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CACI INTERNATIONAL INC.
Moderator: Paul Cofoni
August 18, 2010
8:30 a.m. ET

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Fourth Quarter Fiscal Year 2010 conference call. Today's call is being recorded. At this time, all lines are in 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 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, you're only taking questions from the analyst.

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, Allison, and good morning, ladies and gentlemen. I am Dave Dragics, Senior Vice President of Investor Relations of CACI International and we are very pleased that you are able to participate with us today.

Now as is our practice on these calls, we are providing presentation slides. And during our presentation we'll also make every effort to keep all of you on the same page as we are. So let's move to slide number two.

Before we begin our discussion this morning I'd like to make our customary but important statement regarding 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 described in the Company's Security and Exchange Commission's filing. And our Safe Harbor statement is included on this exhibit and should be incorporated as part of any transcript of this call.

And also I would 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. Now let's go to the next slide, please.

And to open up our discussion this morning here is Paul Cofoni, President and Chief Executive Officer of CACI International. Paul?

CEO OPENING COMMENTS

Paul Cofoni: Thank you, Dave, and good morning, everyone. Thank you for joining us today as we discuss our fourth quarter and Fiscal Year 2010 results. With me today are Tom Mutryn, our Chief Financial Officer; Bill Fairl, President of U.S. Operations; and Randy Fuerst, Chief Operating Officer of U.S. Operations. Let's go to the next slide, please.

We are very pleased with the financial results for our fourth quarter and full fiscal year. This marks another year of meeting our major financial objectives: organic revenue growth of mid to high single-digits and double-digit earnings growth. We're also remain confident in our outlook for the future. In fact, I believe that the reprioritization and efficiency initiatives announced by Secretary Gates last week will present new opportunities for CACI, since many of our core competencies address the very issues he presented. I will discuss our view of these initiatives shortly. Next slide, please.

But first let me recap our financial results. We had an excellent fourth quarter with our revenue growing over 16 percent and net income growing nearly 9 percent. In addition, contract funding orders came to a record level for the fourth quarter. We continue to generate very strong cash flow and our days sales outstanding were at a record low level. These fourth quarter results capped off an exceptional year for CACI. For the full year, we grew in each of our eight core competencies leading to record revenue, record net income, record diluted earnings per share and record operating cash flow for the year. In addition, we received record contract funding orders and our year-end funded backlog was at a record level at the end of Fiscal 2010. We also achieved two growth milestones as revenue topped \$3 billion and our employee base grew to over 13,000. Our financial performance is the direct result of successful execution of our growth strategy. Slide six please.

We are confident that our continued execution of this strategy will generate the results we projected in our Fiscal 2011 guidance. We believe this in part because the asymmetric threat of global terrorism remains high. As Secretary Gates said in his announcement last week, "Our country is still fighting two wars, confronts ongoing terrorist threats around the globe and faces other major powers investing heavily in their military. It is important that we not repeat the mistakes of the past. We're at tough economic times or the winding down of a military campaign leads to steep and unwise reductions in defense."

I would like to spend a few minutes discussing Secretary Gates' comments and the impact we expect his proposed initiatives to have on CACI.

First, we have been informed that the work we are doing at the Business Transformation Agency is not ending. And in fact it will be shifted to other organizations.
Second, we expect negligible impact on CACI from the elimination of the Joint Forces Command, the Office of the Assistant Secretary of Defense for Networks and Information Integration or NII, and the J6 defense agencies.

Secretary Gates made it clear that his goal is not to reduce the department's top-line budget but to remove excess overhead costs and redundancy and apply the resulting savings to force structure and modernization. Those are exactly the areas where our core competencies are concentrated.

You've heard us say many times that one of the pillars of our growth strategy is to focus on the well-funded areas of our clients mission critical needs. And our areas of strength remain focused on the highest priorities of government. CACI Solutions are centered in mission critical support to the war fighter, such as C4ISR, counterintelligence, cyber, and in IT modernization. Next slide, please.

CACI provides vital services and solutions to help our clients detect, avoid and preempt terrorist and insurgence threats and to protect the war fighter. The most efficient and effective way to disrupt terrorist activities is through timely and far-reaching intelligence collection, analysis and dissemination to military and law enforcement personnel. For this reason, demand continues to be very high for our services in C4ISR and Intelligence and Security Services.

Concerns about vulnerability to cyber attacks on our nation are causing heightened awareness, which we believe will lead to more demand for our cyber solutions. In fact, Secretary Gates commented last week that one of the goals of his initiatives is to improve our ability to defend defense networks against growing cyber threats.

CACI is well recognized as a thought leader on cyber threats and solutions. We and the Naval Institute recently hosted our fourth symposium on asymmetric threats. This one focused on cyber threat to the supply chain. The symposium report containing recommendations to counter cyber threats is posted on our website and I invite you all to download a copy.

Secretary Gates also commented on the need to improve efficiency and effectiveness in the department's IT infrastructures. As he put it, too many parts of the department, especially in the information technology arena, cling to separate infrastructure and processes. As he further explained, "This decentralization approach results in large cumulative costs and a patchwork of capabilities that creates cyber vulnerabilities and limit our ability to capitalize on the promise of information technology." He directed an initiative to consolidate the IT assets in the Department of Defense to take advantage of economies of scale and create savings.

Our expertise in IT modernization and transformation of government is perfectly aligned with this initiative. CACI is working with customers such as DISA, CENTCOM and U.S. Navy to consolidate and streamline architectures today. By consolidating network domains, reducing DOD bandwidth costs and applying virtualization initiatives, CACI experts are allowing customers to collaborate, share services, and collapse architectures, thereby achieving increased efficiency from every IT dollar spent.

Secretary Gates' initiative is consistent with projects we are seeing across all areas of government to transform its IT infrastructure. As the Office of Management and Budget and the Federal CIO have clearly indicated over the last few months, properly managing the development and implementation of IT projects is essential to successful on-time, on-budget completion and the achievement of the resulting expected benefits. I am proud to say that as a result of our commitment to operational excellence we do not have a single troubled program among our more than 2200 contracts and task orders. In addition, CACI has the expertise and the proven track record to be part of the solution for our government clients facing IT challenges. We are doing that now for a number of clients and we believe more opportunities will follow. Next slide, please.

So these demand drivers—support for the war fighter especially through precise intelligence, the cyber defense, and government IT efficiency—give us confidence that Fiscal 2011, Fiscal 2012 and beyond will be additional years of strong growth for CACI.

You've heard us discuss the growing bow wave of pending bid awards on past conference calls. As Bill will discuss, the level of pending awards is higher than ever. And we see a very full pipeline for the next several years. Also, the high level of firm open personnel requisitions—currently at a two year high and growing—bodes well for our future direct labor growth.

I am also proud that we recently achieved CMMI[®] Level 3 rating across the entire company, which is a testament to our commitment to quality and superior customer service. Bill will talk more about our commitment to operational excellence in a few minutes. This operational excellence is, in fact, what drives our continued strong financial performance, which Tom will give you much more detail on here shortly.

Finally, I would like to thank the more than 13,000 men and women of CACI for their contributions to the critical missions of our clients. Thanks to them, we can successfully execute our strategy and report these strong results. It is these people who come to work everyday with 100 percent commitment to the missions of our clients. They are the foundation of our successful execution of our strategy and our future growth.

Now, I would like to turn the conference call over to Tom Mutryn, who will give you more details on our financial performance. Tom.

FINANCIAL OVERVIEW

Tom Mutryn: Thank you, Paul, and good morning, everyone. Please turn to slide number nine.

Revenue grew, year-over-year, by 16.4 percent for our fourth quarter and 15.3 percent for the full year, most of which was organic, easily surpassing our goals of mid to high single-digit organic growth. For the quarter, our direct billable labor grew an impressive 9 percent and our other direct costs were up 25.8 percent. For the year our direct labor was up 7.9 percent and our ODCs were up 24.6 percent. Operating income in the fourth quarter was up 2.7 percent year-over-year and was 5.8 percent higher for the fiscal year.

The positive effect on our operating income of the growth in our direct labor in ODCs and our continued control of indirect cost was partially offset by higher stock compensation expense and higher depreciation and amortization. Next slide.

Let me take a minute to discuss two large items which impacted the quarter and the year. The first is our noncash stock compensation expense. In 2009, we revised our equity incentive programs to provide performance-based restricted stock, whereby the amount of the stock grant is dependent upon company performance, with the stock vesting ratably over three to four years. Both the 2009 and 2010 grants were based on Fiscal Year 2010 net income. Our Fiscal Year 2010 performance was such that the performance metrics were exceeded, resulting in higher stock compensation expense.

The accounting for equity grants with performance metrics is graded, as opposed to cliff vesting, requires the expense to be recorded on an accelerated basis, treating each vesting tranche as a separate grant. This treatment results in a significant front-loading of the associated expense. Previously, we had recorded the estimated expense on a straight-line basis. These two factors—larger grants due to exceeding our goals and the front-loading of expenses—have resulted in \$14 million of additional stock compensation expense in Fiscal Year 2010 compared to Fiscal Year 2009. \$9 million of this amount was recorded in the fourth quarter. The impact of this noncash expense on operating margins is significant, reducing fourth quarter margin by approximately 110 basis points and full year margins by 45 basis points. Next slide.

The second issue relates to the new accounting rules for the treatment of acquisition-related contingent considerations, or earnouts. Earnouts are common features of acquisition agreements and represent additional purchase consideration paid based on the acquired Company's performance post closing. During Fiscal Year 2010, we acquired three companies—all with two year earnouts. Under the new rules, we are required to determine the fair value of the expected earnout consideration as of the acquisition date and record it on our balance sheet. We are also required to reevaluate our estimate each quarter and reflect any changes in the income statement.

All three acquisitions are performing well. However, based on updated forecasts the estimate of the additional consideration to be earned was reduced by \$3 million. This was recorded as reduction in SG&A expense in the fourth quarter. Please turn to slide 12.

Our UK operations turned in strong performance for both the fourth quarter and the year. Revenue for the year was up 47 percent and net income grew by 60 percent year-over-year. The UK's performance was driven by several acquisitions we made during the last 18 months, as well as double-digit organic growth for the year.

Our year-over-year net income increased 8.8 percent from the fourth quarter of last year and 18.7 percent for the full year. The effective tax rate was 37.8 percent for the quarter and 36.5 percent for the full year, reflecting gains we realized in equity investment in our executive deferred compensation program. Next slide, please.

Our cash position at the end of the quarter was \$255 million, with annual cash flow from operations at \$209 million, up from \$151 million in 2009. This was largely driven by improvements in DSO, with year-end DSO at 55 days, a four day improvement compared to the end of last year.

Free cash flow, defined as operating cash flow less cash expenditures, was \$187 million, which translates to \$6.09 per diluted share. As you know, we record several large non-cash charges in our income statement: depreciation amortization, stock compensation and non-cash interest expense. We believe it is meaningful to measure our performance excluding these charges because of their non-cash nature. For the full year, diluted adjusted earnings per share was \$5.39, close to \$2 greater than our GAAP EPS and 21 percent higher than last year.

Our balance sheet remains strong. Our quarter-end net debt was at \$277 million and our net debt to trailing EBITDA leverage ratio was at 1.1 times. Given our large cash balance and ample liquidity, in early August we repaid \$80 million of our term loan to reduce interest expense. Our term loan and revolving credit facility matures in May, 2011 and we are planning to replace the credit facility well in advance of maturity.

We are actively pursuing a number of acquisitions opportunities and are confident that we are able to execute on these with our capital structure. And we believe that we are able to access the capital market for additional attractively priced financing if the needs arise. Turn to slide number 14, please.

We are reiterating our Fiscal Year 2011 guidance ranges we provided in June. We expect revenue to be between \$3.25 billion and \$3.4 billion and earnings per share to be in a \$3.70 and \$3.90 range. We expect operating cash flow in 2011 to be at least \$175 million, with DSO staying in the same range as 2010.

With that let me turn the call over to Bill Fairl.

OPERATIONS OVERVIEW

Bill Fairl: Thanks, Tom, and welcome to everyone on the call. Slide 15 please.

This morning I will address highlights from operations during both our fourth quarter as well as our full Fiscal Year 2010. I will also provide a few comments on our Fiscal Year 2011 focus points and outlook going forward. Starting with funding.

Our contract funding orders and funded backlog were all well above Fiscal Year '09 levels. For the fourth quarter funding orders came in quite strong at \$895 million. That is an increase of 16 percent over the fourth quarter of Fiscal Year '09. Looking at full year, Fiscal Year 2010 was our best year ever for contract funding orders. We came in at \$3.42 billion. That is a 14 percent increase over Fiscal Year '09. As we have stated on previous calls, funding orders are the best and surest indicator of top and bottom-line growth over the next 12 months. This is the number one reason why we are so confident in our ability to deliver in Fiscal 2011.

As a further confidence indicator, nearly 80 percent of our projected Fiscal Year 2011 business will come from contracts which we already hold. Let's stress that point. Nearly 80 percent of expected, our expected Fiscal Year 2011 business is going to come from contracts which we already have. The remaining 20 percent will come from Fiscal Year 2011 recompetes and new business in approximately equal amounts.

Turning now to contract awards. We received an estimated \$293 million in awards during our fourth quarter, and for the full year our contract awards totaled \$2 billion. We won all our major recompetes during Fiscal 2010. Overall, our Fiscal Year 2010 recompute win rate was excellent, tying Fiscal Year '09 for our best full year win rate over the past six years.

While Fiscal Year 2010 was light for contract awards, we do not see this as a concern. As I've mentioned on previous calls, Fiscal Year 2010 was an exceptionally light year for CACI recompetes due solely to timing of our recompetes, and we expect to return to a normal sort of timing this year for the out year. And the difference between Fiscal Year 2010 and a typical year of recompute activity would translate into an estimated Fiscal Year 2010 awards differential of over \$1.5 billion—over \$1.5 billion.

Not included in our Fiscal Year 2010 awards total is our portion of \$2.6 billion in estimated contract ceiling value on other multiple-award, IDIQ contracts we won during fiscal year 2010. The work on these awards supports the war fighter through our core competencies of C4ISR and Integrated Security and Intelligence Solutions.

Now back in June, on our Fiscal Year 2011 guidance call, I told you about one of these—our exciting new business win to support the Special Operations Command on their Global Battlestaff and Program Support effort. I mentioned that we expected a high level of near-term task order activity and just the first few months since contract award, we have been successful in bidding and winning six task orders for new business, resulting in solid CACI direct labor growth. Let's go to slide 16.

During Fiscal 2010, CACI achieved a key milestone in our drive to expand the technical and quality distinctions that enable us to compete and win at the Tier 1 level. Specifically, CACI's U.S. operations achieved an enterprise-wide capability maturity model integration, that CMMI Level 3 rating, and our division in Norfolk, Virginia achieved the highest CMMI rating, CMMI Level 5. High level CMMI recognition assures our clients of high quality and best practices in software and systems engineering. We believe our current and potential clients view these independent quality ratings as increasingly important, as they seek to assure excellence in program delivery. We also believe that these independent quality ratings will serve as a key competence indicator as the Office of Management and Budget reviews programs for cost and scheduled performance risk.

Our intelligence business continued its rapid growth during the quarter, coming in 20.4 percent higher than in the fourth quarter of Fiscal Year 2009. For the full fiscal year, our intell work grew by 21.2 percent and now represents 39.8 percent of our business. With the strength of our distinctive offerings and a market that continues to be well-funded, we believe intell will be a mainstay of our business for years to come.

Moving on to our opportunity pipeline, it is the best it's ever been. Specifically, at the end of our fourth quarter, we had approximately \$5 billion in submitted proposals under evaluation and nearly 90 percent of them for new business. The majority of them are currently scheduled for award by the end of Calendar 2010. In addition, we expect to submit more than \$8 billion in new proposals during the next two quarters, and a little more than half of those anticipated proposals are for recompetes.

Following last week's remarks by the Secretary of Defense, we did a top to bottom review of our opportunity pipeline. Based upon what we know today we expect no significant impact on our bid opportunities as a result of the Secretary's announced initiatives.

Now as a further bit of color, our opportunity pipeline contains nearly \$10 billion in federal civilian opportunities over the next two years. And these opportunities are squarely targeted to address the needs of our federal civilian agencies as they seek to improve the effectiveness and efficiencies of their IT infrastructures. Slide 17, please.

As Tom mentioned, our CACI direct labor growth was strong over the course of Fiscal Year 2010. Continuing this trend into Fiscal 2011, we are off to a great start with our hiring.

As Paul mentioned, we currently have more than 400 firm open hiring reqs, indicating continued client demand for our solutions and services. And just as we did for our opportunity pipeline, we analyzed each and every one of these 400 openings to determine if they would be affected by the Secretary's announced initiatives. We've concluded that only about 1 percent of them—that would be four or five out of more than 400—might possibly be affected, only about 1 percent.

While I'm on the subject of the Secretary's speech last week, I want to point out that we have approximately 20 employees, 20 employees total working at the Joint Forces Command, NII and J6 combined. In other words, we expect negligible impact to our business as a result of the closure of these activities. With regard to the Business Transformation Agency, there we have approximately 160 people working on multiple programs. We have been informed that each of our programs will continue following their transition to new organizations and that there will not be a negative impact as a result of the closure of BTA. I will say that again. Our programs are going to continue as they move to new organizations and we've been informed we will not see a negative impact as a result of the closure of BTA.

Turning now to employee retention. I'm happy to report our voluntary attrition rate continues to improve. Our rate for Fiscal Year 2010 was significantly better than Fiscal Year '09 and the lowest it's been during the past six years. Slide 18, please.

Looking ahead, we believe our solid Fiscal Year 2010 performance has laid the foundation for a strong Fiscal Year 2011. Each of our key performance metrics for U.S. Operations is pointing solidly in the right direction. I am talking about contract funding orders and funded backlog, our compete win rate, our opportunity pipeline, our hiring and our retention. You put all those together with our strength and presence in the high priority government funded areas of defense, intelligence, homeland security and IT modernization and our focus on the administration's priorities in cyber security and smart power and you can see why we are excited about what's shaping up to be a terrific Fiscal Year 2011 for us.

And, Paul, that concludes my remarks.

CEO CLOSING COMMENTS

Paul Cofoni: Thank you, Bill, and thank you, Tom, for the details you provided. Last slide, please.

As we turn to Fiscal 2011, we expect to build on our momentum from Fiscal 2010 and deliver another year of strong financial performance for CACI. We see attractive market opportunities to build on our existing core competencies and extend into new areas of business, and we are executing on a sound strategic plan to capture those opportunities.

The services and solutions we deliver are vital to our government's most critical missions and the demand for them remains strong, as evidenced by the record level of funding we received in Fiscal 2010. Our services are aligned with the funding priorities of the government's proposed Fiscal 2011 budget.

And we believe our services will support the government's transformation efforts to bring greater efficiencies and value to our customers and the taxpayers, consistent with the initiatives announced by Secretary Gates last week and the Office of Management and Budget at the end of June.

Secretary Gates made it clear that he is seeking ideas, suggestions and proposals from outside normal official channels, including from industry sources. We at CACI will offer our ideas in full partnership with the Department of Defense.

For Fiscal 2011 and beyond we are confident we will meet our financial goals of double-digit earnings per share growth and mid to high single-digit organic revenue growth. By meeting these goals, we are confident that we will significantly enhance long-term value for our shareholders.

With that, Allison, we will open the call for questions.

Operator: Ladies and gentlemen, if you have a question at this time, please press star then one on our touch-tone telephone. As a reminder, we ask that you please limit your questions to one and one follow-up.

Our first question comes from Michael Lewis of BB&T Capital Markets, please go ahead.

QUESTION ON THE REVISION OF THE ESTIMATED ACQUISITION EARNOUT

Michael Lewis: Thank you. Good morning, gentlemen. Thanks for taking my question, here. Tom, you talked about the \$3 million earnout revision. Is there one particular acquisition that is not living up to your original expectations, there?

Tom Mutryn: Mike, OK, we purposefully grouped all three acquisitions together and do not want to talk about the performance of any specific one. Let me reiterate that the way we established these earnouts are such that we have aggressive growth goals. All three companies are performing quite well. Perhaps you are not hitting those aggressive growth goals precisely and, as a result, we are going to pay less for the company. So earnouts are structured inappropriately. But we are happy with the performance of the acquisitions. All of them are performing and contributing to our bottom-line.

Paul Cofoni: Let me add—this is Paul—let me add to Tom's comments that all three are meeting the business cases that we proposed to the Board of Directors. So we are satisfied with the performance against original business case.

QUESTION ON THE USE OF THE SHARE REPURCHASE AUTHORIZATION

Michael Lewis: OK, that's very important. Thank you for that comment. And then just a quick question on the buybacks out there. Stocks trading at around six times fourth quarter EBITDA. You have over \$250 million in cash. You have available credit out there. Why wouldn't you be more aggressively buying your shares back in this market right now without acquisitions being announced? So if you could talk around that a little bit that would be great.

Paul Cofoni: Yes, thanks for that question. As you recall, you may recall, in June when we gave our Fiscal 2011 guidance, we also indicated that the Board of Directors had approved for an acquisition—a repurchase of up to 1 million [shares] or \$50 million worth of stock, and we are in a blackout period. And we can't do anything until we exit the blackout period. But is it our intent to take advantage of this buying opportunity with a 10-B-51 process that we will initiate as we exit the blackout.

Operator: Our next question comes from Ed Caso of Wells Fargo, please go ahead.

QUESTION ON NON-CASH STOCK-BASED COMPENSATION EXPENSE IN FY2011

Ed Caso: Great, thanks. Tom, can you give a sense on the noncash comp, how that will pan out in F[iscal] 2011. You said it was up, I believe, \$14 million F[iscal] 2010 over F[iscal] 2009. What is the step up in the coming year and will it be biased to one particular quarter?

Tom Mutryn: We expect our non-cash in stock compensation expense in FY 2011 to be approximately \$19 million to \$20 million. That is down approximately \$10 million from the elevated level in 2010.

QUESTION ON OPERATING MARGIN GUIDANCE FOR FY2011

Ed Caso: And operating margin guidance for F 2011?

Tom Mutryn: Remains unchanged – excuse me, it remains unchanged from what we said in June. We expect it to be at least in the 6.4 percent.

Operator: Our next question comes from Jason Kupferberg of UBS. Please go ahead.

QUESTIONS ON AWARDS AND CONTRACT FUNDING ORDERS IN THE SEPTEMBER 2011 QUARTER

Jason Kupferberg: Thanks, good morning, guys. Wanted to talk a little bit about contract awards and maybe some insight, if you can lend, regarding how those are trending through the first half of the September quarter. Have you seen a rebound following the well-documented procurement delays of the June quarter that I think a lot of vendors in this space experienced? And, if you can, comment on what you expect to see as you head closer to the government fiscal year-end. Will we see the typical seasonal strength in terms of both contract awards and funding orders during the balance of the current quarter based on what you guys can see right now?

Bill Fairl: Jason, this is Bill Fairl and ...

Jason Kupferberg: Hi, Bill.

Bill Fairl: I'll start – hi – I will start on this. I will take the easy one first, which is the funding orders. I really think we will see the typical mad rush right around September 30th to get that funding on the books there. So I would be astounded if that didn't happen again this year. That is our pattern, year after year.

So then the next, actually the first question you asked was about contract awards. So, taking a look at the awards we had in the fourth quarter, and without commenting on specifics so far this quarter, we are about six or seven weeks into the quarter. The awards we have been seeing and – so this will help you better understand my remarks—when I look at them, they have been heavy on the CACI direct labor content and not as heavy in the past on the ODC sort of thing. So I am not ready to declare a trend there, if you will, but as you might imagine I am very pleased with the growth we are getting in hiring opportunities for CACI folks, because as we've said on numerous occasions, we earn 5 to 10 times as much on CACI direct labor as we do on ODC. And we have been investing our B&P monies and other investment dollars in growing our CACI direct labor.

So, as we put our FY 2011 plans together, we plan on another year of strong growth for CACI direct labor, because that's really what drives our earnings potential, all of the important things here. We are off to a fantastic start there. And the awards we've gotten, while not that heavy in ODCs—very, very strong in new CACI direct labor hiring requirements.

And I mentioned, as just a little bit of color, the success we've had in the short amount of time on that GPBS thing for SOCOM, and that's an area where we will see, we believe, enduring demand on the part of our requirements for our services, if you will.

So, as far as – I told you we had, I believe, \$5 billion in our pipeline at the end of our fourth quarter and that the awards are currently scheduled, those \$5 billion, are currently scheduled for award by the end of Calendar Year 2010. But predicting the exact award date on any of these things, as you know, it's a bit of an iffy process, which is why I always give you a two quarter period on that. OK.

QUESTION ON THE GROWTH RATES OF DIRECT LABOR AND OTHER DIRECT COSTS IN FY2011

Jason Kupferberg: Just a follow-up on that for my follow-up question. So with the direct labor relative to the ODCs do you still expect direct labor to grow faster than ODCs in Fiscal 2011? And then, if you can just talk about how that might impact gross margins year-over-year in Fiscal 2011. I know that maybe the stock-based comp is going to impact the gross margins as well. But they were kind of low in the June quarter and, again, maybe stock-based comp was weighing on that, but any commentary there would be great.

Tom Mutryn: Jason, this is Tom. Let me take that question. In the June call, we guided that we expect both direct labor and ODCs to grow in the 5 percent to 10 percent range. Given our visibility at this point in time, we are kind of maintaining that outlook. So the mix on a year-over-year basis should not be impacting gross margin percentages. What we would hope is within each of those categories that we would be able to increase our margin on direct labor and our margin on ODCs. That remains to be seen, but the mix should be relatively unchanged on a year-over-year basis.

Operator: Our next question comes from Bill Loomis of Stifel Nicolaus. Please go ahead.

QUESTION ON SECRETARY GATES' INITIATIVE TO REDUCE SERVICE SUPPORT CONTRACTOR FUNDING BY 10 PERCENT

Bill Loomis: Hi, thanks, good quarter.

Paul Cofoni: Thank you.

Bill Loomis: Paul, just looking at your commentary about the limited effect of the Gates initiatives, just how do you – when you look through your portfolio, how are you defining service support contractor and where do you think the 10 percent contractor cuts will come from if they are not going to come from CACI portfolio ?

Paul Cofoni: Thanks, Bill, good morning. The service support contractors freeze is not, that I know of, an official—we can't find an official definition for that phrase. So I will leave that to Secretary Gates and the task force that will be led by Mr. Robert Rangel to come back in 90 to 120 days with specifics. In the area of intell advisory and assistance contractors, we understand this. This is well defined within the FAR and it generally applies to just what it says; people that are doing and contracting to give advice and assistance. This is not an area where we have a high concentration. So we don't expect a significant impact in that area.

In general, if you look at our profile of business, what you will find is first of all, 20 percent of our contracts are fixed price contracts. So I don't see those necessarily being impacted by any of this. Secondly, 40 percent of what we do is all at the tip of the spear—supporting the war fighter with C4ISR intelligence, cyber and related activities. And third, 25 percent of our business is with civil agencies and international commercial business. When you add that up you are up to 85 percent of our business that, to me, feels like it is outside the boundary of these initiatives. There probably is about 15 percent of our business that is exposed to some of this but, yet again, until we see specifics at the 90 to 120 day mark from the task force, it is hard to exactly tell. We are

heartened by the fact that this is focused on elimination of excess duplication and reduction of overhead. And to me those are – that's a great idea. We support that completely. We hate to see waste anywhere or excess or redundancies anywhere in our own operations or in the government's. In fact, a big part of our business is focused on helping government streamline through techniques like CMMI Level 3 transformation programs and such. And so reengineering a process is a big part of what we do.

We are also heartened by the fact that the Secretary did not talk about reducing the budget. He talked about reprioritizing needs within the existing budget. And that is a subtlety. But he is talking about taking the savings from waste and redundancy and extra overhead and moving that to force structure and modernization, and these are areas where our core competencies are heavily concentrated. So I think, again, we will know more in 90 to 120 days, but this is why – these are the facts that heartened us.

And if you were looking for tangible data point to measure, the credibility here, you look at what he announced as hard actions, elimination of JFCOM, BTA, NII and J-6 offices. And Bill did a great job of explaining negligible impact to us from that.

So I don't think it will be evenly – the burden will not be evenly distributed amongst all competitors. Our job is not – we have to pay attention to macro issues, but our job is not to manage the macro issues, our job is just every day to beat the competition one bit at a time—to beat the competition with innovation, value and aggressive price. And that's – if we stay focused on that, we will be just fine.

Bill Loomis: Thanks.

Operator: Our next question comes from Cai von Rumohr of Cowen & Co. Please go ahead.

QUESTION ON HOW THE NUMBER FOR BIDS UNDER EVALUATION IS CALCULATED

Cai von Rumohr: Yes, thank you, gentlemen, and good quarter.

Paul Cofoni: Thanks.

Cai von Rumohr: Help me understand—your bids awaiting decision are \$5 billion, which is up significantly, but it is down from \$5.6 billion a couple of quarters ago. And in those two quarters you really had negligible and declining awards. Help me understand how those two things have happened when supposedly every quarter you have about \$8 billion in bids that are supposed to be put in?

Bill Fairl: One of the things there, Cai, is that we – I mentioned to you that in the awards, totaled at \$2 billion for the full year and the almost \$300 million for the fourth quarter, we didn't include in that over \$2.6 billion in total contract ceiling on other multiple-award IDIQs. We would tell you about that as we won individual task order. I gave you a GPBS as an example of that. So that's part of it. In fact, I would say it's probably the big part of it right there. We are very conservative on what we count in that quarterly awards total that we give you every quarter and every year.

Having said that, we invest in our opportunity pipeline in things like GPBS because we think we will win the task orders when they come out. We get a chance to bid them. I think I mentioned on our last call on that GPBS thing, that the client told us when the awards were made that they would pump out 70 or 80 task orders within the first year and they expected us to bid on every single one of them. We are just a couple of months into this thing and we've won six task orders already. I think we are winning about 25 percent on the awards and about 50 percent of the dollars. So that is why we invest B&P dollars in these multiple award IDIQs. We take a very conservative approach, just like we did on S3, when we first get the award and we don't have an existing line of business. So that is really it in a nutshell, Cai.

QUESTION ON THE DOLLAR AMOUNT OF TASK ORDERS WON ON THE GLOBAL BATTLESTAFF AND PROGRAM SUPPORT CONTRACT

Cai von Rumohr: And then you'd mentioned that you won six of these task orders. But what is the dollar amount of those task orders combined?

Bill Fairl: Well, we'll – our practice is to give you – run the task order announcements through our clients before we make formal announcements on each and every one of them. So, you will see them to the extent we can announce them. We will see – you will see these things start to come out and I will, again, I'll point out that what I am so excited about is they tend to be relatively light on ODCs and heavy on CACI direct labor content. So they won't necessarily be the huge dollar amounts in the past, but lots and lots of CACI new hires, which is what drives our bottom-line results.

Operator: Our next question comes from Mark Jordan of Noble Financial. Please go ahead.

QUESTION ON SEASONALITY OF CACI REVENUE IN FY2011

Mark Jordan: Thank you. I would like to talk a little bit about revenue seasonality. Historically, you have seen in the first quarter a flattish sequential revenue trend and then build through the year with a strong fourth quarter. If you have a flattish first quarter here and just annualized it, you would be at the upper end of your range. So I am wondering if you would – are you assuming that you would have a decline in the first quarter and then have a normal seasonal pattern? Could you comment on that, please?

Tom Mutryn: Yes, Mark, let me take a stab at that. A few years ago we moved away from giving quarterly guidance to annual guidance and so we are reluctant to comment upon any specific quarter. But the seasonality of our business in Fiscal Year 2011 should be comparable to what we have seen in prior years. The seasonality is driven by the fact that within any quarter there is various different numbers of billing days. Most of our profit is direct labor, so one or two billing days—Fourth of July holiday, summer vacations and the like—have material impact on our quarterly fluctuations. And so I would guide you to have a similar trend.

EFFECT OF DEBT REDUCTION ON NET INTEREST EXPENSE GUIDANCE FOR FY2011

Mark Jordan: OK. As a follow-up, you mentioned on the call that you made an \$80 million payment on your term loan in August. Does that impact the guidance that you gave back in June where you told us that to expect about a \$4 million increase in interest year-over-year?

Tom Mutryn: What is going to happen, I think, Mark, is once we redo the credit facility, the new credit facility will be such that although the bank market is robust, we will be paying higher spreads versus our current facility, that should run us approximately \$3 million to \$4 million per year higher interest expense given the new facility.

As I mentioned, we plan to put in place a new facility well in advance of the expiration of the current one, May, 2011. And I will comment in the past two or three months we have been seeing continued improvement in the bank market from CACI's perspective. The banks have a large amount of unused assets on their balance sheet and are aggressive in terms of their terms and conditions in pricing.

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

QUESTION ON IMPACT ON CACI'S ADDRESSABLE MARKET OF SECRETARY GATES' INITIATIVES

Joe Nadol: Thanks, good morning. First question for Paul or Bill. Just on the service—back to the service support question. The top to bottom review you have done—it sounds like you've addressed very specifically what Secretary Gates has said are going to be specific shutdowns. But the 10 percent annual cut over the next three years, it sounds like you're, by necessity, punting on that one a little bit for now because we don't really have much more specificity. Is it possible to think about—to characterize maybe—your addressable markets and how much you think of your addressable market is going to be impacted by this? No one seems to know exactly how much of the pie is going to shrink by one third.

Paul Cofoni: Well, that is the good question and I didn't mean to punt that last one, I was simply pointing out that it is not clear until the task force concludes what they are doing. And there is no definition of service support contractors that we can find.

If you were to take it to mean the most general definition of all contracts, we think that is unlikely to be the definition. That it is all service contracts. All service contracts would represent roughly \$200 billion a year that the Department of Defense spends on all service contracts. To take 30 percent aggregate at the end of three years out of that would take it down to like \$140 billion from \$200 billion and so that would be more than the \$100 billion the Secretary of Defense is talking about over the five years. He is talking about \$100 billion over five years, an average of \$20 billion a year. So we just conclude that he is not talking about all service contracts and it is some subset that he is talking about.

If you look at the \$100 billion, that is not cutting \$100 billion. It is repositioning \$100 billion to the tip of the spear, to the fight, to the modernization of the force structure. If you look at the \$100 billion as a percent of how much the Department of Defense plans to spend over the next five years, it is around 3 percent, which is less than the expected real growth. So we are reprioritizing 3 percent, which is basically reprioritizing that part which is looked at as growth, away from redundancy, waste and overhead to force structure and modernization, places where we have strong core competencies and where we think we can help. So, I didn't mean to punt on that, but Bill, did you want to add something there?

Bill Fairl: Yes. I'm not sure Joe might have been referring to the analysis we did for our pipeline on firm openings. And we don't have specific definition for contractor support services, so I will just talk for a minute under that assumption.

So, you can go under the FAR and see what the definition is for assistance and advisory services. So, using that sort of definition and doing some common sense analysis, we used that kind of analysis and went through both, as I mentioned in my remarks, our firm open hiring reqs and this opportunity pipeline I have been telling you about, the \$5 billion of submitted and that \$8 billion in the next two quarters. Beyond that, we said to ourselves is there anything in here, either in the firm open hiring reqs or in these bid opportunities that looks like it would be canceled or severely curtailed as a result of pullbacks in what we will say is assistance and advisory services? Is there anything that falls squarely in that camp? And our analysis said no. On our firm open reqs, we got over 400 of those and all we could figure out, possibly, is that four or five out of over more than 400 might possibly be effected. Four or five out of more than 400! In the opportunity pipeline, we really couldn't find anything at this point. And so that is what we have.

Joe Nadol: So it seems like – I mean, I agree with you, it seems very likely to be a subset and one significantly less than half of the \$200 billion. But those specific open spots you are talking about, Bill, I mean, it sounds like it is probably bigger than that. Would you agree that – or is it just so wide open that we can't even just guess at it?

Paul Cofoni: Well, I think if you look at it as a percentage, where is the \$100 billion coming from. If you take \$200 billion times five you get \$1 trillion. So it is \$100 billion on a trillion. And that's the kind of percentage I am thinking that he is talking about, but maybe it will be something more definitive coming out later. And if you – then you have to know that everyone of us is not the same. That

we do different things. And where we are concentrated is not toward advisory service type contracts.

We have a little of that, as you might imagine. We estimate that that is less than 15 percent of what we do in total. And if you were to take 10 percent a year out of 15 percent you would get 1.5 percent a year. We grow at 5 percent to 10 percent a year and so we don't see this as a material type of impact. Now, as we get further clarification definition we will be sure to advise you of any changes to our interpretation of the impact, but right now I think that is our best understanding.

QUESTION ON CACI'S EXPOSURE TO THE SUPPORT OF MILITARY HEALTHCARE

Operator: Our next question comes from Robert Spingarn of Credit Suisse. Please go ahead.

Robert Spingarn: Good morning.

Paul Cofoni: Good morning.

Robert Spingarn: Based on what we've heard so far, it looks like healthcare is going to be targeted by DoD in the Fiscal 2012 budget, probably significantly. To what extent are you engaged in support of military healthcare? Do you have exposure there? How would you characterize healthcare within the overall costs?

Paul Cofoni: Randy, would you take that.

Randy Fuerst: Yes, I would be happy to. I don't see any effect there. Most of the healthcare that we do is for the DoD medical logistics area and, quite frankly, we have seen a lot of activity—positive activity—in that space. And the pipeline for the healthcare work that we are looking at is still very robust. So, we don't see any potential impact in that area right now.

Robert Spingarn: So, CACI is part of the solution on controlling healthcare?

Randy Fuerst: I think – what I have heard about healthcare in terms of DoD targeting healthcare is the skyrocketing healthcare costs associated with service members and veterans. I think there is where the focus of recent commentary has been, not on what we do. We are involved with medical logistics. So, we warehouse and deploy field hospitals into the theatre of war or into disaster areas. And so that is not likely to be affected by this. This is more focused on how does the big problem of healthcare—how do you control the cost, the rapid rising cost of healthcare? Right? And also, we are heavily involved in IT modernization efforts for hospitals and that type of thing, and we don't see that area being impacted.

QUESTION ON WHETHER CACI HAS A NEW GOAL FOR DAYS SALES OUTSTANDING

Operator: Our next question comes from Tobey Sommer of SunTrust Robinson, please go ahead.

Tobey Sommer: Thanks. A question for you about DSOs. Pretty good performance, I think, in the quarter and the fiscal year. Do you have a new goal for Fiscal 2011 in terms of where DSO should be?

Tom Mutryn: Tobey, we believe in continuous improvement and we are chuckling a little bit here because we continue to set what we believe are aggressive goals for DSO. We continue to exceed those. The guidance we provided was assuming that DSOs will be a comparable level. Obviously, we would like to see improvements to that if we can.

QUESTIONS ON THE S3 CONTRACT AS A PERCENTAGE OF REVENUE IN THE FOURTH QUARTER OF FY2010 AND EXPECTED GROWTH IN FY2011

Tobey Sommer: My follow-up would relate to the S3 contract. Wondering if you could tell us what it was as a percentage of revenue in the quarter. I think you give it for the full year. And then what your expectation is for the contribution or growth from the S3 contract in Fiscal 2011?

Bill Fairl: Let's see, I don't think we did that for the quarter. You got the number for the year. We may have to get back to you on the growth projections for the year. As you know, or may know, S3 was in a little bit of a hiatus as obviously things were on hold on as they were thinking about what to do about a recompute strategy. And then, in the May timeframe, they announced their intent to exercise a five-year option period, which would have bumped the October timeframe. So that caused, while they were making that decision, caused a little bit of a slowdown there but we can get back to you with the answer to the question.

Operator: Our next question comes from Brian Kinstlinger of Sidoti & Company. Please go ahead.

QUESTION ON THE EFFECT OF SECRETARY GATES' INITIATIVES ON PRICING GOING FORWARD

Brian Kinstlinger: Great, thank you. As part of Gates' comments he says he's hoping to get better buying power for the taxpayer, and he also mentions fewer dollars for contractors. And so, I guess I am wondering in terms of pricing what that means. We have already seen one of your peers, anyway, lose a contract on price. And your, as well as some others, have seen less T&M work over the last couple of years. So just speak to what maybe that means for pricing going forward.

Paul Cofoni: Well, I think I'll let Bill give you some information on this too, but our general experience is that pricing is always important. It is one of the more important elements or criteria for evaluation in all of these. But we find that really innovation, value—new value-add—is more important to our clients, because in the end what we do is a leveraged service. It has the effect of improving their effectiveness and efficiency for our client.

And so the clients look at us as enablers for them to have overall improved efficiency and effectiveness and quality. And they don't look at us as a pure commodity. You are trying to get the absolute lowest price for it. There are some parts of our work that are more like that than others, but for the most part, where our competencies are concentrated, it is a value proposition more than a price proposition. Bill, did you want to add?

Bill Fairl: I agree with that. Paul, we do an after action report on every bid that we have out there—win or lose. And so we always look at how either we won or somebody else won. For the kind of work we are going after, which is an important consideration, if you want it there is plenty of work you can go after that is decided strictly on the basis of low price, but that is not a good strategy for us and one that we really stay away from. We target things where we believe we have a sophisticated client that will make a true best value decision. And when we look at the after actions on these opportunities, we see that those decisions are made not on low price, but on the true best value. It's a company such as ourselves that have this great star distinction, or value proposition, that are above the parity line. Those are the ones that win the kind of work that we are targeting, now and in the future. And we are going to stay that way.

And you know what, they talk about going to fixed price contracting, we are great here at managing fixed price contracts, because we have great relationships with our clients. Paul mentioned out of our more than 2,200 active contract and task orders, we don't have a single troubled program. At any given time we have a couple of hundred fixed price contracts, we don't have any bleeding contracts in there. We have happy clients. We make a very good return on them. So, to the extent they do—that they actually move into more of a fixed price environment—I think that plays to CACI's strong suit of delivering a solution for a agreed upon amount of money.

QUESTION ON THE AMOUNT OF BUSINESS FROM TIME AND MATERIALS CONTRACTS GOING FORWARD

Brian Kinstlinger: So do you expect – in the last two years, you've had your time and materials drop by 1.5 percent to 2 percent. Do you expect that's going to continue going forward?

Bill Fairl: What they have been talking about is, Brian, is moving to fixed-price contracting. And I plotted it out—our experience over the last five years. So far it has been staying more or less about the same. That's the trend they talk about wanting to do. So far, that hasn't materialized.

We are, as we said on previous calls, we want to manage each and every one of our contracts, whether it's fixed price, cost plus, or time and materials, to meet or exceed our commitment, day in and day out. As I mentioned, we are targeting that work that is decided on best value, star distinction, above the parity line, as opposed to low price. There's plenty of opportunities out there.

Operator: Our next question comes from Josh Sullivan of Gleacher & Co. Please go ahead.

QUESTION ON WHETHER IN-SOURCING IN THE DEPARTMENT OF DEFENSE WILL CONTINUE

Josh Sullivan: Thanks for taking my call. So Secretary Gates kind of indicated that in-sourcing has largely failed to achieve its goals. Can we expect that that movement is completely dead at this point?

Paul Cofoni: There have been a number of interpretations of this. This is Paul. There have been a number of interpretations of Secretary Gates' comments on in-sourcing. I would not profess to be able to know what he is thinking there but what we have observed is that, first of all, the in-sourcing initiative over the last 18 months has had a small impact on us. It's averaged probably around four people a week. So maybe over the last year it is a couple hundred people. Well, we grew in spite of that. We grew net 450 people last year. So, it didn't have a material impact on our ability to grow.

We have, as have other industry participants, argued that the in-sourcing idea makes sense for inherently governmental activities but, for all other work, competition is the very best thing for our clients and the taxpayer to get the best value with the best price. And I have often said that the first day that you in-source work is the last day it will ever be competed for, which means a reduction in innovation, price competitiveness, etc. So in general, we think the free market is the best place for the services work that we do, as opposed to a monopolistic system where you lose incentive for innovation and improvement and efficiency and effectiveness. In general, that is my comment.

QUESTION ON THE OPPORTUNITIES FOR CYBER WORK FOR CACI

Josh Sullivan: Thanks for that and, then, just the second question—just some color around the cyber opportunity. I think in the past you said it's around 2 percent to 3 percent of the top-line. Any color on that would be great.

Randy Fuerst: This is Randy Fuerst. We haven't seen a lot of awards in that area yet, across the industry. I will tell you that we have got a very healthy pipeline that we are prosecuting there. Number of big opportunities we are looking at in the Navy down in SPAWAR Charleston. We are in the fight on that. And so I would anticipate – there seems to be kind of like a buildup of activity in terms of government requirements. But, as you are well aware, the cyber command just stood up. And so, they're still understanding their priorities. We would expect as they understand those priorities, opportunities will result.

Operator: Our next question comes from John Emrich of Ironworks Capital. Please go ahead.

QUESTION ON THE CURRENT AMOUNT OF CACI WORK COMING FROM EXISTING CONTRACTS COMPARED TO PRIOR YEARS

John Emrich: Just a couple unrelated questions, if I could ask them separately. I believe it was an 80 percent where you talked about the percentage of your revenue was coming from, essentially, existing contracts. My words, not yours; I think you worded it differently. How does that number compare to prior years, if you will?

Bill Fairl: This is Bill Fairl. You are talking about our plan buildup for Fiscal Year 2011. I was mentioning that 80 percent of our Fiscal Year 2011 business comes from contracts that we already have in hand. It is about the same as it was in Fiscal Year 2010 and we had a fantastic year in Fiscal Year 2010. So I view this as a very strong indicator.

QUESTION ON WHAT WOULD CAUSE CACI TO EXCEED ITS GUIDANCE IN FY2011

John Emrich: Great. And if we talk a year from now and it turns out that your guidance, as it stands today, was proven to be conservative, with the advantage of hindsight, what do you think would have been the most likely cause of that happening?

Paul Cofoni: I'm sorry, I did not understand the question. Can you ask it again?

John Emrich: Sure. We talk a year from now and your guidance proved too conservative—you did better than the, say, the high end of your plan.

Paul Cofoni: Yes, yes.

John Emrich: What group or skill set or whatever it is within the company you think would be the most likely to have caused that to happen.

Paul Cofoni: The upside came from the C4ISR area and the intelligence and security services area. All of our competencies grew, but those grew the fastest. Did you want to add something there, Bill?

Bill Fairl: Yes, Paul. I may be wrong but John may be talking about imagine ourselves this time next year looking back at Fiscal Year 2011.

Paul Cofoni: Oh, looking back at Fiscal 2011? I'm not that good. Maybe you can do that, Bill.

Bill Fairl: If we exceeded it what would have happened?

Paul Cofoni: I think the team – we have really a terrific team here. The management team is very mature and knows how to go after and very aggressive in going after new business. So, if we were to have a upside this year, it will probably be because we win more than we had planned – at a higher win rate than we expected. And the DL growth will—it will be winning in areas where there is high labor concentration—CACI labor concentration.

Bill Fairl: And so as I've said in my remarks we are so excited about – we are only like six weeks into the 52 week year but we are off to a great start.

Paul Cofoni: We have a good start. We came out of the blocks well. But it is the early days, so we will keep you posted.

Operator: Our next question comes from Cai von Rumohr of Cowen & Co. Please go ahead.

QUESTION ON PRIORITIES FOR DEPLOYING CASH FOR MERGERS AND ACQUISITIONS OR FOR SHARE REPURCHASES

Cai von Rumohr: Yes, just a quick follow-up on cash deployment. Talk to us a little bit about the relative priorities of M&A versus stock repurchase and what you are seeing in terms of your M&A pipeline and opportunities.

Paul Cofoni: OK, thanks, Cai. Well, we see a very good pipeline of M&A opportunities and we have more than a half a dozen different companies that we are talking to at various stages. So we are quite – and the evaluation still seem to be a reasonable valuation. And expectations by sellers seem reasonable for the areas we are looking at. So I would expect M&A will continue to be the dominant, predominant use of our capital going forward.

We have, as you know, announced that the board approved for us to repurchase as much as 1 million shares of the stock. Given the current trading range for the stock, it is a very attractive time to be buying the stock. So while we are in a blackout period, as soon as we exit the blackout period, we will initiate a 10-b-5 process to repurchase some stock. And it will be set at parameters that are consistent with the current trading range. If the stock stays in this trading range, we think it is an attractive buy opportunity. And if it goes up to a higher range, if it moves back up where it was several weeks ago, we probably would defer our capital more toward more M&A activity because the returns there will be greater.

Tom Mutryn: Could I make a point, Paul. We are not capital constrained and it's not a question of either or. We can effect our stock repurchase plan and at the same time continue a M&A strategy as we have done in the past—very strong ongoing cash flow from operations; very low leverage ratio; significant access to debt financing at attractive rates.

Paul Cofoni: So, in summary, it's really a balanced approach with the predominant strategy to be investing our capital towards growth through organic and M&A and of the less dominant – of course, some balance on repurchase of stock.

Cai von Rumohr: Thank you very much.

Paul Cofoni: OK.

Bill Fairl: You're welcome.

Operator: Our next question comes from Joe Nadol of JP Morgan. Please go ahead.

QUESTION ON WHAT AMOUNT OF GROWTH IN DIRECT LABOR DOLLARS IN THE FOURTH QUARTER OF FY2010 WAS ORGANIC

Joe Nadol: Yes, thanks. Just was wondering if you could provide, or at least ballpark, how much of the 9 percent direct labor growth in the quarter—year-on-year—and the 8 percent for the full year was organic?

Bill Fairl: Joe, this is Bill Fairl, the large majority of it was organic. A very large majority of it.

Joe Nadol: OK, so if you look at the acquisition related revenue versus your existing revenue base, the mix between ODCs and direct isn't significantly different?

Bill Fairl: Significantly different than what?

Joe Nadol: Your existing base business.

Bill Fairl: Oh, the businesses we acquired?

Joe Nadol: Yes. We tend to ...

Tom Mutryn: The business we acquired are kind of relatively modest in the grand scheme of things this past year. They were just not that material,

Paul Cofoni: They were more labor sensitive.

Tom Mutryn: They were.

Bill Fairl: They are predominantly labor. But there are some products in there, too, and I think two of them have product content. I guess a product could be viewed as ODC in that sense. But in this case it is high margin ODC because these products that they are selling have very high gross margins associated with them. It is even better than labor. But there is not a lot of ODC as in you know it from S3 and other things, low-margin, high pass-through volume in the acquisition. The acquisitions are a combination of labor and product predominantly.

Joe Nadol: But to your point, very high margin.

Bill Fairl: High margin.

Operator: Our next question comes from Michael Lewis BB&T Capital Markets. Please go ahead, Sir.

**QUESTION ON WHETHER THE GUIDANCE FOR THE SHARE COUNT INCORPORATES ANY
IMPACT FROM THE AUTHORIZED SHARE REPURCHASE**

Michael Lewis: Thank you for taking the follow-up. Tom, I was wondering—the 31.3 million share guidance for Fiscal Year 2011—does that incorporate the buyback or not?

Tom Mutryn: It does not. No buyback is included in the guidance.

Michael Lewis: OK, thank you.

Operator: I am showing no further questions at this time, gentlemen.

CEO CLOSING REMARKS

Paul Cofoni: OK, well thank you, Allison, for your help on the call this morning. And we would like to thank everyone who dialed in or logged in for the webcast for your participation today as well. We know that many of you will have follow-up questions and Tom and Dave, as is their custom, will be available after the call to, give them a few minutes and then they will be able to answer your calls. This concludes our call today. Thank you and have a good day.

Operator: Ladies and gentlemen, that does conclude today's conference. You may all disconnect and have a wonderful day.

END

The information contained in this transcript, by its nature, reflects facts known to the company and its management at the time of the earnings release and conference call. All information contained in this transcript, including references to other press releases or public filings, should be read in the context of the latest available information in the company's releases or filings.