CACI INTERNATIONAL INC
Moderator: Ken Asbury
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Operator: Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Third Quarter Fiscal Year 2014 Conference Call. Today's call is being recorded. At this time, all lines are in a listen-only mode. Later, we will announce the opportunity for questions and instructions will be given at that time. If you should need assistance during the call, please press star then zero 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 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

David Dragics: Thanks, Kevin, and good morning, ladies and gentlemen. I am Dave Dragics, Senior Vice President of Investor Relations of CACI International, and we're very pleased that you're able to participate with us today. And as is our practice, we are providing presentation slides, so let's move to Slide 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. These statements reflect our views as of today and are subject to important factors that could cause our actual results to differ materially from anticipated results. The 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 also 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.

Finally, as we here at CACI are in the midst of our planning process for Fiscal Year '15, we would ask that you limit your questions today to our third quarter results and our outlook for the remainder of FY '14. At the end June, we will be issuing our annual guidance and be in a much better position to discuss our outlook for FY '15 at that time.

Let's 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. Thank you for joining us. With me this morning are John Mengucci, our Chief Operating Officer and President of U.S. Operations; Tom Mutryn, our Chief Financial Officer; and Greg Bradford, Chief Executive of CACI Limited, is joining us from the U.K.

Slide 4, please. Last night, we released our third quarter results. They are in line with our expectations, and we are reiterating our guidance for the remainder of the fiscal year. We generated strong cash flow, continued to deliver excellent program performance to our customers, and experienced solid contract award activities in an uncertain and highly competitive market. The integration of Six3 Systems is progressing well, and the Six3 team is performing according to our expectations.

Let's turn to Slide 5, please. The environment in which we operate remains challenging, both domestically and internationally. We have seen little change in customer buying behaviors since passage of the bipartisan budget agreement. Awards continue to be delayed and run rates on our professional services business continue to see pressure.

As we have noted on many of these calls in the past, the world remains a dangerous place. Within the past month, global dynamics have shifted markedly. In the Pacific, rising tensions on the Korean Peninsula and China's growing assertiveness have caused significant concern to our allies and friends. Simultaneously, the U.S. and Russia are in the midst of the most serious confrontation since the end of the Cold War.

These global flashpoints compound the burden of our customers who are already buffeted by an uncommon series of internal and external challenges, budget cuts, sequestration's potential return in FY '16, reset of the National Defense Strategy, the future scope of the mission in Afghanistan, and difficult choices regarding investments in people and technology. We all know that what's at stake is the long-term security of our nation. Given these circumstances, we are confident the government will continue to rely on the sophisticated solutions and services we provide.

In this uncertain and highly competitive market, we are capturing more business, which is reflected in the significant year-over-year increase in contract awards. Over 1/4 of those wins are new business for us. And we are retaining our current work through the sustained delivery of value to our customers. Our team's skill, talent and expertise are indispensable to the development and delivery of innovative and affordable solutions, services and products that align with our customers' spending priorities.

With Six3 Systems as part of CACI, we are now positioned to expand our support to those customers who are charged with staying abreast of potential adversaries' evolving capabilities and safeguarding the nation's ability to operate across the electromagnetic spectrum. Six3's highly specialized signals intelligence and cyber products and solutions are viable to national defense, and positions CACI to play a larger role in this important growing area.

Looking forward, we're confident in our strategy. It is producing solid results and positions us to create long-term value for our shareholders.

With that, I'd like to ask Tom Mutryn to give us some insight into our financials. Tom?

FINANCIAL OVERVIEW

Tom Mutyrn: Thank you, Ken, and good morning, everyone. Let's go to Slide 6.

We are pleased with the strong cash flow we generated, the awards we won, and the solid funding we received during the quarter. For the quarter, CACI's revenue was slightly below last year's level. As we indicated on our call in April, this decline is primarily driven by reductions in run rate on existing contracts and reductions in low-margin material purchases related to work we have in Afghanistan.

Indirect costs and selling expenses include a full quarter of Six3's indirect expenses and about $3 million of severance expenses. We expect our indirect and selling expenses to be lower in our fourth quarter due to the sequential positive impact to the severance expense and certain expense actions we took in quarter three.

Depreciation and amortization expense increased primarily as the result of the amortization associated with the Six3 acquisition.

For the quarter, Six3 generated $7.1 million of net income from their ongoing operation, and $3 million of net income including intangible amortization in acquisition-related retention expenses.

Slide 7, please. Our diluted share count and earnings per share were impacted by the additional shares associated with our convertible debt. Today, May 1st, we are paying $300 million of principal and accrued interest to the holders of the notes. At the same time, we are issuing approximately 1.43 million shares of CACI's stock to the convert holders, which will be fully offset by shares we receive from the bond hedged counterparties. Recall that the shares we expected to receive from the bond hedge were considered anti-dilutive and never entered into our diluted earnings per share calculation. Exiting the year, we expect to have about 24 million diluted shares, assuming a $70 stock price.

Slide 8, please. We generated strong cash flow in the quarter of $102 million. This was the result of strong collections, with some customers paying earlier than we had expected. On a trailing 12-month basis, the free cash flow was $239 million or $9.53 per diluted share. This translates into free cash flow yield of 13.6 percent at a share price of $70.

With $1.3 billion of total debt, our net debt to pro forma EBITDA ratio, which includes 6 months of Six3's results, is at 3.5 times.

Slide 9, please. We are reiterating the guidance we issued in early April. Fourth quarter net income results will benefit from an additional billing day, higher award fees, lower interest expense and additional high-margin product sales.

With that, let me turn the call over to John.

OPERATIONS OVERVIEW

John Mengucci: Thanks, Tom. I'm pleased to say that our third quarter results were driven by successfully executing our strategy in a difficult market environment. We continue to invest in new technologies and capabilities and appropriately size our organization, delivering affordability for our customers.

Let's go to Slide 10. We won $700 million of contract awards, which is 26 percent higher than the same period last year. Twenty-seven percent of those awards came from new business wins and approximately 1/3 are in our high-growth market areas. Overall, we are proud of our Q3 awards as they reflect the cost-effective quality and value we consistently deliver.

We also booked $794 million of funding orders in Q3, which is 21 percent higher than the same period last year. This brings our funded backlog to $1.6 billion. We currently have on contract total backlog of $7.3 billion, which is 24 months of backlog at our current revenue run rate.

Please go to Slide 11. I am pleased to report our FY '14 revenue guidance now consists of 99 percent existing business and minimal recompetes and new business. In addition, with the $794 million of funding orders received in Q3, we are virtually 100 percent funded for the remainder of FY '14. This is a direct result of the important missions we serve and the levels of funding those missions continue to receive, even in a tough budget environment.

Six3 is performing consistent with our original expectations. We are progressing toward full integration of CACI and Six3 no later than July 1, the start of our Fiscal Year '15. At that time, we will begin including Six3 contributions to backlog, pending contract awards and bids to current submitted bids.

Our pending contract awards total approximately $7.3 billion. Approximately 75 percent of those pending awards are new business for CACI. In addition, we plan to submit another $9.3 billion in qualified opportunities that we will bid over the next six months, reflecting our large addressable market. Eighty percent of those bids will be for new business.

Our focus on business development and the integration of Six3, to maximize its value to the CACI enterprise, remains a priority. We are confident in our market-driven strategy and committed to support what will continue to be enduring missions in support of our nation.

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

CEO CLOSING COMMENTS

Ken Asbury: Thank you very much for that, Tom and John. Slide 12, please.

Before we go to Q&A, I would like to reiterate my confidence in CACI's future. We continue to execute our three-part strategy – win new business, drive operational excellence, and deploy capital for growth opportunities through our M&A program. Our strategy is showing results, which we can see in strong contract awards, cash flow, and the successful integration of Six3 into CACI. We are in the process of building our FY '15 plan, and as is our custom, we will provide guidance on FY '15 at the end of June.

I want to personally thank everyone on the CACI team for their talent, resilience and outstanding character in serving our customers and supporting our strategy. We have an exceptional team here who share a deep commitment to our customers' national security missions.

We also share a commitment to supporting military men and women with career opportunities when they enter civilian life. We are honored that Military Times has just ranked us number three in the nation in their “Best for Vets” survey based on our program for actively recruiting, hiring, and mentoring veterans. Looking ahead, we are harnessing the strength of our remarkable people and building on the fundamentals of our business for long-term shareholder value.

With that, Kevin, let's open up the call to questions.

Operator: Ladies and gentlemen, if you have a question or a comment at this time, please press the star then the one key on your touch-tone telephone. If your question has been answered and you wish to remove yourself from the queue, please press the pound key. And we also ask that you limit yourself to one question and one follow-up, and feel free to get back in the queue.

Our first question comes from Brian Gesuale with Raymond James.

QUESTION ON THE EXPECTED PERFORMANCE OF THE SIX3 ACQUISITION FOR THE BALANCE OF FY14

Brian Gesuale: Guys, thanks for taking my questions here.

Ken Asbury: Good morning, Brian.

Brian Gesuale: I wanted to focus initially on Six3's performance, confirming that it's still slated for doing $275 million to $325 million in revenue for the fiscal year. Wondering if you could confirm that and add some color to the moving parts with that business—assume there are some products or something else that drive an acceleration in revenue in the June quarter.

John Mengucci: Brian, thanks. This is John. If I were to look at – I guess let me start off with – if I look at Q3 of their Fiscal Year '13 as it compares to the FY '14 quarter, revenue was slightly down, profits slightly up.

So as we previously noted, Six3's business consists of intelligence services in addition to their high-value products and solutions in the signal intel in the cyber areas. Very similar to CACI's core business, and I think we mentioned this during our last call, Six3's intel services business is not immune to the uncertainties in our market and has been impacted by both run rate changes and delays in their current contract awards.

In addition, we're seeing the impact of a program awarded to Six3 actually going to its second round of protest by an unsuccessful bidder. The product and solutions side of their business did see some of these impacts, but to a much lesser extent. In fact, it's these high-margin, firm fixed price, prime position solution projects that made Six3 so appealing to us as an acquisition.

So while Six3 is likely to close our FY '14 closer to the lower end—closer to the $275 million range of our expectations—their profit contribution still remains healthy. And they have many, many long-term prospects across their entire portfolio.

Brian, if I were to look sequentially, then, at growth from our current Q3 to Q4, we're very comfortable with Six3's Q4 forecast. The revenue increase is part of their natural phase of product and projects delivered in Q4, as well as a few product deliveries that actually pushed from our Q3 into Q4. These are all booked awards, not something that needs to be won.

If I look at the net income side, similar to CACI's core business, they have some increased product sales that they're going to be delivering in Q4. If you add that to the extra billing day in Q4, that will contribute to their sequential growth on the net income side. So, overall, very, very, very confident in them meeting expectations, albeit on the lower end of the revenue side. A very strong profitable and long-term growing business.

QUESTION ON HOW CACI MANAGEMENT VIEWS THE CURRENT AWARD ENVIRONMENT

Brian Gesuale: Great, John. That's great color there. Wondering if you could comment, a competitor last night had spoken about a resurgence in business development activity, a real prospect for a bottoming of the industry and a pickup in award activity. Can you just maybe comment on how you see that macro?

Ken Asbury: Hey, Brian, good morning. This is Ken. I'll take this one. In the opening remarks, we've seen – we've continued to see the same sort of behavior. We had anticipated that the Ryan/Murray bill would kind of take some of the tension out of, or at least speed up, some of the award activity. The award activity that we've spoken of here, where we've won more, is really based on sort of doing better in improving our whole process around pursuing and capturing business. We have not seen a change, a significant change in award activity on the part of the customer.

You know, from – while we don't want to get into '15, and we'll talk more about that in June, there are some things that we do see. Ryan/Murray should add some money into this year and into next, however, with our customers' attention now being drawn to other parts of the world, and we're not sure how all that plays out. So, we think the conditions that we see today and we've been experiencing for the next 13 months will slowly attenuate, but we don't see a big change in front of us right now.

Brian Gesuale: Thanks very much, guys.

Operator: Our next question comes from Bill Loomis with Stifel.

QUESTION ON WHY AWARDS HAVE NOT CONVERTED TO REVENUE

Bill Loomis: Thank you. Good morning. Just – you talked about how you're not seeing a pickup in bids but when I look at CACI and I look at the awards in the quarter, obviously they are very good—better than the others that have reported. Your TTM awards have over 1.0 book-to-bill, your backlog's flat year-over-year, which is better than, quite a bit better than, most reporting but yet your organic growth in the quarter was down about 12 percent. If the awards are – even though they haven't picked up, per what you said, Ken, they're still good and better than what we're seeing generally in the space. Why isn't organic growth either declining less or starting to turn? Are they just what you've won just not ramping up?

Ken Asbury: Yes, Bill, thanks. Look, I think there's really a factor here that says the overall budget has been reduced, and we're seeing the impact of that. If we were winning – if our capture rates were in a more normal market where we were seeing government awards on schedule, I think we probably would be sort of matching the decline. But, with the slowness of contract awards, we're still winning more than this year over last year—a fairly healthy improvement in capturing dollars.

We're seeing the run rate impacts along with the contract delays just give us a problem. Once that begins to normalize, in other words – let me say the stability word, if we see some stability, let alone some optimism about more spending, then I think we've situated ourselves in a very good place.

But for right now, given the sort of dynamics of budget reduction and reluctance of customers to spend even when they're funded, as we talked about a month ago, we'll continue to emphasize our business development. But the environment has got to sort of level out before I think we get to see the full advantage of that.

QUESTION ON WHAT CONTRIBUTED TO THE NEGATIVE ORGANIC REVENUE GROWTH IN THE THIRD QUARTER

Bill Loomis: Ken, just a follow-up to that. On the 12 percent negative organic growth, can you just clarify how much was material pass-through reductions and what the remainder was? And then kind of related to that, what the organic direct labor change was in the quarter? Thank you.

Tom Mutyrn: Yes, Bill, this is Tom. Similar to the second quarter, we had organic declines in both ODCs and indirect labor. Direct labor organic decline was approximately 10 percent, and our other direct costs, which is not only material, there's subcontractor labor in that statistic as well, was down approximately 15 percent. But the significant decline was the Afghan-related material purchases, which we previously referenced.

Operator: Thank you. Our next question comes from Edward Caso with Wells Fargo.

QUESTION ON THE MIX OF NEW BUSINESS RECEIVED AND CURRENT PRICING PRESSURE

Ed Caso: Hi, good morning. I was curious on the 20 percent new business. How much of that is green field work? And how much of that is taking business from others? And within that context, how sensitive is the pricing?

John Mengucci: Bill, this is – or Ed, sorry, this is John. If I take a look at that, the majority of the 20 percent, which was new business, was takeaway from others. On the price sensitivity, we're still seeing a lot of pricing pressures. We've been working on the investment side, working on the cost structure side, so that our ability to bid to our end customer at lower price wasn't just a pure reduction in fee. But still exists a lot of pricing pressures out there—still seeing a larger share of LPTA out there as well.

QUESTION ON THE SEVERANCE EXPENSE IN THE THIRD QUARTER

Ed Caso: Great. My other question is – I want to make sure I understand the severance comments. Is that related to Six3 personnel, including the movement of Bob Coleman to an advisor role? Or is that severance efforts elsewhere in the organization?

Tom Mutyrn: Yes, it's the latter. The severance is elsewhere in the organization. None of that was really related to Six3.

Operator: Thank you. Our next question comes from Robert Spingarn with Credit Suisse.

QUESTION ON EXPECTED BOOK-TO-BILL RATIO IN THE FOURTH QUARTER

Rob Spingarn: Thanks. Was wondering if you guys could talk about your expected book-to-bill this quarter. Ken, this is in the context of what you just said about the activity not ramping materially off of recent periods. But I'm just wondering if we're going to be looking at like 0.88 again here in the quarter?

Ken Asbury: Rob, thanks. This is Ken. And I think what we expect is to continue at the same sort of award rate that we've seen over the last few quarters. You know, if I look at January and February, in terms of just using DoD as a surrogate for the federal government, their spending was down almost – they were 48 percent of the previous two years. We saw that tick-up in March. I haven't seen the April numbers yet to know that spending is—that the trend has begun to improve. We know there is more money in the system as a result of Ryan/Murray. We don't know when that will show up, and frankly, we don't know when that is.

So, my being a little bit conservative, I'm going to say I'm pretty confident that we'll continue to win at the same kind of rate that we have. And if there is an uptick in spending, there's an uptick in contract awards, I think we'll continue to win a bigger share of that. So, as to how that translates to book-to-bill, I would say nominally. Think of it as we have done for the last three quarters. And if there's any upside to that, I think we welcome it.

QUESTION ON EXPECTED GROWTH FOR THE SIX3 ACQUISITION IN THE FOURTH QUARTER OF FY14

Rob Spingarn: OK. And then if we could just spend a minute on Six3 and the revenue decline. Because it looks like that is now since acquisition—$49 million in sales in the partial December quarter and then the $104 million in the March quarter here—that your guidance then implies $122 million at the low end for the June quarter, which is a pretty good size step-up. So, you know, you've talked a little bit about the moving pieces there. I'd be curious to know the revenues from the protested contract and just how you get there? And at what point we should expect positive revenue growth in Six3 closer to the type of teens growth we saw when you acquired it?

John Mengucci: Yes, Rob, this is John. You're – a number of $122 million, you know, spot-on there. You know, their fourth quarter is very heavy in product deliveries. So, we're confident in getting from roughly the $105 million level to the $125 million level between Q3 and Q4.

You've mentioned the protested contract. That is being adjudicated now. I'm going to elect to not share what the revenue number is. But it was a factor in Q3 being a little bit lower than we had originally expected. I'm not sure that that job will get fully adjudicated by the end of our Q4, but it was yet one factor that we wanted to make people aware of.

You know, overall, Six3 is in a very large, growing market for us in the signals and intell space and within the cyberspace. That area continues to grow. It's somewhat being offset by the intell services piece. But overall, we're very, very pleased with what we've seen in the first 7.5 months. We're in the middle of fully integrating Six3 into CACI. We like the products and services that the product side has. We've got 160 multi IDIQs, and we're just starting to understand other customers out there that have the same need. So, you know, we're looking for better things in the future from that very sound acquisition.

Operator: Thank you. Our next question comes from Lucy Guo with Cowen and Co.

QUESTION ON THE SIX3 PRODUCT SALES

Lucy Guo: Good morning. This is Lucy calling in for Cai Von Rumohr. I just wanted to ask – so there were some product sales at Six3 that slipped from Q3 to Q4, it sounds like. Was that contracts that weren't adjudicated that you just referred to? And then what kind of margins, approximately, were on that?

John Mengucci: Yes, thanks, Lucy. This is John. You know, some of those slips were customer directed, looking to have some of those products be delivered at a slightly later time. If we look at margins across Six3, they're somewhere in the roughly the 13 percent to 14 percent EBITDA range across the business. That's well within our expectations that we announced back in October, and we're still seeing them create those margins today.

QUESTION ON THE PROSPECT FOR AWARDS IN THE FOURTH QUARTER OF FY14

Lucy Guo: Great. And then also maybe if you can give a little bit more color on your bookings prospects for the June quarter, specifically. What do you expect there?

John Mengucci: Tom?

Ken Asbury: Lucy, I think we expect sort of similar run rate based on the conditions. We're not forecasting that our fourth quarter is going to be any better than the third quarter. I would say that it would be similar.

Tom Mutryn: Yes, it's always been a challenge to do a lot of different things, but one is you need to forecast bookings, and there is certain choppiness in awards. And in particular, we recently received an award that was submitted over three or four years ago. So, it's challenging to predict that.

And the funding is a little bit more predictable because we have existing work, and existing work needs to be funded for us to continue to perform that work. At the last quarter of the government fiscal year, typically, we see huge surge in funding ourselves and the rest of the industry, and that has been a fact for many, many years. But for a particular quarter, it's challenging, and we're reluctant to lean forward in making those predictions.

Operator: Thank you. Our next question comes from Steven Cahall with Royal Bank of Canada.

QUESTION ON DEPARTMENT OF DEFENSE SALES FOR CORE CACI IN THE THIRD QUARTER OF FY14

Steve Cahall: Thank you. My first question is just on the non-Six3 defense sales. It looks like to me they were down sort of high teens in the quarter and suggest maybe similar next quarter. Can you give us a sense of what the OCONUS versus CONUS declines were because that's something you have flagged in the preannounce? And if we had a signature of the Status of Forces of Agreement, would that be a positive event for maybe the OCONUS revenue in the pass-through in Q4?

John Mengucci: OK, Steve, thanks. This is John. I guess if I look at the same factors that were evident to our call about a month back still exist today—still looking at similar run rate reductions. The actual change in our Afghanistan revenue has not changed since our last call. I believe we reduced our low-margin material ODCs by around $50 million. That number is still solid as we look forward to the fourth quarter.

You know, status of forces, there's a lot of U.S. government decisions that still need to be made. We don't see any threats to our OCONUS work, Afghanistan-related to the fourth quarter. Clearly, we're just starting to take a look at our FY '15, and we'll take a look at the U.S. government providing some additional certainty around what the status of forces will be, and that will be very evident in our FY '15 guidance that we share towards the end of June.

QUESTION ON THE INCREASE IN DIRECT LABOR IN THE THIRD QUARTER OF FY14

Steve Cahall: OK, thank you. And then just as a follow-on, just a question on the direct labor in the quarter, we're seeing a nice step-up in percentage of direct labor. I know you're not giving FY '15 guidance yet, but with now Six3 fully in the business, is that sort of reasonable run rate percentages to think about for direct labor? Or is there still a lot of unpredictability in what that will be?

Tom Mutyrn: Yes, you're right, we are not providing guidance for FY '15. And the increase in direct labor in the quarter was driven by the acquisition of Six3. Organic direct labor, as I mentioned, kind of was down. Too early for us to comment on FY '15 trends with direct labor for the simple fact that we're unable to do it with any level of fidelity and confidence right now. We're in the process of kind of reviewing our plans. A lot of work has been done, but we have yet to go through that in a thorough review, and it would be imprudent right now for us to comment upon these numbers until we have a degree of confidence in them. So, we are reluctantly are passing on that question.

Operator: Thank you. Our next question comes from Brian Kinstlinger from Sidoti.

QUESTION ON WHETHER SIX3 WILL ACHIEVE THE 5% INCREASE IN GAAP EARNINGS IN CALENDAR YEAR '14

Brian Kinstlinger: When you acquired Six3, you had forecasted it would add about 5 percent to GAAP earnings. I think in the first full quarter you added about half that to total quarterly earnings. Can you talk about if you expect going forward, you can – this company will still add about 5 percent to GAAP earnings, or has something changed?

Tom Mutyrn: Yes, Brian, this is Tom. For the second half of '14, excluding the retention expenses—we put in some advisable retention programs to retain some key people—that will generate at least 5 percent accretion for our third and fourth quarter. And beyond that, given all the things we've been expecting, it should be additional accretion. And I will mention that 5 percent GAAP accretion includes a relatively sizable non-cash intangible amortization charge. On a cash basis, which is, in my mind, more relevant, it would be generating at least 10 percent accretion for the back half of FY '14.

Brian Kinstlinger: So, with that said, in Fiscal '15, it should be about 5 percent of GAAP earnings, including the amortization?

Tom Mutyrn: It would seem – yes. We would expect it to perform better because it's a strong, growing company, and if it was adding 5 percent in the back half of '14, for all of '15, it should be adding more than that. Yes.

Operator: Thank you. Our next question comes from Tobey Sommers, SunTrust.

QUESTION ON THE MIX OF CONTRACT FUNDING AND AWARDS FOR THE SIX3 ACQUISITION

Frank Atkins: This is Frank in for Tobey. I wanted to see if I could get some color on the breakdown of contract funding and awards related to Six3 or excluding Six3, just kind of the balance there?

John Mengucci: Yes, Frank, this is John. We haven't yet moved Six3 as part of our standard bids submitted, bids awarded, percentage of our market—some of those traditional metrics that you all have become accustomed to hearing us share on a quarter-by-quarter basis. We will be adding them on July 1st, as we get into our FY '15 side. What we have been doing on the backlog side is we've been adding Six3 backlog equivalent to their current quarter revenue just so we could start to begin that process. But you will see us provide full CACI metrics, including Six3, when we get into our FY '15.

QUESTION ON THE PERCENTAGE OF SIX3'S BUSINESS THAT IS CYBER AND INTELLIGENCE-RELATED AND THE MARGIN PROFILE

Frank Atkins: OK, great. And one more question, on the cyber and intelligence side, what percentage of the business is that? And is anything changing in terms of the margin profile? Are you seeing any pricing pressure in cyber or intelligence at this point?

Ken Asbury: Yes, Tobey, this is Ken. That part of the business is approximately 65 percent, 70 percent of the business—kind of heavy on the solutions side with some product orientation. A lot of that is sole-source and fixed-price. And while we have seen some customers come in and want a little bit more economy, I think it's just – we have not seen much of a change in the fixed priced nature and sole-source nature of a big slug of that business. So, we'll probably see a little bit of pressure but it's still in the double-digit range that John was talking about before.

Operator: Thank you. Our next question comes from Mark Jordan, Global Financial.

QUESTION ON THE MIX OF NEW BUSINESS BEING BID THAT ALREADY HAS AN INCUMBENT

Mark Jordan: Of the $7.3 billion of bids that have been submitted, what percent of that new business has an incumbent and what percent of that represents new task where there is not an incumbent?

Ken Asbury: Mark, this is Ken, I'll take that. I mean, typically in this marketplace, we're seeing 90 percent to 95 percent incumbency, because we haven't seen a great deal of new starts. If we see some new starts, we'll see it in the healthcare arena. We'll see it in the markets that are typically the higher growth kind of markets. But for the most part, the kind of market that we're playing in right now is, with the exception of the work at Six3, which would be new start kind of problem – or the product and solutions side—a new start kind of problems. The typical work that we're going after usually has an incumbent in it.

QUESTION ON WHETHER SUBMITTED BIDS WILL BE AWARDED BY THE END OF CY 2014

Mark Jordan: OK. Relative to that $6.3 billion of submitted bids, how much of that do you think will be awarded by calendar year-end? And how would you sort of gauge your visibility of when you think those decisions will be made?

Ken Asbury: Yes, Mark, you know, some of that $7.3 billion that's in pending awards now should have been awarded last year. And so, the ability to predict when that's, when those are coming out, we – part of what we've been describing as the environment with contract delays is the government puts a procurement plan out. We kind of factor it. You know, last year, I think, or in previous calls, we have talked about how we add six months to it. Some customers may be four months late, other customers may be 12 months late.

As we look at '15, we're going to try refine our practice for doing that. But as far as predicting when those $7.3 billion—I'd love if all those $7.3 billion got adjudicated in the next 30 days because I think we would win more than our fair share of it. But it's sort of one of the uncertainties that are symptomatic of the marketplace right now—being able to predict when those awards will come in.

Operator: Thank you. Again, ladies and gentlemen, if you have a question or comment at this time, please press the star then the one key on your touch-tone telephone.

Our next question comes from Joe Nadol with JP Morgan.

QUESTION ON THE TREND LINE FOR THE SIX3 FUNDED BACKLOG

Chris Sands: Yes, this is actually Chris Sands on for Joe. Just a quick question on the Six3 backlogs. Since you're not including it, can you at least give us an insight into what the sequential and maybe year-over-year trend and funded backlog was there?

John Mengucci: Chris, this is John. I can't give you an exact number. But let me try to help shape it for you. You know, their services side of the business is about 25 percent of the year-to-year revenue. That's going to have an award and a funding look very similar to the services side of CACI. On the other 75 percent of their work, which is more fixed-price, product solutions base, that's more longer term where you'll see awards made—one to two years worth of funding. A larger percent of that funding coming upfront, Chris, so that's a little bit different than some of the solutions work that CACI does today. So, trying to give you some level of shaping, and again when we get to July 1st, that will – all of that information will be part of the CACI numbers.

Chris Sands: So, the 75 percent is just chunkier is what you're getting at.

John Mengucci: Yes.

Chris Sands: So the awards in any given quarter might be lower?

John Mengucci: Absolutely right, Chris.

Chris Sands: And so, fair to say that the kind of book-to-bill for Six3 in the quarter was probably lower than the overall company?

John Mengucci: Yes. I mean what we'd have to do is take a look at which specific funding orders came in so we can come up with the specific book-to-bill number. But, you know, overall, I think if we use that 75/25, at least to get us through the fourth quarter, then we'll be to much more of an exact number as we get into FY '15.

Chris Sands: OK, great. Thanks, guys.

Operator: And I'm not showing any further questions at this time. I'd like to turn the conference back over to our host.

CEO CLOSING REMARKS

Ken Asbury: OK, thanks, Kevin. Thanks for your help today on the call. We would like to thank everybody who dialed in or logged on to the webcast for their participation and interest as well. We know that many of you will have follow-up questions, and Tom Mutryn, Dave Dragics, and Jeff Christensen are available for calls later this morning and throughout the day.

So this concludes our call. Thank you and I wish all of you a very good day.

Operator: Ladies and gentlemen, that concludes today's presentation. You may now disconnect and have a wonderful day.

END