the Company will purchase a sufficient number of units over the subcontract term to allow it to realize the lowest unit cost available. Based upon that expectation, unit costs incurred to date have been recognized as direct costs at such lowest unit cost in the accompanying condensed consolidated statements of operations. Based on the number of units ordered to date and assuming that no other units are ordered under the

subcontract, the Company's maximum unit price exposure (the difference between the unit price that would be applicable to the number of units actually purchased as compared to the discount price at which the Company has recognized the purchases to date) is estimated to be \$1.3 million, which has not been recorded in the Company's condensed consolidated financial statements as of December 31, 2007.

***Government Contracting***

Payments to the Company on cost-plus-fee contracts are provisional and are subject to adjustment upon audit by the Defense Contract Audit Agency (DCAA). In the opinion of management, audit adjustments that may result from audits not yet completed are not expected to have a material effect on the Company's financial position, results of operations, or cash flows.

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

Additionally, the DCAA continually reviews the cost accounting and other practices of government contractors, including those of the Company. In the course of those reviews, cost accounting and other issues are identified, discussed and settled. As with many government contractors, the government has from time to time recommended changes in methodology for allocating certain of the Company's costs. The Company is currently engaged in discussions with the DCAA regarding compliance with two particular sections of the Cost Accounting Standards (CAS) used by federal government contractors.

In the first matter, the DCAA has questioned the Company's compliance with CAS 410, *Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives*. Specifically, the DCAA is questioning the Company's allocation of indirect costs as overhead versus general and administrative and the use of total cost input versus value added bases for some of its subsidiaries. Although the Company believes it has properly complied with the requirements of CAS 410, it agreed to make certain adjustments effective July 1, 2007. The Company is still discussing with the Administrative Contracting Officer if there is to be any retroactive impact. At the present time, the Company believes that the resolution of this matter will not have a material impact on the Company's results of operations or financial position.

In the second matter, the DCAA has questioned the Company's treatment of certain allowances paid to certain overseas employees. The DCAA's position is that under CAS 418, *Allocation of Direct and Indirect Costs*, the Company has charged these direct expenses to the incorrect cost base. In the absence of specific Federal Acquisition Regulation guidance regarding treatment of these specific costs, and consistent with industry practice, the Company believes it has properly complied with the requirements of CAS 418, but has accrued its best estimate of the potential outcome within its estimated range of zero to \$2.5 million.

In addition, in April 2007, DCAA conducted a contract review and questioned certain costs on a contract in which the Company is a subcontractor. The Company believes that all costs allocated to this contract were appropriately allocated, but has accrued its best estimate of the potential outcome within its estimated range of zero to \$3.4 million.

#### 9. Stock Based Compensation

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

|  | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>December 31,</b>       |             | <b>December 31,</b>     |             |
|  | <b>2007</b>               | <b>2006</b> | <b>2007</b>             | <b>2006</b> |
| <b>Stock-based compensation included in indirect costs and selling expenses:</b>     |                           |             |                         |             |
| Non-qualified stock option and stock settled stock appreciation right (SSAR) expense | \$ 2,892                  | \$ 1,603    | \$ 6,209                | \$ 4,663    |
| Restricted stock and restricted stock unit (RSU) expense                             | 1,413                     | 1,233       | 3,803                   | 2,606       |
| Total stock-based compensation expense   | \$ 4,305                  | \$ 2,836    | \$ 10,012               | \$ 7,269    |
| Income tax benefit recognized for stock-based compensation expense                   | \$ 1,686                  | \$ 944      | \$ 3,855                | \$ 2,617    |

On an annual basis, the Company issues SSARs to its key employees and non-qualified stock options to its directors under its 2006 Stock Incentive Plan (the 2006 Plan) and previously issued non-qualified stock options to both employees and directors. The Company also issues shares of restricted stock on an annual basis to its key employees under the 2006 Plan. The 2006 Plan was approved by the Company's stockholders in November 2006. Previous grants of stock options and shares of restricted stock (RSUs through December 31, 2005) were made under the Company's 1996 Stock Incentive Plan (the 1996 Plan). During all periods presented, the exercise price of all SSAR and non-qualified stock option grants and the value of all shares of restricted stock grants were set at the closing price of a share of the Company's common stock on the date of grant, as reported by the New York Stock Exchange. Annual grants under the 2006 Plan (and previous grants under the 1996 Plan) are generally made during the first quarter of the Company's fiscal year. The Company also issues equity instruments in the form of RSUs under



its Management Stock Purchase Plan (MSPP) and Director Stock Purchase Plan (DSPP) (see Note 10).

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

Activity related to SSARs/non-qualified stock options and RSUs/restricted shares during the six months ended December 31, 2007 is as follows:

|  | SSARs/<br>Non-qualified<br>stock options | RSUs/<br>restricted shares |
|--|--|----------------------------|
| Outstanding, June 30, 2007   | 2,702,393                                | 226,565                    |
| Granted  | 799,700                                  | 140,790                    |
| Exercised/Issued   | (55,141)                                 | (4,365)                    |
| Forfeited/Lapsed   | (48,092)                                 | (11,099)                   |
| <b>Outstanding, December 31, 2007</b>                                    | <b>3,398,860</b>                         | <b>351,891</b>             |
| Weighted average exercise price of grants                                | \$ 48.80                                 |                            |
| <b>Weighted average grant date fair value for RSUs/restricted shares</b> |  | <b>\$ 48.69</b>            |

Under the terms of the SSAR/stock option and RSU/restricted stock agreements, grantees retiring at or after age 65 will vest in 100 percent of their awards. The Company recognizes the expense associated with SSARs, stock options, restricted stock and RSUs granted to employees who have reached age 65 in full at the time of grant. The Company recognizes the expense associated with SSARs, stock options, restricted stock and RSUs granted to employees nearing retirement age ratably over the period from the date of grant to the date the grantee is eligible for retirement. This treatment is referred to as the non-substantive vesting method and is applied even if the employee has remained or plans to remain an employee of the Company beyond the eligible retirement age. During the six months ended December 31, 2007 and 2006, the Company recognized \$1.3 million and \$1.1 million, respectively, of stock compensation expense for awards made to employees aged 65 or older at the date of grant.

As of December 31, 2007, there was \$32.4 million of total unrecognized compensation cost related to SSARs and stock options scheduled to be recognized over a weighted average period of 3.4 years, and \$9.1 million of total unrecognized compensation cost related to restricted shares and RSUs scheduled to be recognized over a weighted-average period of 1.9 years.

#### 10. Stock Purchase Plans

The Company adopted the 2002 Employee Stock Purchase Plan (ESPP), MSPP, and DSPP in November 2002, and implemented these plans beginning July 1, 2003. The MSPP was subsequently amended in November 2006 and the ESPP was subsequently amended in November 2007. These plans provide employees, management, and directors with an opportunity to acquire or increase ownership interest in the Company through the purchase of shares of the Company's common stock, subject to certain terms and conditions. There are 750,000, 500,000, and 75,000 shares authorized for grants under the ESPP, MSPP and DSPP, respectively.

The ESPP allows eligible full-time employees to purchase shares of common stock at 95 percent of the fair market value of a share of common stock on the last day of each quarter. The maximum number of shares that an eligible employee can purchase during any quarter is equal to two times an amount determined as follows: 20 percent of such employee's compensation over the quarter, divided by 95 percent of the fair market value of a share of common stock on the last day of the quarter. The ESPP is a qualified plan under Section 423 of the Internal Revenue Code and, for financial reporting purposes, was amended effective July 1, 2005 so as to be considered non-compensatory under SFAS No. 123R *Share Based Payment*. Accordingly, there is no stock-based compensation expense associated with shares acquired under the ESPP for the three or six month periods ended December 31, 2007 and 2006. As of December 31, 2007, participants have purchased 513,595 shares under the ESPP at a weighted-average price per share of \$45.59. Of these shares, 19,221 were purchased during the three months ended December 31, 2007, at a weighted-average price per share of \$47.11.

The MSPP provides those senior executives with stock holding requirements a mechanism to receive RSUs in lieu of up to 100 percent of their annual bonus. Beginning with the fiscal year ending June 30, 2008, RSUs awarded in lieu of bonuses earned will be granted at 85 percent of the closing price of a share of the Company's common stock on the date of the award, as reported by the New York Stock Exchange. For bonuses earned during the fiscal years ended June 30, 2006 and 2007, RSUs were granted at 95 percent of the closing price of a share of the Company's common stock on the date of grant. For bonuses earned during the fiscal years ended June 30, 2003, 2004 and 2005, RSUs were granted at 85 percent of the price of a share of Company common stock on the date of grant. RSUs granted under the MSPP vest at the earlier of 1) three years from the grant date, 2) upon a change of control of the Company, 3) upon a participant's retirement at or after age 65, or 4) upon a participant's death or permanent disability. Vested RSUs are settled in shares of common stock. The Company recognizes the value of the discount applied to RSUs granted under the MSPP as stock compensation expense ratably over the three-year vesting period.

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

The DSPP allows directors to elect to receive RSUs at the market price of the Company's common stock on the date of the award in lieu of up to 50 percent of their annual retainer fees. Vested RSUs are settled in shares of common stock.

Activity related to the MSPP and the DSPP during the six months ended December 31, 2007 is as follows:

|  | MSPP     | DSPP     |
|--|----------|----------|
| RSUs outstanding, June 30, 2007  | 23,876   | 2,158    |
| Granted  | 9,602    | 138      |
| Issued   | (220)    | (85)     |
| Forfeited  | (445)    | (1,219)  |
| RSUs outstanding, December 31, 2007  | 32,813   | 992      |
| Weighted average grant date fair value as adjusted for the applicable discount | \$ 48.54 |          |
| Weighted average grant date fair value   |          | \$ 45.33 |

#### 11. Earnings Per Share

SFAS No. 128, *Earnings Per Share*, requires dual presentation of basic and diluted earnings per share on the face of the income statement. Basic earnings per share exclude dilution and are computed by dividing income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per share include the incremental effect of SSARs/stock options and RSUs/restricted shares calculated using the treasury stock method. The chart below shows the calculation of basic and diluted earnings per share:

| (amounts in thousands, except per share amounts)   | Three Months Ended<br>December 31, |           | Six Months Ended<br>December 31, |           |
|--|------------------------------------|-----------|----------------------------------|-----------|
|  | 2007                               | 2006      | 2007                             | 2006      |
| Net income   | \$ 19,190                          | \$ 20,463 | \$ 37,482                        | \$ 39,266 |
| Weighted average number of basic shares outstanding during the period  | 30,033                             | 30,696    | 30,013                           | 30,662    |
| Dilutive effect of SSARs/stock options and RSUs/restricted shares after application of treasury stock method | 547                                | 744       | 536                              | 716       |
| Weighted average number of diluted shares outstanding during the period                                      | 30,580                             | 31,440    | 30,549                           | 31,378    |
| Basic earnings per share   | \$ 0.64                            | \$ 0.67   | \$ 1.25                          | \$ 1.28   |
| Diluted earnings per share   | \$ 0.63                            | \$ 0.65   | \$ 1.23                          | \$ 1.25   |

Shares outstanding during the three and six months ended December 31, 2007, reflect the May 2007 repurchase of one million shares of CACI's common stock upon closing of the sale of the Notes (see Note 7).

12. Income Taxes

Effective July 1, 2007, the Company adopted the provisions of FIN No. 48. Previously, the Company had accounted for tax contingencies in accordance with SFAS No. 5, *Accounting for Contingencies*. At the adoption date, the Company recognized an increase of approximately \$1.1 million in the liability for unrecognized tax benefits. This increase was accounted for as a reduction to shareholders' equity at July 1, 2007. The total liability for unrecognized tax benefits as of July 1, 2007 was \$2.9 million. Since July 1, 2007, there have been no material changes in the liability for unrecognized tax benefits. The Company believes that the total amount of unrecognized tax benefits, if recognized, would not have a material effect on its effective tax rate.

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

It is the Company's accounting policy to record any interest or penalties incurred in connection with income taxes as part of income tax expense for financial reporting purposes. Amounts accrued for interest and penalties are not material.

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 significant judgment to apply. The Internal Revenue Service has examined the Company's consolidated federal income tax returns through the year ended June 30, 2004. The Company is currently under income tax examination by four state jurisdictions for years ended June 30, 2004 through June 30, 2006. The Company does not expect the resolution of these state audits to have a material impact on its results of operations, financial condition or cash flows.

**13. Business Segment Information**

The Company reports operating results and financial data in two segments: domestic operations and international operations. The Company's domestic operations offer services from all of the Company's service offerings. Its customers are primarily U.S. federal agencies; however, the Company also serves customers in the commercial and state and local sectors and, from time to time, serves a number of agencies of foreign customers. International operations offer services to both commercial and non-U.S. government customers primarily through the Company's United Kingdom based data information and knowledge management and business systems solutions lines of business. The Company evaluates the performance of its operating segments based on net income. Summarized financial information concerning the Company's reportable segments is as follows (in thousands):

|   | Domestic     | International | Total        |
|---|--------------|---------------|--------------|
| <b>Three Months Ended December 31, 2007</b> |              |               |              |
| Revenue from external customers             | \$ 554,863   | \$ 22,921     | \$ 577,784   |
| Net income                                  | 17,688       | 1,502         | 19,190       |
| <b>Three Months Ended December 31, 2006</b> |              |               |              |
| Revenue from external customers             | \$ 457,855   | \$ 19,054     | \$ 476,909   |
| Net income                                  | 19,561       | 902           | 20,463       |
| <b>Six Months Ended December 31, 2007</b>   |              |               |              |
| Revenue from external customers             | \$ 1,085,541 | \$ 45,823     | \$ 1,131,364 |
| Net income                                  | 34,516       | 2,966         | 37,482       |
| <b>Six Months Ended December 31, 2006</b>   |              |               |              |
| Revenue from external customers             | \$ 907,425   | \$ 37,107     | \$ 944,532   |
| Net income                                  | 37,446       | 1,820         | 39,266       |

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Forward Looking Statements**

There are statements made herein which do not address historical facts and, therefore, could be interpreted to be forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such statements are subject to factors that could cause actual results to differ materially from anticipated results. The factors that could cause actual results to differ materially from those anticipated include, but are not limited to, the following: the ability to successfully integrate the recent acquisitions of Dragon Development Corporation (DDC) and Athena Innovative Solutions, Inc. (AIS); the accretiveness of the DDC and AIS transactions to our earnings; regional and national economic conditions in the United States and the United Kingdom, including conditions that result from terrorist activities or war; changes in interest rates; currency fluctuations; failure to achieve contract awards in connection with re-competes for present business and/or competition for new business; the risks and uncertainties associated with client interest in and purchases of new products and/or services; continued funding of U.S. government or other public sector projects, based on a change in spending patterns, or in the event of a priority need for funds, such as homeland security, the war on terrorism or rebuilding Iraq; government contract procurement (such as bid protest, small business set asides, loss of work due to organizational conflicts of interest etc.) and termination risks; the results of government investigations into allegations of improper actions related to the provision of services in support of U.S. military operations in Iraq; the results of government audits and reviews conducted by the Defense Contract Audit Agency 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, (iii) competition for task orders under Government Wide Acquisition Contracts (GWACs) and/or schedule contracts with the General Services Administration; and (iv) expensing of stock options; our own ability to achieve the objectives of near term or long range business plans; and other risks described in our Securities and Exchange Commission filings.

**Overview**

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

We are a leading provider of professional services and information technology solutions to the U.S. government. We derived 94.6% and 94.4% of our revenue during the six months ended December 31, 2007 and 2006, respectively, from contracts with U.S. government agencies. These were derived through both prime and subcontractor relationships. We also provide services to state and local governments and commercial customers. Our major service offerings are as follows:

**Enterprise IT management services** We support our clients' critical networked operational missions by providing tailored end-to-end enterprise information technology services for the design, establishment, management, security and operations of client infrastructure. Our operational, analytic, consultancy and transformational services effectively use industry best practices and standards to enable and optimize the full lifecycle of the networked environment, improve customer service, improve efficiency, and reduce total cost and complexity of large, geographically dispersed operations.

**Data, information and knowledge management** We deliver a full spectrum of solutions and services that automate the knowledge management lifecycle from data capture through information analysis and understanding. We provide commercially-based products, custom solutions development, and operations and maintenance services that facilitate information sharing. Our information technology solutions are complemented by a suite of analytical expertise support offerings for our U.S. government intelligence community, Department of Defense (DoD), Department of Justice (DoJ), and Homeland Security customers.

**Business system solutions** We provide solutions that address the full spectrum of requirements in the financial, procurement, human resources, supply chain and other business domains. Our solutions employ an integrated cross-functional approach to maximize investments in existing systems, while leveraging the potential of advanced technologies to implement new, high payback solutions. Our offerings include services, consulting and software development/integration that support the full lifecycle of commercial technology implementation from blueprint through application sustainment.

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



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

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

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

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

**Results of Operations for the Three Months Ended December 31, 2007 and 2006**

**Revenue.** The table below sets forth revenue by customer type with related percentages of total revenue for the three months ended December 31, 2007 and 2006, respectively:

| (amounts in thousands)      | Three Months Ended December 31, |               |                   |               | Change            |              |
|-----------------------------|---------------------------------|---------------|-------------------|---------------|-------------------|--------------|
|                             | 2007                            |               | 2006              |               | \$                | %            |
| Department of Defense       | \$ 430,352                      | 74.5%         | \$ 343,000        | 71.9%         | \$ 87,352         | 25.5%        |
| Federal civilian agencies   | 117,008                         | 20.2          | 106,553           | 22.4          | 10,455            | 9.8          |
| Commercial and other        | 25,285                          | 4.4           | 22,094            | 4.6           | 3,191             | 14.4         |
| State and local governments | 5,139                           | 0.9           | 5,262             | 1.1           | (123)             | (2.3)        |
| <b>Total</b>                | <b>\$ 577,784</b>               | <b>100.0%</b> | <b>\$ 476,909</b> | <b>100.0%</b> | <b>\$ 100,875</b> | <b>21.2%</b> |

For the three months ended December 31, 2007, total revenue increased by 21.2%, or \$100.9 million, over the same period a year ago. This growth in revenue resulted primarily from the higher volume of work from DoD and federal civilian agency customers and was generated from organic growth, and from acquisitions completed during the fourth quarter of our fiscal year ended June 30, 2007 and during the quarter ended December 31, 2007. Revenue generated from the date a business is acquired through the first anniversary of that date is considered acquired revenue. Our acquired revenue in the three months ended December 31, 2007 is as follows (in thousands):

|   |           |
|---|-----------|
| The Wexford Group International, Inc. (WGI) | \$ 23,962 |
| Institute for Quality Management, Inc (IQM) | 3,218     |
| Athena Innovative Solutions, Inc. (AIS)     | 16,803    |
| Dragon Development Corporation (DDC)        | 4,820     |
| Other                                       | 1,075     |

Total

\$ 49,878

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Revenue from existing operations increased by 10.7% or \$51.0 million, for the three months ended December 31, 2007. This organic growth was driven by both an increase in our direct labor and an increase in other direct costs (ODCs). ODCs include work which we subcontract to third parties to meet customer needs.

DoD revenue increased 25.5%, or \$87.4 million, for the three months ended December 31, 2007, as compared to the same period a year ago. The acquisitions we completed in our fiscal year ended June 30, 2007 and in the quarter ended December 31, 2007, generated \$39.8 million of DoD revenue, while revenue from existing operations increased by \$47.6 million. DoD revenue includes services provided to the U.S. Army, our largest customer, where our services focus on supporting readiness, tactical military intelligence, and communications of the commands in Iraq and Afghanistan. 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 9.8%, or \$10.5 million, for the three months ended December 31, 2007, as compared to the same period a year ago. Of this increase, \$9.0 million was attributable to our acquisitions while revenue from existing operations increased \$1.5 million. Approximately 14.7% of the federal civilian agency revenue for the quarter was derived from DoJ, for whom we provide litigation support services. Revenue from DoJ was \$17.1 million and \$15.8 million for the three months ended December 31, 2007 and 2006, respectively. This increase in revenue earned from DoJ was generated primarily from services provided to support DoJ efforts involving litigation resulting from Hurricane Katrina. Federal civilian agency revenue also includes services provided to non-DoD national intelligence agencies.

Commercial revenue increased 14.4%, or \$3.2 million, during the three months ended December 31, 2007, as compared to the same period a year ago. Commercial revenue is derived from both international and domestic operations. International operations accounted for 90.7%, or \$22.9 million, of total commercial revenue, while domestic operations accounted for 9.3%, or \$2.4 million. The entire growth in commercial revenue came from operations within the United Kingdom (UK). The increase in the UK was attributable to an acquisition completed in July 2007, organic growth, and favorable exchange rates.

Revenue from state and local governments decreased by 2.3%, or \$0.1 million, for the three months ended December 31, 2007, as compared to the same period a year ago. Revenue from state and local governments represented 0.9% and 1.1% of our total revenue for the three months ended December 31, 2007 and 2006, respectively. Our continued focus on DoD and federal civilian agency opportunities has resulted in a relatively reduced emphasis on state and local government business.

***Income from Operations.*** The following table sets forth the relative percentage that certain items of expense and earnings bore to revenue for the three months ended December 31, 2007 and 2006, respectively.

| (dollars in thousands)              | Dollar Amount                        |                                      | Percentage of Revenue                |                                      | Increase (Decrease) |        |
|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|---------------------|--------|
|                                     | Three Months Ended December 31, 2007 | Three Months Ended December 31, 2006 | Three Months Ended December 31, 2007 | Three Months Ended December 31, 2006 | \$                  | %      |
| Revenue                             | \$ 577,784                           | \$ 476,909                           | 100.0%                               | 100.0%                               | \$ 100,875          | 21.2%  |
| Costs of revenue                    |                                      |                                      |                                      |                                      |                     |        |
| Direct costs                        | 386,427                              | 311,464                              | 66.9                                 | 65.3                                 | 74,963              | 24.1   |
| Indirect costs and selling expenses | 140,735                              | 119,426                              | 24.4                                 | 25.0                                 | 21,309              | 17.8   |
| Depreciation and amortization       | 12,309                               | 9,054                                | 2.1                                  | 1.9                                  | 3,255               | 36.0   |
| Total costs of revenue              | 539,471                              | 439,944                              | 93.4                                 | 92.2                                 | 99,527              | 22.6   |
| Income from operations              | 38,313                               | 36,965                               | 6.6                                  | 7.8                                  | 1,348               | 3.6    |
| Interest expense and other, net     | 6,738                                | 5,362                                | 1.2                                  | 1.2                                  | 1,376               | 25.7   |
| Income before income taxes          | 31,575                               | 31,603                               | 5.4                                  | 6.6                                  | (28)                | (0.1)  |
| Income taxes                        | 12,385                               | 11,140                               | 2.1                                  | 2.3                                  | 1,245               | 11.2   |
| Net income                          | \$ 19,190                            | \$ 20,463                            | 3.3%                                 | 4.3%                                 | \$ (1,273)          | (6.2)% |

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Income from operations for the three months ended December 31, 2007 was \$38.3 million. This is an increase of \$1.3 million, or 3.6%, from income from operations of \$37.0 million for the three months ended December 31, 2006. Our operating margin was 6.6% compared with 7.8% during the same period a year ago. This decline in operating margin was primarily due to a shift in the timing of contract award fees and to continuing higher subcontractor costs.

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As a percentage of revenue, direct costs were 66.9% and 65.3% for the three months ended December 31, 2007 and 2006, respectively. Direct costs include direct labor and ODCs, which include, among other costs, subcontractor labor and materials along with equipment purchases and travel expenses. ODCs, which are common in our industry, typically are incurred in response to specific client tasks and may vary from period to period. The single largest component of direct costs, direct labor, was \$159.7 million and \$131.7 million for the three months ended December 31, 2007 and 2006, respectively. This increase in direct labor was attributable to both organic growth and acquisitions completed during our year ended June 30, 2007 and the three months ended December 31, 2007. ODCs were \$226.7 million and \$179.8 million during the three months ended December 31, 2007 and 2006, respectively. This increase was primarily driven by an increased volume of tasking across C4ISR integration services within our Strategic Services Sources (S3) contract along with the aforementioned acquisitions.

Indirect costs and selling expenses include fringe benefits, marketing and bid and proposal costs, indirect labor, and other discretionary expenses. As a percentage of revenue, indirect costs and selling expenses were 24.4% and 25.0% for the three months ended December 31, 2007 and 2006, respectively. The fluctuation experienced during these periods is primarily the result of integrating acquired businesses, controlling our various indirect and general and administrative expenses and the aforementioned higher ODC content which require less indirect cost and selling expenses. A component of indirect costs and selling expenses is stock compensation expense. Total stock compensation expense was \$4.3 million and \$2.8 million for the three months ended December 31, 2007 and 2006, respectively, and increased as a result of a higher level of grants in 2007 relative to the same period a year ago.

Depreciation and amortization expense was \$12.3 million and \$9.1 million for the three months ended December 31, 2007 and 2006, respectively. This increase of \$3.2 million, or 36.0%, is primarily the result of amortization expense attributable to intangibles acquired in the aforementioned acquisitions.

Interest expense and other, net increased \$1.4 million, or 25.7%, during the three months ended December 31, 2007 as compared to the same period a year ago. The increase was primarily due to the interest on \$300.0 million of 2.125% convertible senior subordinated notes (the Notes) issued in May 2007. We had total outstanding borrowings of \$647.3 million at December 31, 2007. We are required to repay a minimum of \$0.9 million quarterly under the terms of the 2004 Credit Facility.

The effective tax rate was 39.2% and 35.2% during the three months ended December 31, 2007 and 2006, respectively. The lower tax rate reported in the second quarter of FY2007 was partially attributable to the December 2006 retroactive extension to January 1, 2006 of research and development credits available under IRC Section 174. Research and development credits related to the period January 1, 2006 through June 30, 2006 were reflected in our results of operations during the three month period ended December 31, 2006, the period in which the retroactive extension was enacted. The effective tax rate for the three months ended December 31, 2006 was also impacted by a revision which increased our effective state rate and by deductions attributable to corporate owned life insurance policies that were not previously recorded.

**Results of Operations for the Six Months Ended December 31, 2007 and 2006**

**Revenue.** The table below sets forth revenue by customer type with related percentages of total revenue for the six months ended December 31, 2007 and 2006, respectively:

| (amounts in thousands)      | Six Months Ended December 31, |               |                   |               | Change            |              |
|-----------------------------|-------------------------------|---------------|-------------------|---------------|-------------------|--------------|
|                             | 2007                          |               | 2006              |               | \$                | %            |
| Department of Defense       | \$ 836,149                    | 73.9%         | \$ 677,101        | 71.7%         | \$ 159,048        | 23.5%        |
| Federal civilian agencies   | 234,307                       | 20.7          | 214,398           | 22.7          | 19,909            | 9.3          |
| Commercial and other        | 51,188                        | 4.5           | 43,099            | 4.5           | 8,089             | 18.8         |
| State and local governments | 9,720                         | 0.9           | 9,934             | 1.1           | (214)             | (2.2)        |
| <b>Total</b>                | <b>\$ 1,131,364</b>           | <b>100.0%</b> | <b>\$ 944,532</b> | <b>100.0%</b> | <b>\$ 186,832</b> | <b>19.8%</b> |

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For the six months ended December 31, 2007, total revenue increased by 19.8%, or \$186.8 million, over the same period a year ago. This growth in revenue resulted primarily from the higher volume of work from DoD and federal civilian agency customers and was generated from organic growth, and from acquisitions completed during the fourth quarter of our fiscal year ended June 30, 2007 and during the quarter ended December 31, 2007. Revenue generated from the date a business is acquired through the first anniversary of that date is considered acquired revenue. Our acquired revenue in the six months ended December 31, 2007 is as follows (in thousands):

|       |           |
|-------|-----------|
| WGI   | \$ 46,398 |
| IQM   | 7,165     |
| AIS   | 16,803    |
| DDC   | 4,820     |
| Other | 1,996     |
| Total | \$ 77,182 |

Revenue from existing operations increased by 11.6% or \$109.7 million, for the six months ended December 31, 2007. This organic growth was driven by both an increase in our direct labor and a significant increase in ODCs. ODCs include work which we subcontract to third parties to meet customer needs.

DoD revenue increased 23.5%, or \$159.0 million, for the six months ended December 31, 2007, as compared to the same period a year ago. The acquisitions we completed in our fiscal year ended June 30, 2007 and in the quarter ended December 31, 2007, generated \$64.0 million of DoD revenue, while revenue from existing operations increased by \$95.0 million. DoD revenue includes services provided to the U.S. Army, our largest customer, where our services focus on supporting readiness, tactical military intelligence, and communications of the commands in Iraq and Afghanistan. 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 9.3%, or \$19.9 million, for the six months ended December 31, 2007, as compared to the same period a year ago. Of this increase, \$11.1 million was attributable to our acquisitions while revenue from existing operations increased \$8.8 million. Approximately 15.1% of the federal civilian agency revenue for the year was derived from DoJ, for whom we provide litigation support services. Revenue from DoJ was \$35.4 million and \$32.6 million for the six months ended December 31, 2007 and 2006, respectively. This increase in revenue earned from DoJ was generated primarily from services provided to support DoJ efforts involving litigation resulting from Hurricane Katrina. Federal civilian agency revenue also includes services provided to non-DoD national intelligence agencies.

Commercial revenue increased 18.8%, or \$8.1 million, during the six months ended December 31, 2007, as compared to the same period a year ago. Commercial revenue is derived from both international and domestic operations. International operations accounted for 89.5%, or \$45.8 million, of total commercial revenue, while domestic operations accounted for 10.5%, or \$5.4 million. The entire growth in commercial revenue came from operations within the UK. The increase in the UK was attributable to an acquisition completed in July 2007, organic growth, and favorable exchange rates.

Revenue from state and local governments decreased by 2.2%, or \$0.2 million, for the six months ended December 31, 2007, as compared to the same period a year ago. Revenue from state and local governments represented 0.9% and 1.1% of our total revenue for the six months ended December 31, 2007 and 2006, respectively. Our continued focus on DoD and federal civilian agency opportunities has resulted in a relatively reduced emphasis on state and local government business.

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**Income from Operations.** The following table sets forth the relative percentage that certain items of expense and earnings bore to revenue for the six months ended December 31, 2007 and 2006, respectively.

| (dollars in thousands)              | Dollar Amount                      |                                    | Percentage of Revenue              |                                    | Increase (Decrease) |        |
|-------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|---------------------|--------|
|                                     | Six Months Ended December 31, 2007 | Six Months Ended December 31, 2006 | Six Months Ended December 31, 2007 | Six Months Ended December 31, 2006 | \$                  | %      |
| Revenue                             | \$ 1,131,364                       | \$ 944,532                         | 100.0%                             | 100.0%                             | \$ 186,832          | 19.8%  |
| Costs of revenue                    |                                    |                                    |                                    |                                    |                     |        |
| Direct costs                        | 758,825                            | 612,191                            | 67.1                               | 64.8                               | 146,634             | 24.0   |
| Indirect costs and selling expenses | 276,492                            | 239,281                            | 24.4                               | 25.3                               | 37,211              | 15.6   |
| Depreciation and amortization       | 23,055                             | 19,560                             | 2.0                                | 2.1                                | 3,495               | 17.9   |
| Total costs of revenue              | 1,058,372                          | 871,032                            | 93.5                               | 92.2                               | 187,340             | 21.5   |
| Income from operations              | 72,992                             | 73,500                             | 6.5                                | 7.8                                | (508)               | (0.7)  |
| Interest expense and other, net     | 11,890                             | 11,571                             | 1.1                                | 1.2                                | 319                 | 2.8    |
| Income before income taxes          | 61,102                             | 61,929                             | 5.4                                | 6.6                                | (827)               | (1.3)  |
| Income taxes                        | 23,620                             | 22,663                             | 2.1                                | 2.4                                | 957                 | 4.2    |
| Net income                          | \$ 37,482                          | \$ 39,266                          | 3.3%                               | 4.2%                               | \$ (1,784)          | (4.5)% |

Income from operations for the six months ended December 31, 2007 was \$73.0 million. This is a decrease of \$0.5 million, or 0.7%, from income from operations of \$73.5 million for the six months ended December 31, 2006. Our operating margin was 6.5% compared with 7.8% during the same period a year ago. This decline in income from operations as a percentage of revenue was due to several factors. One factor is the disproportionate growth in ODCs, attributable in part, to the movement to larger consolidating contracts which have significant subcontractor content. These larger contracts provide both top and bottom line growth, but often with lower margins. A second factor relates to recompetes. We are still experiencing the impact of two major higher-margin recompetes which we lost during the second quarter of FY2007.

As a percentage of revenue, direct costs were 67.1% and 64.8% for the six months ended December 31, 2007 and 2006, respectively. Direct costs include direct labor and ODCs, which include, among other costs, subcontractor labor and materials along with equipment purchases and travel expenses. ODCs, which are common in our industry, typically are incurred in response to specific client tasks and may vary from period to period. The single largest component of direct costs, direct labor, was \$307.8 million and \$266.6 million for the six months ended December 31, 2007 and 2006, respectively. This increase in direct labor was attributable to both organic growth and acquisitions completed during our year ended June 30, 2007 and the three months ended December 31, 2007. ODCs were \$451.0 million and \$345.6 million during the six months ended December 31, 2007 and 2006, respectively. This increase was primarily driven by an increased volume of tasking across C4ISR integration services within our Strategic Services Sources (S3) contract along with the aforementioned acquisitions.

Indirect costs and selling expenses include fringe benefits, marketing and bid and proposal costs, indirect labor, and other discretionary expenses. As a percentage of revenue, indirect costs and selling expenses were 24.4% and 25.3% for the six months ended December 31, 2007 and 2006, respectively. The fluctuation experienced during these periods is primarily the result of integrating acquired businesses, controlling our various indirect and general and administrative expenses and the aforementioned higher ODC content which require less indirect cost and selling expenses. A component of indirect costs and selling expenses is stock compensation expense. Total stock compensation expense was \$10.0 million and \$7.3 million for the six months ended December 31, 2007 and 2006, respectively, and increased as a result of a higher level of grants in 2007 relative to the same period a year ago.

Depreciation and amortization expense was \$23.1 million and \$19.6 million for the six months ended December 31, 2007 and 2006, respectively. This increase of \$3.5 million, or 17.9%, is primarily the result of amortization expense attributable to intangibles acquired in the aforementioned acquisitions.

Interest expense and other, net increased \$0.3 million, or 2.8%, during the six months ended December 31, 2007 as compared to the same period a year ago. The increase was primarily due to the interest on \$300.0 million of 2.125% convertible senior subordinated notes (the Notes) issued

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in May 2007. This interest expense was partially offset by interest income generated from cash on hand through October 31, 2007. We had total outstanding borrowings of \$647.3 million at December 31, 2007. We are required to repay a minimum of \$0.9 million quarterly under the terms of the 2004 Credit Facility.



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The effective tax rate was 38.7% and 36.6% during the six months ended December 31, 2007 and 2006. The lower tax rate reported in the first six months of FY2007 was partially attributable to the December 2006 retroactive extension to January 1, 2006 of research and development credits available under IRC Section 174. Research and development credits related to the period January 1, 2006 through June 30, 2006 were reflected in our results of operations during the six month period ended December 31, 2006, the period in which the retroactive extension was enacted. The effective tax rate for the six months ended December 31, 2006 was also impacted by a revision which increased our effective state rate and by deductions attributable to corporate owned life insurance policies that were not previously recorded.

### **Liquidity and Capital Resources**

Historically, our positive cash flow from operations and our available credit facilities have provided adequate liquidity and working capital to fund our operational needs. Cash flows from operations totaled \$15.8 million and \$70.4 million for the six months ended December 31, 2007 and 2006, respectively.

Effective May 16, 2007, we issued the Notes which mature on May 1, 2014, in a private placement pursuant to Rule 144A of the Securities Act of 1933. The Notes are subordinate to our senior secured debt, and interest on the Notes is payable on May 1 and November 1 of each year. The registration statement we filed with the SEC to register resales of the Notes and the common stock issuable upon conversion of the Notes became effective on October 11, 2007.

Holders may convert their notes at a conversion rate of 18.2989 shares of CACI common stock for each \$1,000 of note principal (an initial conversion price of \$54.65 per share) under the following circumstances: 1) if the last reported sale price of CACI stock is greater than or equal to 130% of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; 2) during the five consecutive business day period immediately after any five consecutive trading day period (the note measurement period) in which the average of the trading price per \$1,000 principal amount of convertible note was equal to or less than 97% of the average product of the closing price of a share of our common stock and the conversion rate of each date during the note measurement period; 3) upon the occurrence of certain corporate events constituting a fundamental change, as defined in the indenture governing the Notes; or 4) during the last three-month period prior to maturity. We are required to satisfy 100% of the principal amount of these notes solely in cash, with any amounts above the principal amount to be satisfied in common stock. As of December 31, 2007, none of the conditions permitting conversion of the Notes had been satisfied.

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

The contingently issuable shares are not included in our diluted share count for the three or six month periods ended December 31, 2007, because our average stock price during those periods was below the conversion price. Debt issuance costs of approximately \$7.5 million are being amortized to interest expense over seven years. Upon closing of the sale of the Notes, approximately \$45 million of the net proceeds was used to concurrently repurchase one million shares of our common stock.

In connection with the issuance of the Notes, we purchased in a private transaction at a cost of \$84.4 million call options (the Call Options) to purchase approximately 5.5 million shares of our common stock at a price equal to the conversion price of \$54.65 per share. The Call Options allow us to receive shares of our common stock from the counterparties equal to the amount of common stock related to the excess conversion value that we would pay the holders of the Notes upon conversion.

For income tax reporting purposes, the Notes and the Call Options are integrated. This created an original issue discount for income tax reporting purposes, and therefore the cost of the Call Options is being accounted for as interest expense over the term of the Notes for income tax reporting purposes. The associated income tax benefit of \$32.8 million to be realized for income tax reporting purposes over the term of the Notes was recorded as an increase in additional paid-in-capital and a long-term deferred tax asset.

In addition, we sold warrants (the Warrants) to issue approximately 5.5 million shares of CACI common stock at an exercise price of \$68.31 per share. The proceeds from the sale of the Warrants totaled \$56.5 million.

On a combined basis, the Call Options and the Warrants are intended to reduce the potential dilution of CACI's common stock in the event that the Notes are converted by effectively increasing the conversion price of these notes from \$54.65 to \$68.31. The Call Options are anti-dilutive and are therefore excluded from the calculation of diluted shares outstanding. The Warrants will result in additional diluted shares outstanding if

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our average common stock price exceeds \$68.31. The Call Options and the Warrants are separate and legally distinct instruments that bind us and the counterparties and have no binding effect on the holders of the Notes.

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We also maintain a \$550.0 million credit facility (the 2004 Credit Facility), which includes a \$200.0 million revolving credit facility (the Revolving Facility) and a \$350.0 million institutional term loan (the Term Loan). The initial borrowings under the 2004 Credit Facility were \$422.6 million, of which \$336.9 million was outstanding under the Term Loan at December 31, 2007. On May 10, 2007, in connection with the issuance of the Notes, the 2004 Credit Facility was amended in order to, among other things, permit the issuance of the Notes and address certain related matters.

The Revolving Facility is a five-year, secured facility that permits continuously renewable borrowings of up to \$200.0 million, with annual sub-limits on amounts borrowed for acquisitions. The Revolving Facility contains an accordion feature under which the facility may be expanded to \$300.0 million with applicable lender approvals. The Revolving Facility permits one, two, three and six month interest rate options. We pay a fee on the unused portion of this facility. As of December 31, 2007, \$9.4 million was outstanding under the Revolving Facility.

The Term Loan portion of the 2004 Credit Facility is a seven-year secured facility under which principal payments are due in quarterly installments of \$0.9 million at the end of each fiscal quarter through March 2011, and the balance of \$325.5 million is due in full on May 3, 2011.

Interest rates for both Revolving Facility and Term Loan borrowings are based on LIBOR, or the higher of the prime rate or federal funds rate, plus applicable margins. Margin and unused fee rates are determined quarterly based on our leverage ratios. We are expected to operate within certain limits on leverage, net worth and fixed-charge coverage ratios throughout the term of the 2004 Credit Facility. The total costs incurred related to the 2004 Credit Facility, as amended, were approximately \$8.7 million, and are being amortized over the life of the 2004 Credit Facility.

We also have amounts due under a mortgage note payable and we maintain a line of credit facility in the U.K. The total amount of reported principal due under the mortgage note payable was \$0.7 million at December 31, 2007. The total amount available under the line-of-credit facility in the U.K., which is scheduled to expire in December 2008, is approximately \$1.0 million. As of December 31, 2007, we had no borrowings under this facility.

Cash and cash equivalents were \$11.7 million and \$285.7 million at December 31, 2007 and June 30, 2007, respectively. Our operating cash flow was \$15.8 million for the six months ended December 31, 2007 as compared to \$70.4 million in the same period a year ago. This decrease in operating cash flows during the first six months of FY2008 is primarily due to government payment office slowdowns, some of which were weather-related, during the month of December 2007. Days-sales-outstanding were 74 at December 31, 2007, two days more than the same period a year ago.

We used cash in investing activities of \$300.7 million and \$5.2 million for the six months ended December 31, 2007 and 2006, respectively. This increase of \$295.5 million was primarily the result of our acquisitions of AIS and DDC which were completed during the three months ended December 31, 2007. In addition, the acquisition of WGI, which was completed on June 29, 2007, was partially funded in July 2007 and the acquisition of Arete Software Limited in the UK was completed in the first quarter of FY2008. The remaining cash used in both periods was primarily for the purchase of office and computer related equipment in support of normal business requirements.

Cash provided by financing activities was \$11.0 million in the six months ended December 31, 2007 and cash used in financing activities was \$21.1 million in the six months ended December 31, 2006. This \$32.1 million change was primarily attributable to the borrowing of \$25.0 million under the Revolving Facility during the fiscal year ended June 30, 2006, which was repaid during the six months ended December 31, 2006. In addition, during the six months ended December 31, 2007, we borrowed \$9.8 million under our lines of credit.

Cash flows from financing activities continued to benefit from proceeds received from the exercise of stock options, and purchases of stock under our Employee Stock Purchase Plan. Proceeds from these activities totaled \$4.3 million and \$7.4 million during the six months ended December 31, 2007 and 2006, respectively. These amounts were offset by cash used to purchase stock to fulfill obligations under our Employee Stock Purchase Plan. Cash used to acquire stock was \$0.9 million and \$2.7 million during the six months ended December 31, 2007 and 2006, respectively.

We believe that the combination of internally generated funds, available bank borrowings and cash 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 are continuously analyzing our capital structure to ensure we have sufficient capital to fund any future acquisitions. Over the longer term, our ability to generate sufficient cash flows from operations necessary to fulfill the obligations under our 2004 Credit Facility and the Notes will depend on our future financial performance which will be affected by many factors outside of our control.

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

We use off-balance sheet arrangements primarily to finance the lease of operating facilities. With the exception of a building acquired in connection with an acquisition completed during the year ended June 30, 2004, we have financed the use of all of our office and warehouse facilities through operating leases.

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Operating leases are also used to finance the use of computers, servers, phone systems, and to a lesser extent, other fixed assets, such as furnishings, that are obtained in connection with business acquisitions. We generally assume the lease rights and obligations of companies acquired in business combinations and continue financing equipment under operating leases until the end of the lease term following the acquisition date. We generally do not finance capital expenditures with operating leases, but instead finance such purchases with available cash balances.

### **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. A 1.0% change in interest rates on variable rate debt would have resulted in our interest expense fluctuating by approximately \$0.6 million and \$1.2 million for the three and six months ended December 31, 2007, respectively.

Approximately 4.1% and 3.9% of our total revenue in the six months ended December 31, 2007 and 2006, respectively, were derived from our international operations in the United Kingdom. Our practice in our international operations is to negotiate contracts in the same currency in which the predominant expenses will be incurred, thereby mitigating the exposure to foreign currency exchange fluctuations. It is not possible to accomplish this in all cases; thus, there is some risk that profits will be affected by foreign currency exchange fluctuations. As of December 31, 2007, we held pounds sterling in the United Kingdom equivalent to approximately \$11.7 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 no 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 are effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

The Company reports that no changes in its internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three months ended December 31, 2007.

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**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings**

*Saleh, et al. v. Titan Corp., et al, Case No. 05 CV 1165 (D.D.C.)*

Reference is made to Part II, Item 1, Legal Proceedings, in the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 for the most recently filed information concerning the suit filed in the United States District Court for the Southern District of California against CACI International Inc, CACI, INC. FEDERAL, CACI N.V., and former CACI employee Stephen A. Stefanowicz, among other defendants, seeking a permanent injunction, declaratory relief, compensatory and punitive damages, treble damages and attorney's fees arising out of defendants' alleged acts against plaintiffs, who were detainees at Abu Ghraib prison and elsewhere in Iraq.

Since the filing of Registrant's report described above, the Court held a scheduling conference on December 6, 2007 at which the Court denied plaintiffs' motion to have the action proceed as a class action. On December 17, 2007, the Court certified its November 6, 2007 Memorandum Order denying CACI's motion for summary judgment for interlocutory appeal. On January 2, 2008, CACI filed a petition with the United States Court of Appeals for the District of Columbia Circuit asking for acceptance of an interlocutory appeal of the Court's November 6, 2007 Memorandum Order. On January 14, 2008, plaintiffs filed an opposition to CACI's petition. Also, on January 4, 2008, CACI filed a Notice of Appeal to the United States Court of Appeals for the District of Columbia Circuit from the Court's November 6, 2007 Memorandum Order.

On December 17, 2007, the plaintiffs filed a fourth amended complaint. On January 4, 2008, CACI filed a motion to dismiss the fourth amended complaint and on February 1, 2008, plaintiffs filed a memorandum in opposition to that motion.

On December 21, 2007, the Court granted Titan's motion for entry of a final judgment of the November 6, 2007 Memorandum Order as to Titan, and on January 17, 2008 plaintiffs filed a Notice of Appeal to the U.S. Court of Appeals for the District of Columbia Circuit from that final judgment in favor of Titan.

On January 8, 2008 the Court cancelled a conference regarding discovery pending developments in the United States Court of Appeals for the District of Columbia Circuit.

*Ibrahim, et al. v. Titan Corp., et al., Case No. 1:04-CV-01248-JR (D.D.C. 2004)*

Reference is made to Part II, Item 1, Legal Proceedings, in the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 for the most recently filed information concerning the suit filed in the United States District Court for the District of Columbia against CACI International Inc, CACI, INC. FEDERAL, CACI N.V. and Titan Corporation, seeking compensatory and punitive damages for physical injury, emotional distress, and/or wrongful death allegedly suffered as a result of defendants' wrongful acts against plaintiffs, who were detainees at Abu Ghraib prison and elsewhere in Iraq.

Since the filing of Registrant's report described above, on December 17, 2007, the Court certified its November 6, 2007 Memorandum Order denying CACI's motion for summary judgment for interlocutory appeal. On January 2, 2008, CACI filed a petition with the United States Court of Appeals for the District of Columbia Circuit asking for acceptance of an interlocutory appeal of the Court's November 6, 2007 Memorandum Order. On January 14, 2008, plaintiffs filed an opposition to CACI's petition. Also, on January 4, 2008, CACI filed a Notice of Appeal to the United States Court of Appeals for the District of Columbia Circuit from the Court's November 6, 2007 Memorandum Order.

On December 21, 2007, the Court granted Titan's motion for entry of a final judgment of the November 6, 2007 Memorandum Order as to Titan, and on January 17, 2008 plaintiffs filed a Notice of Appeal to the U.S. Court of Appeals for the District of Columbia Circuit from the November 6, 2007 Memorandum Order.

On December 17, 2007, the plaintiffs filed a third amended complaint. On January 4, 2008, CACI filed a motion to dismiss the third amended complaint. On January 29, 2008, the Court granted plaintiffs' motion to adjourn the deadline for responding to the motion to dismiss until thirty days after final disposition of the pending appeals.

On January 8, 2008 the Court cancelled a conference regarding discovery pending developments in the United States Court of Appeals for the District of Columbia Circuit

We are vigorously defending the above-described legal proceedings, and, based on our present knowledge of the facts, we believe the lawsuits are completely without merit.

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**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, 2007. There have been no material changes from the risk factors described in that report.

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

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

On November 14, 2007, CACI held its annual stockholders' meeting. The holders of at least 26,827,264 shares, or 89.42% of the total voting power of the Company, were present at the meeting or represented by proxy, constituting a quorum. The following matters were voted upon at the meeting.



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**Matter 1:** That all of the nominees for the Board of Directors be elected for one year terms. The voting, the result of which was that all nominees were elected for one year terms, was as set forth below:

| Nominee                | For        | Withheld | %<br>For |
|------------------------|------------|----------|----------|
| Dan R. Bannister       | 26,249,573 | 577,691  | 97.85    |
| Paul M. Cofoni         | 26,246,546 | 580,718  | 97.84    |
| Peter A. Derow*        | 26,196,816 | 630,448  | 97.65    |
| Gregory G. Johnson     | 26,245,190 | 582,074  | 97.83    |
| Richard L. Leatherwood | 26,220,593 | 606,671  | 97.74    |
| J.P. London            | 26,244,664 | 582,600  | 97.83    |
| Michael J. Mancuso     | 26,246,977 | 580,287  | 97.84    |
| Warren R. Phillips     | 26,195,881 | 631,383  | 97.65    |
| Charles P. Revoile     | 26,036,807 | 790,457  | 97.05    |
| H. Hugh Shelton        | 26,217,954 | 609,310  | 97.73    |

\* Mr. Derow resigned as a member of the Company's Board of Directors upon the effectiveness of his election.

**Matter 2:** That the Amended 2002 Employee Stock Purchase Plan be approved to authorize an additional 250,000 shares for issuance. The voting, the result of which was that the Amended 2002 Employee Stock Purchase Plan was approved to authorize an additional 250,000 shares for issuance, was as set forth below:

|                    | For        | Against | Abstain | Total      |
|--------------------|------------|---------|---------|------------|
| Total Shares Voted | 23,595,128 | 638,984 | 63,999  | 24,298,111 |

**Matter 3:** That Ernst & Young LLP be ratified as the Company's Independent Auditors for the current fiscal year. The voting, the result of which was that Ernst & Young LLP was ratified as the Company's Independent Auditors for the current fiscal year, was as set forth below:

|                    | For        | Against | Abstain | Total      |
|--------------------|------------|---------|---------|------------|
| Total Shares Voted | 26,772,751 | 23,637  | 30,873  | 26,827,261 |

**Item 5. Other Information**

None

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| Exhibit No. | Description   | Filed with<br>this Form<br>10-Q | Incorporated by Reference |                    |             |
|-------------|---|---------------------------------|---------------------------|--------------------|-------------|
|             |   |                                 | Form                      | Filing Date        | Exhibit No. |
| 3.1         | Certificate of Incorporation of CACI International Inc, as amended to date  |                                 | 10-K                      | September 13, 2006 | 3.1         |
| 3.2         | Amended and Restated By-laws of CACI International Inc, amended as of March 15, 2007  |                                 | 8-K                       | March 21, 2007     | 3.1         |
| 4.1         | Clause FOURTH of CACI International Inc's Certificate of Incorporation incorporated above as Exhibit 3.1  |                                 | 10-K                      | September 13, 2006 | 4.1         |
| 4.2         | Form of Right Certificate   |                                 | 8-K                       | July 11, 2003      | 4.1         |
| 10.1        | Stock Purchase Agreement by and among Athena Holding LLC, Athena Holding Corp., Athena Innovative Solutions, Inc., CACI International Inc and CACI, Inc FEDERAL, dated September 19, 2007 |                                 | S-1/A                     | October 9, 2007    | 10.27       |
| 10.2        | Severance Compensation Agreement dated October 1, 2007 between Thomas A. Mutryn and CACI International Inc  |                                 | S-1/A                     | October 9, 2007    | 10.25       |
| 10.3        | Severance Compensation Agreement dated October 1, 2007 between Randall C. Fuerst and CACI International Inc   |                                 | S-1/A                     | October 9, 2007    | 10.26       |
| 31.1        | Section 302 Certification Paul M. Cofoni  | X                               |                           |                    |             |
| 31.2        | Section 302 Certification Thomas A. Mutryn  | X                               |                           |                    |             |
| 32.1        | Section 906 Certification Paul M. Cofoni  | X                               |                           |                    |             |
| 32.2        | Section 906 Certification Thomas A. Mutryn  | X                               |                           |                    |             |

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SIGNATURES

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

CACI International Inc  
Registrant

Date: February 7, 2008

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

Date: February 7, 2008

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

Date: February 7, 2008

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