CACI INTERNATIONAL INC.
Moderator: Ken Asbury
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8:30 a.m. ET

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the CACI International First Quarter Fiscal Year 2015 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 star 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 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

David Dragics: Thanks, Michelle, and good morning, ladies and gentlemen. I'm 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 number two.

Now turning to our written and oral disclosures and commentary, there will be statements in this call that do not address historical facts 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.

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.

And 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 turn to slide number three and open up our discussion this morning. Here's Ken Asbury, President and Chief Executive Officer of CACI International. Ken?

CEO OVERVIEW

Ken Asbury: Well, thank you, Dave, and good morning, everyone. Thank you for joining us to discuss CACI International's 2015 first quarter results. 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, who is joining us from the U.K.

Please turn to Slide four in the package, please. Last night, we released our results for first quarter of 2015. I'm very pleased with our strong contract awards, solid net income and good cash flow. We also expanded our workforce starting in the first quarter, adding over 1,300 new employees in response to a major change in how the Office of Personnel Management contracts for background checks. CACI has supported OPM in this critical national security mission since 2004. OPM's decision to significantly increase the volume of background investigations we perform reflects the trust we've earned through a decade of stellar performance and our reputation for integrity and ethics.

Our growth strategy is to win business and deliver operational excellence. We won a record level of awards in this first quarter, validating the investments we made in business development. We are focused on fewer bids with higher financial and strategic payoff.

Our success demonstrates the value of long-term thinking. Quite a few of our new awards took a year or more of patient, consistent effort to win. Our plan for the year calls for significant new business and our level of awards this quarter positions us well to meet that plan. Our expanded work, proven business development results and healthy new business pipeline give us the confidence to reiterate guidance for fiscal year 2015.

Let's turn to Slide five, please. Let me take a moment to explain the key strategic factors that shape our customers' behaviors, priorities and requirements. We operate in a somewhat turbulent environment. The U.S. government is under a continuing resolution until December of 2014. Congress recessed without voting on a budget or a National Defense Authorization Act. Sequestration remains the law of the land. And unless the new Congress acts to repeal it, the law will come back into full effect next October.

Inevitably, these imperatives shape how our customers plan, program, budget and to obligate funds. These factors also determine the pace and scope of contract awards and account for the delays in bridging we have experienced and that we expect to continue to see in the future.

In Afghanistan, a Bilateral Security Agreement is finally in place. The BSA provides a more certain planning environment for our customers. We are assessing the implications of the BSA for CACI.

Let me also highlight three additional global situations that will impact – that impact our customers and our markets. First, U.S. forces are engaged in combat operations against the Islamic state in Syria and Iraq. Second, the U.S. has committed land, air and sea resources to deter further Russian aggression in Eastern Europe. And third, we face the largest outbreak of Ebola in recorded history, which puts national response mechanisms to the test. In all of these situations, we stand ready to deliver the kind of sophisticated, affordable solutions and services our customers may require.

Going forward, we will continue to execute our strategy of winning high-value contracts, delivering excellence to our customers and deploying our capital for further growth. We have a healthy new business pipeline and a solid platform for growth. I'm very proud of our performance and confident in our competitive position. With that, let me turn the call over to Tom to present our financials for the quarter. Tom?

FINANCIAL OVERVIEW

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

We are pleased with this quarter's strong cash flow, record awards and solid earnings. Revenue was down 5.7 percent year-over-year, with a 3.8 percent higher direct labor, more than offset by a 21 percent decline in lower margin subcontractor labor and material other direct costs. Indirect costs and selling expenses for the quarter were higher than last year as a result of higher indirect labor and higher fringe expense on increased direct labor, along with higher Six3 fringe expense rates. Depreciation and amortization increased primarily as a result of the amortization associated with the Six3 acquisition.

Diluted earnings per share were $1.29, down 2.8 percent from last year, driven by higher amortization and interest expenses. Our first quarter diluted adjusted earnings per share, reconciled for certain noncash items, were $1.81, or 40 percent greater than our GAAP earnings per share.

Slide seven, please. For the quarter, Six3 generated $90 million of revenue, lower than the levels we have seen in the past few quarters. The lower revenue is due to reductions in the run rate of their services business, much of this related to work in Southwest Asia, lower subcontractor and material purchases, some unsuccessful takeaways, and delays in contract award activity.

Let me also point out that some of the Six3 business is system and product based, and, as a result, tends to be lumpy. That said, we continue to expect the acquisition to be at least five percent accretive to our GAAP earnings per share, and at least 10 percent accretive to cash earnings per share in Calendar '14, excluding transaction expenses. Six3 revenue for our Fiscal 2015 is expected to increase in the low single digits year-over-year, and operating profit is expected to increase in the mid-single digits.

Slide eight, please. We generated unusually strong cash flow of $112 million for the quarter, driven in large part by lower receivables. Trailing 12 months free cash flow was $267 million, and our annualized free cash flow yield per share is 15 percent at a $74 share price.

With $1.1 billion of net debt, our net debt to trailing 12-month EBITDA leverage ratio is 3.4 times. We have reduced our borrowings by close to $250 million from the peak level when we closed the Six3 acquisition last November.

Slide nine, please. We are reiterating our Fiscal Year '15 guidance which we provided in mid-August. While there may be some upside to the operating cash flow, we are maintaining our guidance of at least $200 million as a result of possible fluctuations in DSOs due to the variability in payment practices of the government payment offices.

Slide 10, please. As Ken mentioned, we are excited about the work we are doing to support OPM. For this contract, individual cases take anywhere between a few days and several months to complete. We recognize revenue as completed case files are submitted to the customer. As a result, we will be incurring the full expenses of our 1,300 additional investigators and other support personnel, as well as certain startup expenses in our second quarter, but realizing only a small amount of the associated revenue. The impact will be a reduction of net income of about $7 million to $8 million in our second quarter, compared to what it would have been without the additional OPM work. OPM profitability is expected to reach a steady state in our fourth quarter with the expenses and revenue both at normal caseload levels. We are maintaining full year guidance, which implies that our fourth quarter will be strong as our recent wins, some that are going through protest periods, fully ramp up.

With that, I'll turn the call over to John.

OPERATIONS OVERVIEW

John Mengucci: Thanks, Tom. Let's go to Slide 11, please. I'm pleased with CACI's ability to deliver in a challenging environment. Our strong contract awards and forward indicators position us to continue delivering on our Fiscal Year 2015 our plan.

To start, we had another quarter of higher gross profit and gross margin due primarily to an increase in direct labor, the most profitable part of our business. In addition, we won over $2.4 billion of contract awards in Q1, over 30 percent higher than a year ago, with about 40 percent from new business wins. Overall, these awards are well balanced between solutions and services and have higher direct labor content. This increase in direct labor, along with the investments we have made to ensure the affordability of our solutions, benefits our margins, helping to offset industry-wide pricing pressures. As a result, we believe we will maintain our operating margin in Fiscal Year '15 relative to last year.

We are proud of our first quarter contract awards. They reflect our disciplined business development actions, consistent operational excellence and high customer satisfaction. We won business in all 10 of our market areas with Business Systems, C4ISR, Enterprise IT and Intelligence making up the great majority of the $2.4 billion in awards. These new awards will begin to benefit our performance in the second half of Fiscal Year '15. This lag is due to the startup period for new work, the resolution of protests and the fact that most of them were awarded late in the September quarter.

We also received $1.3 billion in contract funding orders in the first quarter, a slight increase from a year ago. This brought our funded backlog to $2.1 billion at the end of September, a 34 percent increase from the end of June. The higher amount of contract funding orders we received in the quarter produced a book-to-bill ratio of 1.66x, making our trailing 12-month book-to-bill 1.04x. Total backlog is at $8.7 billion, a 12 percent increase from a year ago. That provides us an estimated 32 months of revenue at the September quarter revenue run rate.

Let's go to Slide 12, please. Our fiscal year revenue guidance in August consisted of 76 percent existing business revenue, 11 percent recompete and 13 percent from business that is new to CACI. I am pleased to report that with the completion of the September quarter, we have improved that position to 89 percent existing business revenue, five percent recompete and six percent new business at the midpoint of our Fiscal Year '15 revenue guidance range. This means we are currently executing on nearly 94 percent of our planned revenue for the year.

In addition, 71 percent of our existing business revenue is already funded, an increase from 52 percent at the time of our August call. This is a solid position and is a direct result of the important missions we serve and the levels of funding we continue to receive, even in this tough budget environment.

Our opportunity pipeline remains very strong. Our pending contract awards now total $8.7 billion, and 84 percent of those pending awards are for new business to CACI. In addition, we plan to submit another $13 billion in qualified opportunities that we will bid over the next six months. Sixty percent of those bids will be for new business to CACI. These qualified opportunities reflect our shop selection strategy, fewer pursuits and higher value of pursuits.

These forward indicators, together with the actions we have taken to enhance business development, our consistent delivery of operational excellence and cost effectiveness in delivering our solutions and services, we believe will continue to be key factors in achieving our Fiscal Year '15 guidance.

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

CEO CLOSING COMMENTS

Ken Asbury: Thanks, John and Tom, appreciate the comments this morning. Let's turn to Slide 13, please.

Overall, our first quarter performance positions us well for the rest of this fiscal year. We are pleased by how our three-part strategy is working. We refined our business development processes to win. We've continued to deliver exceptional program performance to our customers, and we deployed our capital for long-term growth opportunities. Our performance is a testament to that strategy.

In closing, I would like to thank CACI's remarkable employees for their hard work this quarter. Their performance has been exceptional and I am confident the CACI team will continue to exhibit the integrity, character, innovation and dedication necessary to support our customers and our nation's critical missions. Thank you very much for your time this morning, I look forward to your questions.

Michelle, let's open the call up for questions, please.

Operator: Ladies and gentlemen, if you would like to ask a question at this time, please press star then one on your touchtone telephone. Once again to ask a question that’s star then one.

Our first question comes from Bill Loomis of Stifel.

QUESTION ON WHY REVENUE GUIDANCE WAS NOT RAISED AS A RESULT OF STRONG AWARDS IN THE FIRST QUARTER

Bill Loomis: Looking at the slide on Slide 12 where you talked about the Fiscal '15 planned revenue, and then, obviously, in the context of the strong awards in the quarter. I guess what – because it seems like it was only one quarter down, momentum is continuing with awards in October. And this quarter, you talked about your submitted bids in the pipeline. It looks like it's at a record level. Are you just being cautious on – in terms at least the top line? I can understand the OPM margin pressure in the December quarter, as you talked about it. But it seems like – why isn't the revenue guidance going up? Or another way to say it, what could go wrong – what could put pressure on the business that we're not seeing right now?

Ken Asbury: Yes, Bill, this is Ken. Thanks for the question. First of all, right now our contract awards and the OPM kind of keeps us – if you look at the delay that we had at the beginning of the year with award generation, the customers were pretty slow in awarding. In fact, if you go back to government shutdown, we've seen a pretty slow set of award activities up until about the second week in September. So that's part and parcel of the first quarter revenue generation impact.

As Tom talked about, too, we are – there are some startup costs associated with OPM that we want to make sure that we understand completely. And right now, we think it is just a prudent course to stay within our revenue guidance and look at that, because all of this is a pretty newly developing set of circumstances. The awards came quickly and they came in large amounts, and we want to make sure that we understand how that plays out across the rest of the forecast for the year.

QUESTION ON CUSTOMER BEHAVIOR REGARDING STARTING AND FUNDING CONTRACTS

Bill Loomis: OK. And just playing – or staying with that theme and looking at what – how clients are behaving now. Are you seeing clients more willing to start up contracts that they awarded more quickly than, say, a year ago? I know there was some hesitation from customers even earlier this year or last year, even if you got the award to actually ramp up to that awards funding. What do you – is the behavior different now?

Ken Asbury: Yes. In fact, I think it is. There's a couple of factors around behavior. There's customer behavior and then there's sort of the industry behavior that's developing. Let me talk about customers first. I think customers have, in general, a different level of certainty about what their budgets are and how they can make their commitments. I mean, we're a long – we've had 18, 20 months now of sequestration. People have learned what – our customers have learned largely to adapt to that. The – I'm not ready to say that we're on the bandwagon for – we're going back to a normal award cycle yet, but we have seen, since the middle of September through the beginnings of – actually through until now, we've seen an increased level of award activity, and that's been largely favorable. And I think you're hearing that everywhere else.

With regard to the other impact, as we see customers where we win a job, yes, we go through a normal transition activity right now and it's not where there's much hesitancy as we saw, let's just say, a year ago. Obviously, impacted by some level of protest activity by competitors, particularly on the new work that we have seen. We've seen maybe 25 percent, 30 percent of the new work get protested, which also has to factor into our – the rest – the remaining year. We're confident in those. And I'll give – I'm going to flip this over to John for a second, Bill, to give you a little more insight into that.

John Mengucci: Yes, Bill, I think it's only fair to say in my discussions as we closed FY '14, we were looking at a lot of customer-directed, run rate reductions. What has been a pleasant mode for us getting through the first quarter is those levels of run rate reductions have slowed dramatically. And I would also add that in our Southwest Asia work and our Intel analyst work as well where we would have expected initial drawdowns, we are getting calls throughout the month of September and October about the potential of seeing some of that work start to come back in Q3 and Q4. So still a lot of uncertainty, but some very positive indicators as it pertains to run rate.

Operator: Our next question comes from Edward Caso of Wells Fargo.

QUESTION ON SIX3 SYSTEMS AWARD ACTIVITY IN FY14

Ed Caso: Just some clarification on the award activity. I believe this is the first quarter that Six3 is in, is that correct? And so is – can you give us the comparable to last year—either put it in or take it out, just so we have a better sense for what the core business has year-over-year?

Tom Mutryn: Yes, Ed, this is Tom. I don't have that number offhand. Six3, to put it into context, is probably 10 percent, 12 percent of our business. They're kind of are doing fine, we're very happy with their performance. If I look at the list of the awards that we received, a large number in the $50 million to $200 million range, most of those are legacy CACI.

John Mengucci: Ed, I might – I would also add there that if you look at our $2.4 billion worth of awards, Ken mentioned during his prepared remarks, it's about $1 billion worth of new, about $1 billion worth of mods to our existing business, and about $0.5 billion worth of recompetes. The majority of the Six3 work was in the mods to their current work. We're seeing additional request coming in for the higher-end bids and TGI work. So much – many more of our first quarter awards for Six3 would have been in the mods to existing versus new, if that helps.

QUESTION ON HOW PROTESTED AWARDS ARE HANDLED IN THE ANNOUNCED AWARD TOTAL

Ed Caso: Great. And can you also talk about the protest activity? You obviously have a lot of new wins. I assume that's almost all takeaways from somebody else. Many of those are then protested. How do you handle that in your award totals? What the history's been on winning protests, both as a protector as well as one trying to take them away?

Ken Asbury: Yes, this is Ken. As I mentioned, it's about – of the $1 billion, there's about $250 million to $300 million that's in protest. It's a handful of them. One of them actually is a giant IDIQ that's about to be – they're working their way through it and we've already won it. Other people are trying to get on it. So that's not even counted in those numbers. First of all in these award numbers, any IDIQ we've won is at 0 until we get a task order. So there are some single award task orders in there that are put in at full value. Those – but our history is – in particular the ones that we're looking at right now, we're pretty confident they're in the number of $2.4 billion because we are confident. If we were worried about them, we would have reduced that number.

Our history at this are, on the bigger jobs, they tend to be – customers tend to take a greater deal of care. Many of these have taken more than a year and half. A lot of that has been customer diligence in terms of how they've looked at the award activity. So looking forward, we're pretty confident those will be in our favor.

Ed Caso: Our next question comes from our Cai Von Rumohr of Cowen and Company.

QUESTIONS ON HOW CACI WILL MANAGE THE OPM CONTRACT WORK

Lucy Guo: It's Lucy calling in for Cai, I apologize. So wanted to ask a little bit more color on the OPM contract. Maybe if you can give a little more background on how you're able to take over the contract from USIS versus the other subcontractor on the program, KeyPoint, and whether, in the past, there's been some difficulty in hiring the direct labor required and there's some cost overruns and things like that. So I was wondering if – what your plans might be to run it more cost efficiently, and how many people are currently on the program?

Ken Asbury: Yes, Lucy, this is Ken. Let me take a shot at your questions this morning on OPM. First of all, we've been on the OPM contract in various forms since 2004, so we understand the business quite well. We understand the rhythm of it. Obviously, the government's made a key decision to go from three suppliers to two suppliers. And the other supplier and ourselves went out and did various recruiting efforts to attract the employees that were on the program.

To date, we've attracted 1,300-plus employees to CACI. And we also – I personally met with the head of the organization that is responsible for this with OPM and explained everything that we're doing. We are seeing a very fulsome caseload. What we're going through now is the process of making sure that these people are on-boarded; they're given the proper computers and equipment; the security and extensive training in the way CACI goes about doing this, which is likely different across – different contractors are likely to have different ways of implementing the requirements of the program. We want to make sure that these folks coming here are doing it the CACI way, which has served us pretty well for 10 years.

As Tom explained, we're going to have some – we're going to invest in the second quarter to do all of that. We've brought all brand-new machines on and a lot of new security apparatus – brand-new computers, I should say, for all of them. And so those expenses are sunk and we'll expect to see that come back to us in the third and fourth quarter.

QUESTIONS ON THE SIZE OF THE OPM PROGRAM FOR CACI AND CAUSES FOR THE DECREASE IN OTHER DIRECT COSTS IN THE FIRST QUARTER

Lucy Guo: So a follow-up to that, can you maybe help us size the program? It used to be $2.5 billion contract and USIS had 2/3s of that, so you're taking over that portion. Can you maybe just help us on that? And then separately, I also was wondering on the other direct cost decrease and other cost decrease of 21 percent, if you can give us a little bit more color on that.

John Mengucci: Lucy, this is John. So if we look at OPM, we are still working with the customer to determine what our new caseload is going to be. With the reduction of three contractors down to two, the other issue is that the federal government also provides background checks as well. So the customer's still working through how much of that will be retained with the Federal Government versus how much of that new scope of work will be given up – given out to CACI and the other provider.

What I can tell you about how we see the revenue curve, Tom talked about the one-time investment in the second quarter. If we were to look at revenue, we're looking at a month by month in October, November and December. So in the month of October, all of our new investigator time will be costs and they will generate very little revenue. In November, about half of their costs will translate into revenue as they begin to deliver cases. So by the end of the second quarter, we'll have 1,300 new investigators on a fixed unit price contract delivering revenue and earnings. What you'll see is that does drive a higher level of revenue in Q3 and Q4, which is really offsetting some of the delays, to Ed's earlier question, around protests that sort of pushed the quarter revenue out. So OPM in Q3 and Q4 sort of fills that notch for us.

Tom Mutryn: And in terms of the other direct cost composition, down around 20 percent on a year-over-year basis. A good portion of that is subcontractor labor. And then there's also subcontractor, materials, other direct costs which are Afghan related. So it's split among those categories.

Operator: Our next question comes from Brian Kinstlinger of Maxim Group.

QUESTION ON HOW THE OPM WORK IS ACCOUNTED FOR IN CACI'S BACKLOG

Brian Kinstlinger: As it relates to the OPM contract, I'm wondering if you can quantify if anything has been put in backlog. I'm curious, is there a task order? Is it – as you get volume, you'll recognize revenue that never hits backlog? And then, is it a cost-plus contract? Or what other type might it be?

John Mengucci: Yes, Brian, this is John. So the way the contract works is each week we receive a new set of cases for us to go – for us to execute upon. There's about 20 different cases that the government contracts for, and the duration and time to get those background checks last anywhere from 5 days to 130, 140 days. So when those come in on a daily basis, we log those similar to task orders on an IDIQ contract, Brian.

As for the contract type, it is fixed unit price. So each year and each follow-on option year, we provide fixed unit prices for those 24 different cases and that's what we bill to the government. As Tom mentioned, we do not recognize revenue nor submit invoice until the case is done, and that's really causing this 2- to 3-month lag in recognizing both revenue and earnings.

QUESTION ON WHETHER THERE HAS BEEN ANY RFP OR AWARD ACTIVITY RELATED TO RUSSIA, ISIS, OR EBOLA

Brian Kinstlinger: Great. And my follow-up, you mentioned 3 different areas of opportunity going forward. I'm wondering if you've begun to see any awards or even RFPs as it relates to Russia, ISIS or Ebola.

Ken Asbury: Brian, this is Ken. We have seen a little bit of on-contract growth, but it has not been very much. We're starting to see a bit of that flow into Six3 and into some of our intelligence analysis. I mean, John spoke a moment ago of – we were on a decline in some of our contracts. And now, customers are coming back and saying, "No, we want to maintain these personnel levels," and some of those are directed at the first two items that you mentioned.

In addition, we are supporting some of the military deployments related to the Ebola activity in Africa through a variety of contracts that we do today, both for CDC as well as with the Air Force.

Operator: Our next question comes from Joe Nadol of JPMorgan.

QUESTION ON THE UNSUCCESSFUL TAKEAWAYS BY SIX3 SYSTEMS

Chris Sands: It's actually Chris on for Joe. I wanted to ask about Six3. You noted in the slides that there were some unsuccessful takeaways. Can you just elaborate on that and what parts of the business that was in?

Ken Asbury: Yes, Chris, this is Ken. And I'll start and have John add some color to this. First of all, I want to make that you understand that we still see this as a fabulous acquisition for us. It's positioned us so uniquely in a number of areas in cyber and electronic warfare and signals intelligence. As we've come to know this and sort of get out of the integration steps and get out to see our current customers as well as new prospective customers, we're seeing a great reaction to some of the capabilities there.

I think the perspective that I think we ought to take with this, certainly the one that I have and have had for the longest time, is five years from now we're going to look back on this acquisition as being transformational for CACI as we watch this market shift from one where a customer wants to buy hours to do something to where they want to buy outcomes. Six3 puts us very much in that position. So I'm going to turn it over to John now to give you some particulars on your question.

John Mengucci: Yes, Chris, John here. So when we walk down from the nine percent revenue growth that we provided at the FY '15 guidance time to the low single-digit growth now, it really ties into a couple of things. A couple unsuccessful new business takeaways: those were in the professional services portion of the heritage Harding group. And then we also had a $10 million material purchase in our TGI business that remains small business. You may or may not remember in the fourth quarter, we had about $1 million per month that went to small business. It was our belief that that work would come back to us, but that ended up going small business. What it really accounts to for is about $25 million of revenue, and that what's driving the nine percent down to the three. But as Ken mentioned, overall, they have extremely strong pipeline, both the recent awards and the pipeline of our pending awards includes sufficient Six3 content that fully supports our full year Six3 FY '15 plan.

Chris Sands: So you would characterize those takeaways as services and material purchases. So it's fair to say that they're lower than average Six3 margin.

John Mengucci: They would have been two unsuccessful professional services takeaways in our Harding business at the same margin that Harding runs their professional services business at today.

Operator: Our next question comes from Tobey Sommer of SunTrust.

QUESTION ON SPENDING TRENDS IN SOME OF THE END MARKETS FOR SIX3 SYSTEMS

Frank Atkins: This is actually Frank in for Tobey. Wanted to ask about some of the end markets that Six3 is in. Are you seeing any changes in the cyber piece—growth there or spending? Or changes in habits in those end markets?

Ken Asbury: Yes, Frank, this is Ken. So I wouldn't say changes in the end market. I mean, we – there is – if you look at Six3 as we bought them, particularly in the digital signal processing and RF kind of capability area, that's very solid in the intelligence community. And they had some work that stretched into other DoD services – some of the services. We're in the process of opening up some new channels for them to go into different customers, such as the Air Force, and then of course, are taking them up into our Army customer where we've had a lot of tactical C4ISR and collection capability. And I would tell you that those from an end market point of view are – have great potential.

But as with anything that you do new for the first time, it's just going to take some time to get it done. I will tell you over the course of the last six months, I've personally been running around the country with Tom Ladd. And we've seen a lot of people with stars on their shoulders and talking about what they do, and we have some pretty immediate follow-up. So I think from an end market point of view, it's a great place for us to continue to grow. And I think given national strategy around pivot to the Pacific and the interest in more sophisticated potential adversaries, Six3 is going to play a prominent role in the CACI portfolio for that.

QUESTION ON THE ORGANIC REVENUE GROWTH FOR THE FIRST QUARTER

Frank Atkins: OK, great. That's helpful. And, if I can just also ask a quick numbers question. What was the organic growth for the quarter?

Tom Mutryn: Yes, organic growth was down approximately 16 percent.

Operator: Once again, ladies and gentlemen, if you would like to ask a question, pleaser press star then one.

We have a follow-up question from Brian Kinstlinger of Maxim Group.

QUESTIONS ON THE PERCENT OF NEW AWARDS THAT WERE COST PLUS AND WHETHER THE TRANSITION TO COST PLUS CONTRACTS FROM OTHER TYPES CONTINUES

Brian Kinstlinger: I'm curious if you can provide a percentage of new or expanded bookings that were cost plus? And then a second question, has there been any continued material transition to cost-plus in your recompetes from other types of contracts that you have?

John Mengucci: Brian, this is John. I don't have the first number but we can surely get that to you. On the recompete work—actually, no, we haven't seen any contract-type changes that which has been cost-plus and – or time and material or from fixed price. It has come in just as it always has. Some of the things that we're seeing with our recompetes—clearly pricing pressures are there. But we've taken a variety of actions to maintain our overall company operating margin, and I believe 7.4 [percent] from FY '14 to FY '15.

QUESTION ON CHANGES IN THE CONTRACT REVENUE MIX GOING FORWARD

Brian Kinstlinger: OK. And then the last questions is, is it fair then to assume that fixed-price will likely grow a little bit faster than cost-plus given OPM and given you haven't seen that transition? Have we seen the bottom of the transition to cost-plus?

Ken Asbury: Yes, Brian, I'm trying to think of bottom of cost-plus. Well, this is Ken. Clearly, we'll see a bigger component of fixed-price as a result of OPM coming into our revenue stream, because that's predominantly what it's going to be. In terms of how we look at the market, we're actually seeking out a few fixed-price activities where we can because that's an opportunity to drive margin upwards as well. And given the way we – as long as we're comfortable in doing that kind of work, we would prefer to do it that way. But I don't know that I've seen – other than what we're seeing with the addition of Six3, that should drive a bit of it up, and the addition of OPM will do that towards the latter part of the year.

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

QUESTION REGARDING IN WHAT MARKETS LOWEST-PRICE, TECHNICALLY-ACCEPTABLE CONTRACTS AWARDS ARE STILL PREVALENT

Krishna Sinha: Actually, this is Krishna on for Steven. I just wanted to get a little bit more color on the contracts. So, one of your competitors has recently said that, at least in the Intel market, customers seem to be backing away from LPTA contracts in favor of best value. Are you seeing that trend as well? And within – is it particular to any customer set? Can you just give us a little bit color on where LPTA is still prevalent?

John Mengucci: Yes, this is John, Chris. If I looked across all of our customer sets, the prevalence of LPTA or best value hasn't really changed for us over the different customer sets. What we have seen, however, is that, as the work becomes more solutions based, we are starting to see across all of our customer sets a small move towards best value. So it's true there's a lot of LPTA out there and better buying power, I think, 3.0 is sort of taking that to the next step. But, as our strategy has been over the last 18 months and moving from services towards solutions work, we do find ourselves running more best value proposals. And so it really hasn't materially changed over the last three to four quarters.

Operator: I'm showing no further questions at this time. I'd like to turn the call back over to Mr. Ken Asbury for any further remarks.

CEO CLOSING REMARKS

Ken Asbury: Well, thanks, Michelle, and 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 as well. We know that many of you will have follow-up questions, and Tom Mutryn, Dave Dragics, Jeff Christensen are available for calls later this morning and today. So this concludes our call. Thank you, and have a very, very good day. Thank you.

Operator: Ladies and gentlemen, thank you for your participating in today's conference. This does conclude the program and you may all disconnect. Everyone, have a great day.

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