



**Federal Retirement  
Thrift Investment Board**

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## **QUARTERLY VENDOR FINANCIAL ASSESSMENT**

Board Presentation: January 27, 2014

Prepared by:  
Office of Enterprise Risk Management (OERM)

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**BlackRock, Inc. (BLK)****Exchange:** NYSE    **Sector:** Financials    **Industry:** Asset Management**Company Overview:**

- BlackRock, Inc. (BlackRock) is the world's largest publicly traded investment management firm with portfolio managers located around the world. As of September 30, 2013, BlackRock managed \$4.096 trillion of assets under management (AUM) on behalf of institutional and individual investors worldwide. BlackRock offers clients diversified access to global markets through separate accounts, collective investment trusts, open-end and closed-end mutual funds, exchange-traded products, hedge funds and funds of funds.

**Strengths**

- Leading market position and reputation across asset management industry with deep, granular and global customer base
- Strong earnings and cash flow generation capacity

**Challenges**

- Increasing price competition in the ETF market
- Potential regulatory changes in cash management business

**Services Provided:**

- BlackRock is the investment manager for the Thrift Savings Plan (TSP)'s C, F, S and I Funds. BlackRock Institutional Trust Company, N.A. (BTC) has selected State Street Corporation to provide custodial services.

**Credit Ratings:**

- Moody's: A1** (Aaa–C) – Investment grade – Judged to be upper-medium grade and subject to low credit, and has best ability to repay short-term debt
- S&P: A+** (AAA–D) – Investment grade – Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
- D&B: 478** (101–670) – D&B predicts a moderately lower risk of likelihood that BlackRock will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

**Significant Events (April- September 2013):**

- April 17<sup>th</sup>, BlackRock issued FY 2013 revenue guidance below analysts' estimates.
- May 12<sup>th</sup>, BlackRock announced it would acquire MGPA, an independently-managed private equity real estate investment advisory company in Asia-Pacific and Europe.
- May 30<sup>th</sup> and July 25<sup>th</sup>, BlackRock declared a quarterly cash dividend.

**Subsequent Events (after September 2013):**

- October 31<sup>st</sup>, The Financial Stability Oversight Council (the "FSOC") is reviewing risks associated with the asset management industry that involves a preliminary study of some of its top players including Blackrock.
- November 21<sup>st</sup>, BlackRock declared a quarterly cash dividend.
- December 19<sup>th</sup>, BlackRock is seeking \$3 Billion for a hedge fund to invest in credit globally.

**Risk Mitigation:**

- Risk of increased regulatory and compliance costs, including potential designation as a Systemically Important Financial Institution (SIFI) by the U.S. Treasury's Financial Stability Oversight Council (FSOC)* – BlackRock does not view itself as a SIFI for the following reasons: Not significantly levered, no wholesale funding, does not sell insured products to the retail market, balance sheet not reliant on government bailout, and does not take deposits. No determination has been made by Treasury.

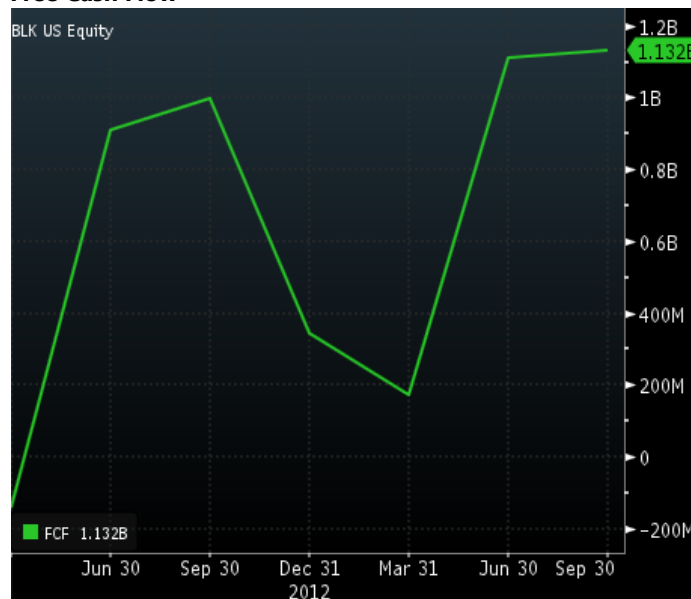
Given the current analysis of the vendor, we find no indication that BlackRock is unable to fulfill its contractual obligations to FRTIB.

**BlackRock, Inc. (BLK)**

Exchange: NYSE

Sector: Financials

Industry: Asset Management

**Share Price****Free Cash Flow****Key Metrics Supporting Analysis**

(\$ In Millions, except ratios, yields, and )	Q3 2012	Q3 2013	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	32.15	30.62	-5%	↓
Debt to Capital Ratio	24.33	23.44	-4%	↓
Interest Coverage Ratio	17.54	18.50	5%	↑
Enterprise Value	\$34,100	\$48,340	42%	↑
<b>Liquidity</b>				
Cash Ratio	.98	.88	-10%	↓
Current Ratio	1.54	1.81	18%	↑
Quick Ratio	1.54	1.81	18%	↑
<b>Profitability</b>				
Revenue	\$2,320	\$2,472	7%	↑
EBITDA	\$949	\$1037	9%	↑
EBIT	\$962	\$1000	4%	↑
ROA	1.26	1.37	9%	↑
ROE	8.79	10.52	20%	↑
ROIC	7.34	8.68	18%	↑
Operating Margin	27.67	29.53	7%	↑
Profit Margin	36.86	37.51	2%	↑
Revenue Growth	4.27	6.55	53%	↑
EPS	12.92	15.96	24%	↑

**Equinix, Inc. (EQIX)****Exchange:** NASDAQ    **Sector:** Technology    **Industry:** Computer Services**Company Overview:**

- Equinix, Inc. (Equinix) provides global data center services that protect and connect information assets for its clients. Global enterprises, financial services companies, and content and network service providers rely upon Equinix's data centers in 31 markets around the world for the safe housing of their critical IT equipment and the ability to directly connect to the networks that enable today's information-driven economy. As of September 30, 2013, Equinix operated or had partner international business exchanges (IBX) data centers in the Americas, Europe-Middle East-Africa (EMEA), and the Asia-Pacific regions.

**Strengths**

- No single customer accounts for 10% or greater of revenues or accounts receivable as of September 30, 2013 and December 31, 2012

**Challenges**

- Debt level is extremely high with poor financial leverage
- EBITT margin decreased when compared to prior year

**Services Provided:**

- Equinix is under contractual obligation to host data center services for the FRTIB. The FRTIB's primary data center operates out of a Northern Virginia facility. In 2012, Equinix sold 16 U.S. data centers to 365 Main, Inc. for \$75 million. One of the data centers sold to 365 Main is the backup data center for FRTIB in Pennsylvania. Equinix remains contractually obligated to oversee the Pennsylvania data center services through September 30, 2015.

**Credit Ratings:**

- Moody's: Ba3** (Aaa-C) – Speculative grade – Judged to be speculative and is subject to significant credit risk, and does not have prime ability to repay short-term debt
- S&P: BB** (AAA-D) – Speculative grade – Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
- D&B: 465** (101-670) –D&B predicts a moderately higher risk of likelihood that Equinix will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

**Significant Events (April- September 2013):**

- In April 2013, Equinix redeemed \$750.0 million 8.125% senior notes, plus accrued interest, with \$836.5 million in cash.
- Equinix completed the New York 2 IBX data center purchase for net cash consideration of \$73.4 million in July 2013.

**Subsequent Events (after September 2013):**

- October 2013, Equinix completed the purchase of property located in Frankfurt, Germany for approx. \$90.7 million.
- The Company initiated a program to hedge its exposure to foreign currency exchange rate fluctuations in October 2013.

**Risk Mitigation:**

- Risk of substantial increases in cost associated with REIT conversion (to be completed by 1/1/15)* – Equinix is using cash to pay advisors related to the REIT conversion, and working to define their adjusted funds from operations (AFFO), used to estimate the value of a REIT, and will provide this calculation upon receiving approval from the IRS.
- Risk of continuing to operate in a volatile currency environment* – Equinix issued Q3 2013 guidance below analysts' estimates and lowered FY 2013 guidance, but is building into the forecast an additional \$11M in negative impact from currency fluctuations.

Given the current analysis of the vendor, we find no indication that Equinix is unable to fulfill its contractual obligations to FRTIB.

**Equinix, Inc. (EQIX)**

Exchange: NASDAQ

Sector: Technology

Industry: Computer Services

**Share Price****Free Cash Flow****Key Metrics Supporting Analysis**

(\$ In Millions, except ratios, yields, and )	Q3 2012	Q3 2013	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	130.93	158.44	21%	↑
Debt to Capital Ratio	56.70	61.31	8%	↑
Interest Coverage Ratio	1.72	1.80	5%	↑
Enterprise Value	\$12,050	\$12,440	3%	↑
<b>Liquidity</b>				
Cash Ratio	.66	1.28	94%	↑
Current Ratio	1.18	1.73	47%	↑
Quick Ratio	.96	1.62	69%	↑
<b>Profitability</b>				
Revenue	\$485	\$543	12%	↑
EBITDA	\$204	\$226	11%	↑
EBIT	\$97	\$115	19%	↑
ROA	1.97	1.41	-28%	↓
ROE	5.85	6.50	11%	↑
ROIC	2.49	1.86	-25%	↓
Operating Margin	20.91	21.24	2%	↑
Profit Margin	5.56	7.82	41%	↑
Revenue Growth	18.77	12.01	-36%	↓
EPS	2.35	1.91	-19%	↓

**MetLife, Inc. (MET)****Exchange:** NYSE**Sector:** Financials**Industry:** Life Insurance**Company Overview:**

- MetLife, Inc. (MetLife) is a leading global provider of insurance, annuities and employee benefit programs throughout the United States, Japan, Latin America, Asia, Europe and the Middle East.

**Strengths**

- Market leader and well diversified in individual and group life

**Challenges**

- MetLife business and results of operations are materially affected by conditions in the global capital markets and the overall economy

**Services Provided:**

- MetLife has been the annuity provider to the TSP since 1987. The Federal Employees Retirement System Act of 1986 (FERSA) requires FRTIB to offer a participant who has separated from federal service the option of purchasing an annuity, using all or a portion of the participant's account balance.

**Credit Ratings**

- **Moody's: A3** (Aaa–C) – Investment grade – Judged to be upper-medium grade and is subject to low credit risk, and has high ability to repay short-term debt
- **S&P: A-** (AAA–D) – Investment grade – Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
- **D&B: 558** (101–670) –D&B predicts a moderately lower risk of likelihood that MetLife pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

**Significant Events (April- September 2013):**

- April 23<sup>rd</sup>, MetLife declared 2Q 2013 common stock dividend
- May 21<sup>st</sup>, MetLife announced merging of its offshore reinsurance unit with 3 U.S. subsidiaries
- On June 5<sup>th</sup>, MetLife reaffirmed FY 2013 EPS guidance

**Subsequent Events (after September 2013):**

- In December 2013, MetLife announced it will buy into AmLife Insurance and AmFamily Takaful for \$249 million for the proposed acquisition. Upon receipt of regulatory approval, MetLife will own 50% plus one share in AmLife with remaining shares to be owned by AMMB as a result of the proposal.
- On October 22, 2013, the Board of MetLife declared a fourth quarter 2013 common stock dividend of \$0.275 per share payable on December 13, 2013

**Risk Mitigation:**

- *Risk of increased regulatory and compliance costs, including potential designation as a Systemically Important Financial Institution (SIFI) by the U.S. Treasury's Financial Stability Oversight Council (FSOC)* – On July 18, MetLife was identified as a Globally Systemically Important Insurer (GSII) by the international Financial Stability Board. Being named a GSII has no legal effect unless identified as a SIFI, and would be subjected to enhanced supervision and prudential rules. MetLife is in Stage 3, the final stage, of the SIFI determination process.
- *Risk that variable annuity risk is undermanaged* – MetLife is merging offshore captive reinsurer into a U.S. regulated entity to increase transparency, and shifting from higher risk variable annuity products to lower risk products.

Given the current analysis of the vendor, we find no indication that MetLife is unable to fulfill its contractual obligations to FRTIB.

**MetLife, Inc. (MET)**

Exchange: NYSE

Sector: Financials

Industry: Life Insurance

**Share Price****Free Cash Flow****Key Metrics Supporting Analysis**

(\$ In Millions, except ratios, yields, and )	Q3 2012	Q3 2013	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	41.99	41.94	.12%	↑↓
Debt to Capital Ratio	29.58	29.55	-.10%	↓
Interest Coverage Ratio	-2.04	4.08	-300%	↑
Enterprise Value	\$24,540	\$50,470	106%	↑
<b>Liquidity</b>				
Cash Ratio	.39	.35	-10%	↓
Current Ratio	1.24	1.44	16%	↑
Quick Ratio	.91	1.06	16%	↑
<b>Profitability</b>				
Revenue	\$16,503	\$16,337	-1%	↓
EBITDA	\$949	\$1,037	9%	↑
EBIT	(664)	1293	-295%	↓
ROA	.27	.31	15%	↑
ROE	9.57	10.54	10%	↑
ROIC	2.48	3.02	22%	↑
Operating Margin	4.73	3.44	-27%	↓
Profit Margin	-5.78	5.95	-203%	↓
Revenue Growth	-19.31	-1.01	-95%	↓
EPS	1.94	2.23	15%	↑



**R.R. Donnelley & Sons Co. (RRD)****Exchange:** NASDAQ**Sector:** Industrials**Industry:** Business Support Services**Company Overview:**

- R.R. Donnelley & Sons Company (RR Donnelley) is a global provider of integrated communications. The Company works collaboratively with more than 60,000 customers worldwide to develop custom communications solutions. It designs, manages, and produces words and images on paper and in digital form for customers in the publishing, healthcare, advertising, retail, technology, financial services, and other industries. RR Donnelley operates business through three segments: U.S. Print & Related Services, International, and Corporate.

**Strengths**

- One of the largest entities by revenue in its industry
- Diverse and unique business models

**Challenges**

- Operating Margin decreased when compared to prior year
- Trend of increased use of e-commerce by businesses

**Services Provided:**

- RR Donnelley provides bulk printing and mailing services for FRTIB from its Thurmont, MD facility. These services include printing and mailing FRTIB documents, education, and marketing materials to participants, beneficiaries, and third parties.

**Credit Ratings:**

- **Moody's: Ba2** (Aaa-C) – Negative – Judged to have speculative elements and a significant credit risk
- **S&P: BB** (AAA-D) – Negative – An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to obligor's inadequate capacity to meet its financial commitments
- **D&B: 535** (101-670) – D&B predicts a moderately lower risk of likelihood that RR Donnelley will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

**Significant Events (April- September 2013):**

- On May 28<sup>th</sup>, RR Donnelley awarded multi-year multi-million dollar agreement by Williams-Sonoma, Inc.
- RR Donnelley was awarded U.S. patent for system and method for rendering data on July 10<sup>th</sup>

**Subsequent Events (after September 2013):**

- RR Donnelley announced that it entered into a definitive agreement to acquire Consolidated Graphics for approx. \$620 million in cash and RR Donnelly shares, plus the assumption of Consolidated Graphics net debt on October 24, 2013
- On December 17, 2013, RR Donnelley and Consolidated Graphics jointly announced the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 "HSR" related to the merger announcement. The transaction is expected to close in the first quarter of 2014
- S & P credit rating changed to BB- on November 6<sup>th</sup>
- RR Donnelley and Esselte announced on January 6, 2014 a signed agreement has been reached for RR Donnelley to acquire the North American operations of Esselte.

**Risk Mitigation:**

- *Risk of not successfully integrating series of latest acquisitions* – RR Donnelley is continuing to show improvement in days sales outstanding (DSO) on working capital, and states it has a very good management team integrating acquisitions and harmonizing the process. In addition, revenues sequentially increased 1.7% due, in part, to last year's acquisitions.
- *Risk of excessive leverage (Debt/EBITDA is approximately 20x industry average)* – RR Donnelley recently closed a \$400 million debt offering to fund tender offers and to repay borrowings under its revolving credit facility. As indicated in their Q2 2013 guidance, management anticipates lowering their leverage for FY 2013 by year end.

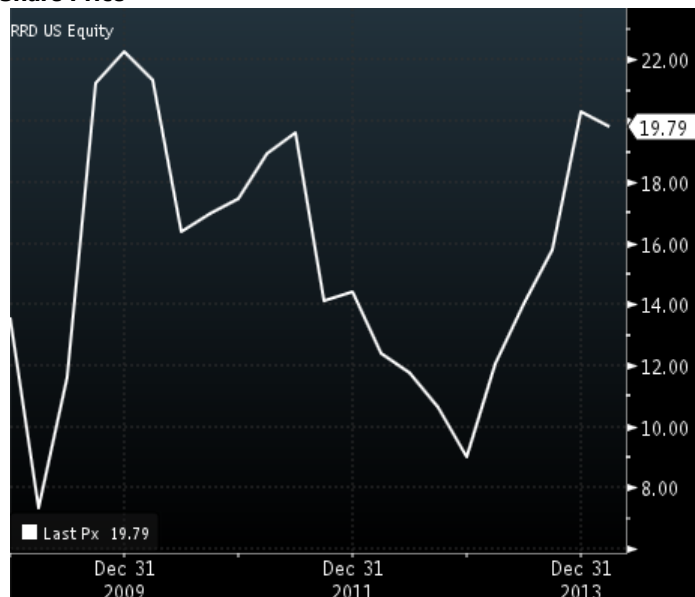
Given the current analysis of the vendor, we find no indication that RR Donnelley is unable to fulfill its contractual obligations to FRTIB.

**R.R. Donnelley & Sons Co. (RRD)**

Exchange: NASDAQ

Sector: Industrials

Industry: Business Support Services

**Share Price****Free Cash Flow****Key Metrics Supporting Analysis**

(\$ In Millions, except ratios, yields, and )	Q3 2012	Q3 2013	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	329.19	9,659.34	2834%	↑
Debt to Capital Ratio	76.70	98.97	29%	↑
Interest Coverage Ratio	3.15	2.63	-17%	↓
Enterprise Value	\$5,323	\$5,940	12%	↑
<b>Liquidity</b>				
Cash Ratio	.17	.21	24%	↑
Current Ratio	1.37	1.41	3%	↑
Quick Ratio	1.06	1.10	4%	↑
<b>Profitability</b>				
Revenue	\$2,509	\$2,615	4%	↑
EBITDA	\$319	\$279	-13%	↓
EBIT	\$200	\$172	-14%	↓
ROA	-1.50	-9.63	542%	↑
ROE	23.53	60.54	157%	↑
ROIC	-2.58	-19.45	654%	↑
Operating Margin	1.51	-3.80	-352%	↓
Profit Margin	2.85	3.56	25%	↑
Revenue Growth	-6.50	4.23	-165%	↓
EPS	-.68	-4.10	503%	↑

**Serco Group Plc (SRP)****Exchange:** LSE**Sector:** Technology**Industry:** Technology Services**Company Overview:**

- Serco Group Plc, (Serco) is a public limited company based in the United Kingdom with its North American headquarters in Reston, VA. Serco N.A. is an independent subsidiary that provides professional, technology, and management services focused on U.S. federal and Canadian governments.

**Strengths**

- One of the largest entities by revenue in its industry
- Diverse and unique business models

**Challenges**

- Operating Margin decreased when compared to prior year

**Services Provided:**

- Serco is currently the prime contractor for two major Information Technology (IT) service areas: 1) Infrastructure and Operations, which includes the IT assets in the FRTIB data centers, and 2) Software Development and Maintenance, which includes the FRTIB Recordkeeping System. On February 1, 2014, Science Applications Information Corp. (SAIC) will assume the services that were provided by Serco.
- After the transition with SAIC is complete, Serco will still operate the call center; court order, death benefit, and agency technical service center, as well as provide incoming mail, data entry and imaging support through its subcontractor.

**Credit Ratings:**

- Moody's:** NR (Aaa-C) – N/A
- S&P:** NR (AAA-D) – N/A
- D&B:** 489 (101–670) – D&B predicts a moderately lower risk of likelihood that Serco will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

**Significant Events (April- September 2013):**

- On May 16, Serco is awarded the new \$355M Virginia traffic management contract.
- On June 28, Serco and Plenary Group reach financial close on Ontario's driver examination services contract.
- Serco awarded \$1.2B Center for Medicare and Medicaid contract supporting health benefit exchanges (July 11<sup>th</sup>).
- Further progress on contract awards and strategic position (Q2 2013), including new wins in the U.S. and many small and medium-sized wins, highlight further diversification in the Americas division. Serco is selected and signed for new business valued at £2.1B

**Subsequent Events (after September 2013):**

- December 20<sup>th</sup>, it was announced Serco was awarded a \$200 Million contract extension to operate London prison.
- Serco announced it would repay \$112.3 million to U.K. ministry related to probe of billing practices.

**Risk Mitigation:**

- Risk of reputational damage* –Serco agreed to repay the U.K. government due to overbilling after criminal tagging investigation.

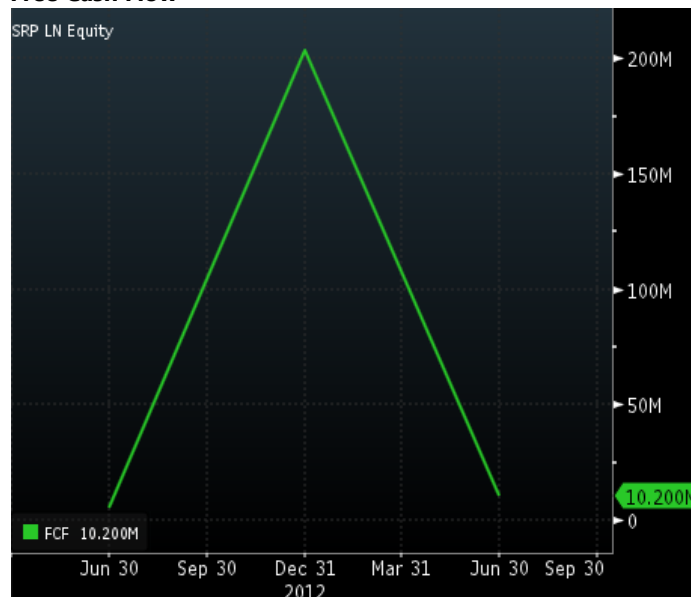
Given the current analysis of the vendor, we find no indication that Serco is unable to fulfill its contractual obligations to FRTIB.

**Serco Group Plc (SRP.L)**

Exchange: LSE

Sector: Technology

Industry: Technology Services

**Share Price****Free Cash Flow****Key Metrics Supporting Analysis**

(\$ In Millions, except ratios, yields, and )	Q3 2012	Q3 2013	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	83.11	83.90	1%	↑
Debt to Capital Ratio	45.39	45.63	1%	↑
Interest Coverage Ratio	-16.88	4.96	-129%	↓
Enterprise Value	\$3,291	\$3,291	-	-
<b>Liquidity</b>				
Cash Ratio	.19	.22	16%	↑
Current Ratio	1.19	1.33	12%	↑
Quick Ratio	1.11	1.21	9%	↑
<b>Profitability</b>				
Revenue	\$1,906	\$2,113	11%	↑
EBITDA	\$117	\$148	26%	↑
EBIT	\$73	\$102	40%	↑
ROA	6.86	7.95	16%	↑
ROE	18.62	21.46	15%	↑
ROIC	10.16	11.08	9%	↑
Operating Margin	3.83	4.83	26%	↑
Profit Margin	5.00	3.98	-20%	↓
Revenue Growth	-15.15	10.91	-172%	↓
EPS	.19	.17	-11%	↓

\* Serco reports semi-annually.

## SunGard (privately held company)

### Company Overview:

- SunGard (SunGard) is a privately held company based in Wayne, Pennsylvania, that provides software and technology services to education, financial services, and public sector organizations. SunGard provides disaster recovery services, managed IT services, information availability consulting services and business continuity management software to its clients.

#### **Strengths**

- Differentiation by high revenues: Annual revenues of over \$4B, driven by acquisitions and internal growth
- Financial Leverage will likely remain high

#### **Challenges**

- Cost cutting/spending by financial services companies.
- Public and private sector budget restraints, which might impact the purchasing of new software services and software upgrades

### Services Provided:

- FRTIB contracts with SunGard for use of their suite of Omni software products that form the core of the FRTIB recordkeeping system. SunGard's Professional Services unit operated as a key subcontractor to Serco, FRTIB's prime contractor for (1) software development and maintenance including recordkeeping software, and (2) incoming mail, data entry, and imaging support.
- On February 1, 2014, services provided by SunGard under the Serco contract will transfer to SAIC.

### Credit Ratings:

- **Moody's:** NR (Aaa-C) – N/A
- **S&P:** NR (AAA-D) – N/A
- **D&B:** 544 (101–670) –D&B predicts a moderately lower risk of likelihood that SunGard will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 monthslikelihood of paying bills severely delinquent, obtaining legal relief, or ceasing operations

### Significant Events (April- September 2013):

- March 11<sup>th</sup>, SunGard selected J.P. Morgan Clearing Corp. to add access to centralized custody and settlement capabilities for short-term cash management.
- SunGard's Availability Services segment records strong first-half growth in new customers on August 27<sup>th</sup>

### Subsequent Events (after September 2013):

- No subsequent events noted after September 2013.

### Risk Mitigation:

- *Risk that SunGard will not met its profitability goals.* As of January 13<sup>th</sup>, SunGard is in talks to sell its data unit to Apax. SunGard revenues sequentially decreased 4% due mainly to a decrease in Financial Systems software license revenue, and to a lesser degree, a decrease in professional services revenue and managed services revenue in the Financial Systems segment. Recovery for this segment will partially depend on inorganic growth through current and future acquisitions, which will help to diversify the company's service offerings. Also, the recovery for this segment will partially depend on confidence to spend by major financial services clients who were affected by the financial crisis of 2008.

Given the current analysis of the vendor, we find no indication that SunGard is unable to fulfill its contractual obligations to FRTIB.

## SunGard (privately held company)

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### Key Metrics Supporting Analysis:

Note: SunGard is a privately held company and, therefore, there is limited amount of information reported by financial news and data service companies, such as Bloomberg. However, due to obligations in connection with bond debt, it is a registrant with the Securities and Exchange Commission (SEC).

**The Active Network, Inc. (ACTV)****Exchange:** NYSE**Sector:** Technology**Industry:** Computer Services**Company Overview:**

- The Active Network, Inc. (Active Network), headquartered in San Diego, CA, is a provider of organization-based cloud computing applications serving a range of customer group.

**Strengths**

- Leader in cloud-based Activity & Participant Management (APM) solutions.

**Challenges**

- Active's outdoor segment and marketing businesses continue to face headwinds.

**Services Provided:**

- Active Network and its predecessor organizations have managed the Maryland FRTIB Call center since July 2004.

**Credit Ratings:**

- **Moody's:** NR (Aaa-C) – N/A
- **S&P:** NR (AAA-D) – N/A
- **D&B:** N/A

**Significant Events (April- September 2013):**

- On April 11<sup>th</sup>, Ironman and Active Network expanded relationship globally across all brands.
- Active Network and RaceHQ announce strategic partnership to support software solutions that help race directors build and deliver great events on July 7<sup>th</sup>

**Subsequent Events (after September 2013):**

- November 15<sup>th</sup>, the Active Network was purchased by Vista Equity Partners and will no longer be a public company.
- Moody's credit rating changed to B3 on October 29<sup>th</sup>

**Risk Mitigation:**

- *Risk of investors will not regain confidence in the company due to recent management change and track record of not meeting guidance* – Active Network formed a strategic transactions committee to consider and evaluate strategic alternatives, including sale of the company. With the sale of Active Network to Vista Equity Partners, this represents a positive event for shareholders and allows the company to execute on its strategy, further enhancing industry leadership.

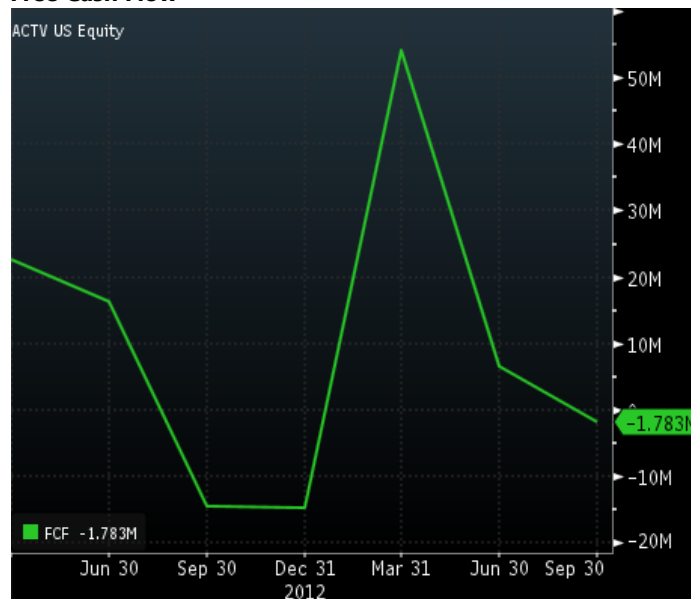
Given the current analysis of the vendor, we find no indication that Active Network is unable to fulfill its contractual obligations to FRTIB.

**The Active Network, Inc. (ACTV)**

Exchange: NYSE

Sector: Technology

Industry: Computer Services

**Share Price****Free Cash Flow****Key Metrics Supporting Analysis**

(\$ In Millions, except ratios, yields, and )	Q3 2012	Q3 2013	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	.81	1.02	26%	↑
Debt to Capital Ratio	.80	1.01	26%	↑
Interest Coverage Ratio	3.15	2.63	17%	↑
Enterprise Value	-	-	-	-
<b>Liquidity</b>				
Cash Ratio	.39	.47	21%	↑
Current Ratio	.82	.88	7%	↑
Quick Ratio	.76	.71	-7%	↓
<b>Profitability</b>				
Revenue	-	-	-	-
EBITDA	\$10.72	\$10.73	.09%	↑
EBIT	\$(4.31)	\$(4.68)	9%	↑
ROA	-6.76	-6.88	2%	↓
ROE	-10.90	-10.85	-.46%	↓
ROIC	-	-	-	-
Operating Margin	-3.94	-3.99	1%	↑
Profit Margin	-5.51	-4.51	-18%	↓
Revenue Growth	21.86	7.61	-65%	↓
EPS	-.1	-.08	-20%	↓



**Science Applications International Corp. (SAIC)****Exchange:** NYSE**Sector:** Technology**Industry:** Information**Company Overview:**

- Science Applications International Corp. (SAIC), formerly SAIC Gemini, Inc., is a scientific, engineering, and technology applications company, serving the U.S. and foreign governments, and selected commercial customers. On September 27, 2013, SAIC Gemini, Inc. spun-off their enterprise IT and technical & engineering service businesses under the new SAIC, while the national security, health, and engineering service businesses was renamed to Leidos.

**Strengths**

- Balanced distribution of revenue sources, more than 1500 contracts and task orders, and a prime contractor on 91% of its contracts
- Potential for SAIC to access \$25B in new market opportunities, for a total market of \$185B in government contracts

**Challenges**

- Decrease in sales and current customer base
- Growth in new markets

**Serviced Provided:**

- FRTIB awarded its Technology and Enterprise Support Services (TESS) contract to SAIC on August 9, 2013. SAIC replaces two individual contracts with Serco, one for IT recordkeeping and the other for data center and operations. The phase-in period began October 1, 2013, and contract performance will begin February 1, 2014.

**Credit Ratings:**

- Moody's:** NR (Aaa-C) – N/A
- S&P:** S&P: BBB (AAA-D) – Adequate grade- Has capacity to meet financial commitments, but more subject to adverse economic conditions
- Fitch:** NR (AAA-D) – N/A
- D&B:** 514 (101-670) – D&B predicts a moderately lower risk of likelihood that SAIC will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

**Significant Events (April-September 2013):**

- S & P credit rating changed to BBB on September 27<sup>th</sup>

**Subsequent Events (after September 2013):**

- SAIC initiates quarterly cash dividend and authorizes share repurchase program on October 3<sup>rd</sup>
- SAIC and Hitachi Data Systems announced strategic alliance to develop and deliver a desktop-as-a service (DTaaS) solution.

**Risk Mitigation:**

- Risk of organizational conflicts of interest (OCI)* – Spinning off SAIC will allow the company to more effectively pursue new and existing market opportunities without OCI constraints.

Given the current analysis of the vendor, we find no indication that SAIC is unable to fulfill its contractual obligations to FRTIB.

**Science Applications International Corp. (SAIC)**   **Exchange:** NYSE   **Sector:** Technology   **Industry:** Information**Key Metrics Supporting Analysis:**

Note: SAIC is a publicly traded company, however, since it was recently spun-off and listed under a new ticker, there is limited amount of information reported by financial news and data service companies, such as Bloomberg.

## 365 Main, Inc. (privately held company)

### Company Overview:

- 365 Main, Inc. (365 Main) is a privately held company based in San Francisco, CA and is a nationwide owner and operator of 17 U.S.-based data centers. 365 Main provides facilities optimized for modern data center requirements, featuring 24/7/365 power, cooling, connectivity and security capabilities to ensure mission-critical operations and business continuity.

#### **Strengths**

- Industry reputation for high touch customer service, satisfaction, and retention

#### **Challenges**

- Capitalizing on geographic demand through the acquisition of additional data centers in key markets

### Services Provided:

- 365 Main owns and operates the backup data center for FRTIB in Pittsburgh, PA. As part of the carve-out acquisition of data centers from Equinix in August 2012, Equinix remains contractually obligated to oversee data center services for the FRTIB at this site through the second option year, which ends on September 30, 2015.

### Credit Ratings:

- **Moody's:** NR (Aaa-C) – N/A
- **S&P:** NR (AAA-D) – N/A
- **D&B: 522** –D&B predicts a moderately lower risk of likelihood that SAIC will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

### Significant Events (April- September 2013):

#### **Key Events (past 6 months)**

- On April 30<sup>th</sup>, 365 Main expanded New York data center.
- May 22<sup>nd</sup>, 365 Main successfully completed an SSAE examination of its current 16 data centers.
- 365 Main adds San Francisco Bay Area data center as its 17<sup>th</sup> site on July 11<sup>th</sup>

### Subsequent Events (after September 2013):

- On October 24<sup>th</sup>, 365 Main announced partnership with Wolfe Internet Services for expanded options to customers.
- 365 Main announced that NZingaNet selected the Company's Philadelphia data center to grow its business.

### Risk Mitigation:

- *Risk of challenging internal controls environment during expansion* – 365 Main completed a 2013 SSAE 16 examination that provided a clean opinion on internal controls within the organization. Scope included: examinations of customer service, physical and environmental security, technical support, equipment, and administration for each data center and its headquarters.

Given the current analysis of the vendor, we find no indication that 365 Main is unable to fulfill its contractual obligations to FRTIB.

## 365 Main, Inc. (privately held company)

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### Key Metrics Supporting Analysis:

Note: 365 Main is a privately held company and, therefore, there is limited amount of information reported by financial news and data service companies, such as Bloomberg. However, due to obligations in connection with bond debt, it is a registrant with the Securities and Exchange Commission (SEC).

## Glossary of Financial Terms

<b>Debt/Equity:</b> A measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity; It indicates what proportion of equity and debt the company is using to finance its assets.	<b>EBIT:</b> An indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest; EBIT is also referred to as "operating earnings", "operating profit" and "operating income."
<b>Debt/Capital:</b> A measurement of a company's financial leverage, calculated as the company's debt divided by its total capital; Debt includes all short-term and long-term obligations; Total capital includes the company's debt and shareholders' equity, which includes common stock, preferred stock, minority interest and net debt.	<b>Return on Asset (ROA):</b> An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings.
<b>Interest Coverage Ratio:</b> A ratio used to determine how easily a company can pay interest on outstanding debt; The interest coverage ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) of one period by the company's interest expenses of the same period.	<b>Return on Equity:</b> A measurement a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.
<b>Enterprise Value:</b> An economic measure reflecting the market value of a whole business; It is a sum of claims of all claimants: creditors (secured and unsecured) and equity holders (preferred and common).	<b>Return on Invested Capital (ROIC):</b> A calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.
<b>Cash Ratio:</b> A liquidity ratio that measures a company's ability to pay short-term obligations.	<b>Operating margin:</b> A measurement the proportion of revenue left over after paying the variable costs of production. It is an important indicator of efficiency and profitability
<b>Current Ratio:</b> A liquidity ratio that measures a company's ability to pay short-term obligations.	<b>Profit Margin:</b> A ratio of profitability calculated as net income divided by revenues, or net profits divided by sales. It measures how much out of every dollar of sales a company actually keeps in earnings.
<b>Quick Ratio:</b> A solvency metric to determine a firm's ability to pay down current liabilities with its cash, short term equivalents, and accounts receivables.	<b>Revenue Growth:</b> An increase of a company's sales when compared to a previous period revenue performance; The current period's sales figure can be compared on a year-over-year basis or sequentially; This helps to give analysts, investors, and participants an idea of how much a company's sales are increasing over time.
<b>Revenue:</b> The amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise; It is the "top line" or "gross income" figure from which costs are subtracted to determine net income.	<b>Earnings per share (EPS):</b> The amount of income that "belongs" to each share of common stock. An important tool for investors, EPS is often used in determining the value of a stock.
<b>EBITDA:</b> An indicator of a company's financial performance; EBITDA is essentially net income with interest, taxes, depreciation, and amortization added back to it, and can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.	