CACI INTERNATIONAL INC
Moderator: Ken Asbury
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Operator: Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Second Quarter FY14 conference call. Today's call is being recorded. At this time all lines are in a listen-only mode. Later we will announce the opportunity for questions and instructions will be given at that time. If you should need any assistance during this call please press and zero on your touchtone telephone and someone will help you. A special reminder to our media guests who are listening in, please remember that during the question-and-answer portion of this call, we are only taking questions from the analysts.

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

INTRODUCTION AND SAFEHARBOR STATEMENT

Dave Dragics: Thanks, Janine, and good morning, ladies and gentlemen. I'm Dave Dragics, Senior Vice President of Investor Relations of CACI International, and we are very pleased you are able to participate with us today. And, as is our practice, we are providing presentation slides, so let's move to slide number 2.

Now, about our written and oral disclosures and commentary, there will be statements in this call that do not address historical fact and as such constitute forward-looking statements under current law. The statements reflect our views as of today and are subject to important factors that could cause our actual results to differ materially from anticipated results. Factors that could cause our actual results to differ materially from those we anticipate are listed at the bottom of last evening's earnings release and are described in the company's Securities and Exchange Commission filings. And our Safe Harbor statement is included on this exhibit and should be incorporated as part of any transcript of this call.

I'd also like to point out that our presentation today will include discussion of non-GAAP financial measures. These non-GAAP measures should not be considered in isolation or as a substitute for performance measures prepared in accordance with GAAP.

So let's please turn to slide 3 and to open up our discussion this morning here's Ken Asbury, President and Chief Executive Officer of CACI International. Ken?

CEO OVERVIEW

Ken Asbury: Thank you, Dave, and good morning to everyone. Thanks for joining us this morning. With me today are Tom Mutryn, our Chief Financial Officer, John Mengucci, our Chief Operating Officer and President of U.S. Operations, and Greg Bradford joining us from the U.K., is the Chief Executive of CACI Limited.

Let's go to slide 4 please. Last night we released our second quarter results. I'm pleased with the second quarter performance in a challenging environment. We have seen steady progress and results from our strategy. Operations delivered another solid quarter. Our CACI base business had significantly higher contract awards and about 8 percent higher net income this quarter as compared to 2013.

We also completed the acquisition of Six3 Systems, which positions CACI as a leader in advanced intelligence and cyber security offerings to our national security customers. Six3 brings a unique set of signals intelligence and cyber capabilities that are increasingly essential to protecting our country against growing international threats. And the Six3 integration is going well and performing to expectations.

Looking forward, we are encouraged by the recent legislation that should provide improved visibility and stability for both our customers and industry. And finally, we are increasing our revenue guidance and reiterating our net income guidance for FY14.

Our revenue will increase because of the acquisition of Six3 Systems but offset – and offset by a larger than expected decline in CACI operations that is due to the challenging customer environment during our second quarter. The fact is we are growing our business and sustaining our technical and financial performance despite the difficulties of a very tough quarter.

Let me describe this in greater detail. Our results were achieved in the most difficult market environment since the Budget Control Act—AKA sequestration—became law in 2013. The combination of challenges during the quarter began with the 16 day government shutdown in October while operating under a continuing was resolution; the potential for another shutdown in mid-January associated with debt ceiling negotiations; and the anticipation [of] the second round of sequestration cuts coming also in the second week of January.

Looking forward we are encouraged by the signing of both the 2014 authorization and appropriation acts. We believe these two laws will provide increased stability and predictability for both our customers and the industry. While it will take some time for the government program managers and the federal contracting community to fully incorporate these authorities and appropriations into programs, the marketplace will benefit from a more stable planning horizon.

Please go to slide 5. We have seen steady progress and results by focusing on our three-part strategy. Winning new business, deliver operational excellence to our customers, and use our capital to make investments to improve our long-term performance.

Let me start with the first element of our strategy, winning new business in a large addressable market. We continue to optimize our business development capability and like the results that we are seeing. Our contract awards were significantly higher this quarter than a year ago, with 25 percent of them coming from new business wins. We continue to focus on the government's high-priority missions and bid selectively in that space. We also began the first of what should be many strategic campaign pursuits for large contracts requiring cross company collaboration. This is and will be an important part of our business development strategy for growth going forward.

The second element of our strategy is driving operational excellence. Here we continue to invest in credentialing our value delivery systems and enhancing our program management capabilities with the consistent goal of delivering innovation and affordability to our customers. I am proud of the efficient, effective and ethical way we manage our programs has resulted in increased contract awards. This attests to the fact that, especially in these austere times, it matters to the government whom they buy from.

The third element of our strategy is deploying capital in support of our future growth. We closed on the opposition of Six3 Systems in mid-November. And to that point I'd like to set the strategic context for you.

Let me turn to slide 6. For the past dozen years our nation has been involved in conflicts, largely in Southwest Asia, against state and non-state adversaries, where we and our allies have held overwhelming advantages in training, expertise and technology. As our involvement in those wars wind down, the focus of our national defense policy and strategy shifts to the vast expanses of Asia and the North Pacific. The potential adversaries in these regions are technologically sophisticated and economically advanced. For our forces to operate effectively in this anti-access area denial environment, our military must employ new methods to conduct ISR and deliver kinetic and non-kinetic effects against a full spectrum electronic warfare and cyber environment. The ability to anticipate, locate, understand, plan for, and successfully conduct military operations against more capable adversaries is paramount to the strategy of the United States.

Slide 7 please. Now let me put Six3 into this overarching context. This is exactly what Six3 was built for and where they excel. Six3 has developed highly specialized and differentiated capabilities in signal processing, precision geolocation and nontraditional cyber and electronic warfare.

Many people see the potential of cyber attacks as the number one threat to our nation's security. Today, much of that discussion centers on the ability to defend or disrupt a computer, a server or network architecture. CACI has a growing cyber business that addresses this very space. At the same time, Six3 has been principally focused on another important aspect of cyber, that involving the signals emitted by weapons systems, satellite, and airborne platforms. Together we now cover a full spectrum of cyberspace. Six3 possesses nationally recognized expertise in digital signal processing and analysis. They have coupled that expertise with communications and cyber engineers to adapt tools and techniques that could identify, characterize and develop countermeasures for a broad and evolving array of adversary weapons systems. Six3 as part of CACI will help our customers ultimately build the capability and capacity to defend against and fight through cyber attacks on U.S. systems while delivering desired effects against potential adversaries.

U.S. government agencies are increasingly contracting for the unique solutions and services that Six3 developed for the Department of Defense and the intelligence community. As the U.S. and other countries continue to boost their cyber defensive and offensive postures, we believe this market will expand giving CACI an advantage. Together, CACI and Six3 will provide our customers with agile and affordable technical products and solutions to counter this dynamic and persistent set of threats. That is what made this acquisition of Six3 so compelling for CACI.

With that, let me turn the call over to Tom for some insights into our financials. Over to you, Tom.

FINANCIAL OVERVIEW

Tom Mutryn: Thank you, Ken and good morning, everyone. Let's go to slide number 8.

From November 15 through the end of the quarter, Six3 generated $49 million in revenue and $2.4 million of net income from their ongoing business during the period which included the Thanksgiving and Christmas holidays. This was offset by $2.3 million of after-tax intangible amortization and retention expenses.

The intangible asset associated with the acquisition is about $164 million, which will be amortized on an accelerated basis over 14 years.

In conjunction with the acquisition we entered into certain retention agreements with associated GAAP pretax expense in year one of $6.7 million and $3.3 million in year two. We view these agreements as one-time transaction related expenses.

The one-time transaction after-tax costs in the quarter were $6 million, consisting mainly of banking, rating agency, audit, legal and debt extinguishment expenses.

The incremental after-tax interest expense associated with the acquisition for the second quarter was $1.6 million.

We will amortize the cost of the recent financing over the five-year life of the loan at an after-tax cost of $1.6 million per year, a non-cash interest expense.

Slide 9 please. For the quarter, excluding Six3 related revenue, CACI's revenue decrease of 9 percent was driven primarily by a number of reductions on existing contracts and delays in contracting activity as our customers faced the prospect of a government shutdown, additional rounds of sequestration, and budget uncertainty. In addition, the government shutdown resulted in a reduction of second-quarter revenue of approximately $20 million. Let me note that the IDL and Emergent acquisitions, both of which closed in the second quarter of 2013, contributed about $10 million to $15 million of revenue during this quarter.

Indirect expenses, excluding direct labor as well as Six3 related transaction and ongoing expenses were down around $17 million as a result of continued focus on cost efficiency and the cost reduction actions taken last year.

Reported net income was $35 million for the quarter. Excluding the ongoing contribution of Six3 and all related one-time and ongoing expenses, net income would have been $43 million, up 8 percent from last year despite the shutdown and a tougher environment.

Net income excluding Six3 was positively impacted by lower bonus compensation expense in a few positive nonrecurring items. Operating margin excluding Six3 was unusually high at about 9 percent, driven by seasonally high award fees in the quarter, the lower bonus expense, and the positive items I alluded to. In addition, lower than anticipated revenue positively impacted the margin in that the denominator was lower. Operating margins are expected to revert to a more normal level in the second half of year, with operating margins for CACI, excluding Six3 for the full year, to be a bit north of last year's margins of 7.4 percent.

Our diluted share count for the quarter, and as a result our earnings per share, was impacted by an additional 1.5 million shares associated with our convertible debt. The bond hedge will offset any dilution associated with the convertible when both the convert and hedge mature in May. We also issued a warrant at $68.31 which may result in CACI issuing shares when the warrant matures in August.[1]

Turn to slide 10 please. We generated second-quarter operating cash flow of $17 million. Days sales outstanding increased from 59 last year to 67 at the end of December. The government shutdown and the move by the government to pay at terms, rather than earlier than required, drove the higher DSO. We are expecting DSOs to remain in the mid-60s for the foreseeable future.

On a trailing 12 month basis, free cash flow was $190 million, or $7.74 per diluted share. This translates to a free cash flow yield of 9.9 percent at the share price of $78.

With $1.46 billion of total debt, our net debt to pro forma EBITDA leverage ratio is at 3.5 times.

Let me turn to the remainder of year. Slide 11 please. We will be reporting revenue and earnings results for Six3 for each of the next two quarters of the fiscal year. As has been our practice, our revenue and earnings guidance will be provided at the consolidated CACI International level without specific guidance for certain parts of our business.

[1] This is a correction of what was originally stated on the conference call. During the call, the following was stated: "Let me remind you that 1.1 million diluted shares representing dilution up to a share price of $68.31will be offset by a bond hedge when the convert comes through in May 2014."

With the acquisition of Six3, we expect our revenue for FY14 to range between $3.65 billion and $3.8 billion, with Six3 contributing $275 million to $325 million of revenue. The lower CACI base revenue is the result of reductions in multiple programs, and delays and cancellations of new programs, and the government shutdown.

We are maintaining FY14 net income guidance of $142 million to $152 million. We expect Six3, excluding the retention expense associated with the acquisition, will generate at least 5 percent accretion and 10 percent accretion on an adjusted cash basis for both the second half of our fiscal year and all calendar 2014.

And we expect another year of solid cash flow with operating cash flow at approximately $175 million, down from earlier estimates due to the factors I mentioned earlier.

We will be filing an 8-KA within the next day, which will contain interim and audited Six3 financial statements, as well as pro forma financial statements. With that, let me turn the call over to John.

OPERATIONS OVERVIEW

John Mengucci: Thanks, Tom. Let's go to slide 12 please. I am pleased with our second-quarter performance. Operations continue to perform very well and respond with agility to our dynamic markets. There are several focus areas that continue to contribute to net income and cash flow. First, our organization structure is appropriately sized to our business, driving an efficient and agile organization and allowing us to competitively price our offerings. Second, we invest in new technologies and capabilities to drive affordability for our customers through cost effective delivery, not by sacrificing profit. Third, the organization is pursuing contracts which will fill our customers' enduring core missions, and we do so with a focus on contract type, direct labor, and increased solution content. And a trademark of CACI is our record of successfully delivering to program commitments within our customers' budgets.

Let's go to slide 13. A testament to this focus is our strong Q2 awards. We won $717 million of contract awards, which is 40 percent higher than the same period last year. And almost 25 percent of those awards came from new business wins. Our high-volume markets drove approximately 75 percent of our total awards, coming primarily from more than $300 million of new and recompete task orders on our U.S. Department of Justice Mega 4 IDIQ contract. We noted this Investigative and Litigation Support IDIQ win in our first quarter, and continued to successfully capture task orders during this current quarter. Overall, we are proud of our Q2 awards as they reflect the cost effective quality and value we consistently deliver.

We also booked $600 million of funding orders in Q2, which is approximately 4 percent lower than the same period last year. Funding actions were delayed by the government shutdown which resulted in contracting officers having less time to issue our incremental funding. This brings our funded backlog to $1.8 billion. In addition, total backlog is now $7.6 billion, driving an estimated 26 months of total backlog at our current revenue run rate. Let me also note that this backlog does not yet incorporate any contribution from Six3.

Please go to Slide 14. Our FY14 revenue guidance in June 2013 consisted of 65 percent existing business, 25 percent recompete, and 10 percent new business. I am pleased to report, with only two quarters behind us, our revenue guidance now consists of 93 percent existing, 5 percent are recompete, and 2 percent new business. In addition, with the $600 million of funding orders received in Q2, our existing contract revenue is now 84 percent funded, consistent with this time last year. This is a direct result of the important missions we serve and the levels of funding those missions continued to receive even in a tough budget environment.

Slide 15 please. Our pending contract awards total approximate $7.3 billion. 75 percent of those pending awards are for new business for CACI and approximately 30 percent are in our high-growth market areas. In addition, we plan to submit another $8.5 billion of bids over the next six months reflecting our significant addressable market. 80 percent of those bids will be for new business and about 30 percent are in our high growth market areas. Again, these metrics do not include the contribution of Six3's robust solution centric pipeline.

Our focus on business development remains a priority. We are confident in our market-driven strategy and committed to support what will continue to be an enduring mission in support of our nation. I'm excited about the long-term contribution from Six3's mission focused capabilities.

With that, I would like to turn the call back over to Ken.

CEO CLOSING COMMENTS

Ken Asbury: Thanks, Tom and John, thank you for providing the details. Let's go to slide 16 please.

Our results reflect solid progress on our strategy during a difficult market environment. CACI is committed to providing the essential solutions and services to our customers. We are also committed to serving our shareholders with a strong, growing, profitable company that outperforms its peers.

To continue building and delivering long-term shareholder value, we will remain focused on optimizing our business development capability, driving operational excellence, integrating Six3, and maximizing its value to the CACI enterprise, delivering solid cash flow, and exercising our M&A program to acquire new capabilities and customers.

Let me conclude my remarks by thanking our people for their character, talent, total commitment to our customers. CACI employees continually perform with integrity and excellence. Remaining ever vigilant in support of our customers' core missions while helping to build long-term value for our shareholders. With that, let's open the call up for questions, Janine.

Operator: Ladies and Gentlemen if you would like to ask a question please press the star, then the number one key on your touch tone telephone. If your question is answered or you wish to remove yourself from the queue, you may press the pound key. And we would like to remind you to limit yourself to one question and one follow-up. Then you may re-queue.

And our first question will be from Bill Loomis of Stifel.

QUESTION ON THE REVENUE RUN-RATE FOR CALENDAR YEAR 2014 FOR SIX3

Bill Loomis: On Six3 if I look at your revenue contribution for FY14 and look at particularly the upper end, and kind of run that out through calendar '14, I'm getting revenues of roughly $550 million, and it seems a little bit higher than what you would've thought when you announced the acquisition. Is there anything that's changing in Six3's business that gives you confidence at that upper end?

Ken Asbury: Well, basically, just the entire dialogue, Bill, around where the cyber threat is emerging. A couple of key points, I think, are worth noting. Last week we heard the PACOM Commander talk about two things related to the Asia-Pacific region. First was about how the gap in capability between the Chinese and the United States was sort of narrowing a bit from a technology point of view. Obviously something of great interest to a business like what I described in my opening comments.

And second was they are beginning to test—or they are beginning to field—capabilities that could be – could cause a problem for U.S. operations, particularly naval operations, around the development of hypersonic missiles. I think yesterday's testimony by the DNI, really kind of bringing forth the idea that cyber is a huge problem for our country—I think underscores the fact that we will see some growth in Six3 going forward. Tom, would you like to add anything to that?

Tom Mutryn: Bill, the question for you, the math that you said you are suggesting that Six3 would have $550 million in calendar year 2014, was that your number?

Bill Loomis: Right, you are saying $325 million at high, less the $49 million they did in the second quarter, and then I doubled that back for the full year.

Tom Mutryn: Sure, at the high-end absolutely. At the midpoint you're closer to $500 million, so we gave a range, but clearly at the high-end the arithmetic is correct.

QUESTION ON THE REVENUE BY MARKET SEGMENTS FOR SIX3

Bill Loomis: Just one thing on Six3, the revenue breakout by the segments that you have defense, civil, commercial, can you give us a sense of that for this year so we know how that's going to split out?

Tom Mutryn: I can tell you that most of Six3 is in the defense sector, both the national intelligence agencies they provide service to are generally classified as defense agencies as well as the work they do for the Department of Defense, heavily NRO—a defense agency.

Bill Loomis: Thank you.

QUESTION ON THE SOURCES OF NEW BUSINESS FOR CACI

Operator: The next question is from Edward Caso of Wells Fargo Securities.

Ed Caso: The comment was made that about 80 percent of your pipeline was for new business, and I was curious if this was in areas that are new to CACI and therefore you have to develop the new client and embrace new competitors, or is it just new contracts within existing tower alleys? Thanks.

Ken Asbury: Ed, this is Ken. The majority of that is going to be in just existing customer sets. We are looking to see where there's white space in the marketplace, but the majority of ours are going to be for existing customers that we know and have relationships with today. We just see—we are in the cycle where there's a lot of new business opportunity in the current customer space.

QUESTION ON WHAT CACI IS GUIDING TO FOR OPERATING AND FREE CASH FLOW

Ed Caso: Great. The other question was the mention about the change in the payment cycle, what's the guidance now for operating and free cash flow?

Tom Mutryn: Yes, for the operating cash flow for the year, approximately $175 million. Free cash flow would be $15 million to $20 million less. The only difference between free cash flow and operating cash flow is capital spending, and that's our normalized run rate for capital spending.

Ed Caso: Great, thank you.

QUESTION ON WHY REVENUE GUIDANCE WAS INCREASED AND DILUTED EPS DECREASED

Operator: The next question is from Jason Kupferberg of Jefferies.

Amit Singh: This is Amit Singh for Jason. Just quickly – hi. If you could just quickly run to the math from the guidance being increased by, the midpoint of guidance being increased by $125 million, but the EPS guidance being reduced by around $0.10, if you could run through the expenses, I'm assuming most of them are one-time that are relating to the EPS guidance decline?

Tom Mutryn: Yes, there's clearly a lot of math elements that are involved in this. In any particular situation, we have Six3; we have the base business; a lot of moving parts.

You mentioned earnings per share; we have additional diluted shares. So I think we all understand why we have additional diluted shares, due to the convertible. So focus on net income. We are keeping net income guidance the same while at the same time reducing our – or increasing our revenue guidance.

I will point out that the guidance by definition is in a range. It's kind of a relatively broad range for net income, and we are not specifying where we are within that range.

CACI's base business is generating less revenue for the reasons I articulated. Some of that is due to other direct costs, which come back in a relatively low margin. So that revenue decline is not a one-for-one profit decline, since greater than half of the majority of the revenue decline is associated with lower, the other direct costs. We are doing a good job of controlling indirect expense, that's certainly helping base CACI to perform at what we consider solid levels.

Turning to Six3, we have two phenomena. On our ongoing business in this third and fourth quarter, Six3's performing in our mind, admirably. In the second quarter, we incurred a variety of one-time expenses associated with the acquisition. Eyes wide-open, we knew those expenses were coming when we embarked upon this particular process.

And so, that is such that, for the full year, Six3 contribution is offset either all, or largely, by those one-time expenses. So those are the major building blocks to get to the guidance that we are providing.

QUESTION ON WHAT SIX3'S OPERATING MARGIN IS

Amit Singh: All right, perfect, and what margins does Six3 generally operate at so that we get a sense of going forward after FY14 how to model out the margins for that business?

Tom Mutryn: Yes, so when we announced the transaction, we spoke about a 14 percent EBITDA margin for Six3. So, an ambient level of EBITDA margins were around 14 percent. They may fluctuate, come down a little bit, given some of the pressures that we are all under but we expect them to have higher than average EBITDA margin, CACI EBITDA margins are 9 percent, so they are going to certainly be north of our EBITDA margins. Their indirect spending is kind of reasonable.

I did point out that they will be incurring additional expenses associated with the retention payments that we spoke about. So that's going to be a drag to their operating margins as well. And, in addition, intangible amortization expense, which will flow through Six3, a non-cash item which is impacting the margin. So those are the primary building blocks.

QUESTION ON WHETHER THE LARGE FIXED PRICE CONTRACT IN THE FIRST QUARTER OF FY 2014 IS IMPACTING CACI'S OPERATING MARGIN

Operator: The next question is from Cai von Rumohr of Cowen and Company.

Cai von Rumohr: So that very strong 9 percent margin—could you comment on that fixed-price contact where the revenues and profits don't line up? How big of a plus was that, and how much is left for the second half?

Tom Mutryn: Yes, Cai, this is Tom again. This fixed price contract had a material negative impact on our first quarter. On the second quarter, the profitability of that contract was comparable to where it was on the second quarter of last year. So I did not reference it as a variance or a driver of either increases or decreases to margin. And for the rest of year it's somewhat of—consistent with the rest of our business. It is not large enough or material enough to talk about for the third and fourth quarter.

QUESTION ON THE FORWARD ASSUMPTIONS FOR CACI'S OPERATING MARGIN

Cai von Rumohr: Right. So, per your guidance, if we look at the second half, it looks like the operating margins may be close to the second quarter, with Six3 moving to be accretive and CACI standalone down given the very strong quarter you had. But, as we look at next year, I would assume if you have normal margins at CACI, we should get a big benefit from Six3 because we don't have the transaction expenses. We have lower retention expenses as a percent of sales. And so, we might hope for a more robust uptick in your operating margins, does that make sense?

Tom Mutryn: Yes, absolutely. Six3 is material to the position. Their EBITDA margin performance is strong, reflective of the work that they do—mission-critical, highly specialized, fixed-price contracts. Just performing and doing very important things. And that translates into higher profitability characteristics. And, as we get into 2015, we expect that to have a positive impact on our cash flow and margins and profitability. Absolutely, yes.

Ken Asbury: Cai, if might I may add. This is Ken. I think, up to this point, we've probably seen that our customers have developed their plans for how they are going to live in a sequestered world. And with the budget agreement in place, we may see these customers get a little relief. There's obviously some additional money in it. But more importantly, they get a couple year planning horizon, and we would expect that 2015 would be a better. It is just going – it's setting up to look like a better year.

Cai von Rumohr: Thank you very much.

Operator: As a reminder, if you would like to ask a question please press the star then the number one key on your touchtone telephone. And please limit yourself to one question and one follow-up.

The next question is from Brian Gesuale of Raymond James.

QUESTION ON THE ONE-TIME TRANSACTION EXPENSES IN THE SECOND QUARTER

Brian Gesuale: Maybe a quick one for Tom. And then, Ken, I want to follow-up with you. Tom, can you talk a little bit about the dollar magnitude of some of those one-time items that helped the quarter in this quarter. You broke out the $9.7 million as a negative impact from the acquisition, but could you maybe show us what the positive offset was?

Tom Mutryn: Yes, the positive offsets were in the range of $3 million to $5 million.

QUESTION ON MAINTAINING THE SIX3 CULTURE AND MARGINS AS IT IS INTEGRATED INTO CACI

Brian Gesuale: OK, wonderful, thank you. And then Ken, a question for you, as you integrate Six3, how do you really maintain the culture so we don't see what happened with Lockheed when Sanders was acquired? And then I guess also along those lines, we see very few businesses on the services side be able to maintain a 14 percent EBITDA margin as they grow. How do you preserve and actually expand those margins as you try to grow that business?

Ken Asbury: Yes, it's a great question. So let me start with the culture part first. The one thing we noticed as we went into due diligence was their culture was pretty similar to us. They had a lot of the attributes about being very customer focused, being very focused around their growth. Their BD culture was almost identical to ours, which frankly, when you started into those conversations—in fact, that's part of the conversation we are having today. They are so like ours that we have a tough time discerning between the two. So we are excited about that playing forward.

But, honestly, it really had to do with the quality of the kinds of people that were there—the kinds of dialogue we are able to have. We didn't see that—as opposed to acquiring somebody like Six3 and putting them into a factory-like environment, like where I spent most of my career. Very different sort of vibe. So I would just compare and contrast that for you, Brian.

Next, on the 14 percent margin, I think there's a couple things. Let's go back to the kind of work that they are doing today. Today, largely, a big part of their work is very unique—obviously very classified. So it kind of skimmed the surface about what their capabilities are. But that work, the work that those activities are really looking into, is expanding at a pretty large rate with regard to the need for it across the U.S. Government space. A lot of their work today is so specialized it comes sole-sourced because there aren't any other sources for it. I'd expect that to continue, just frankly, because of the speed at which new capabilities and new solutions are required to be – to come up with.

Obviously they on the – there's a portion of their business that's services business like ours. I think it probably goes through the same pressure cycle that the industry is going through on the professional services side. But frankly, they've been pretty adept over the past several years at growing that business as well.

So I couldn't be more pleased about how to have them so we can fully address the cyber challenges that are going on in the nation and, frankly, amongst our allies. So, hopefully, that gives you some insight into that, Brian.

Brian Gesuale: That's great, thanks so much, Ken.

Ken Asbury: You're welcome, thank you.

Operator: I am showing no further questions in the queue and would like to turn the conference back for any further remarks.

CEO CLOSING REMARKS

Ken Asbury: Janine, thank you. I thank everybody on the call today for your interest and I hope everybody has a great day. Thank you. We will be looking forward to talking to you in the future.

Operator: Ladies and gentlemen, thank you for your participation. This does conclude the conference. And you may all disconnect. Everyone have a great day.

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