



**Federal Retirement  
Thrift Investment Board**

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## **QUARTERLY VENDOR FINANCIAL ASSESSMENT**

Board Presentation: July 28, 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 March 31, 2014, BlackRock managed \$4.401 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 asset 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: AA-** (AAA–D) – Investment grade – Very strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
- D&B: 550** (101–670) – Lower risk – D&B predicts a low 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 (January - March 2014):**

- On February 11<sup>th</sup>, BlackRock auctioned \$1.72 billion of restructured short-term debt in the Canadian market.

**Subsequent Events (after March 2014):**

- In May, BlackRock declared a quarterly cash dividend.
- In May, BlackRock credit rating upgraded at S&P. Standard & Poor's Rating Services Rating Services raised its issuer credit rating on BlackRock to 'AA-/A-1+' from 'A+/A-1'. The outlook is stable. The upgrade reflects the improvements in BlackRock's cash flow generation and key credit metrics.
- In June, BlackRock announced cash distributions for the iShares Funds.
- Asset-management firms, including BlackRock, are working to demonstrate to members of the Financial Stability Oversight Council that they should not be considered a Systemically Important Financial Institution (SIFI). No determination has been made by Treasury and there is no clear timeline for action.
- In June, BlackRock received a Wells notice from the U.S. Securities and Exchange Commission warning it of a possible lawsuit over potential conflicts of interest concerning a former portfolio manager at the BlackRock Energy & Resources Portfolio. BlackRock plans to cooperate with the SEC investigation and doesn't believe it violated provisions mentioned by the SEC or expects resolution of the matter to have an impact on its financial results.

**Risk Monitoring:**

- 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.

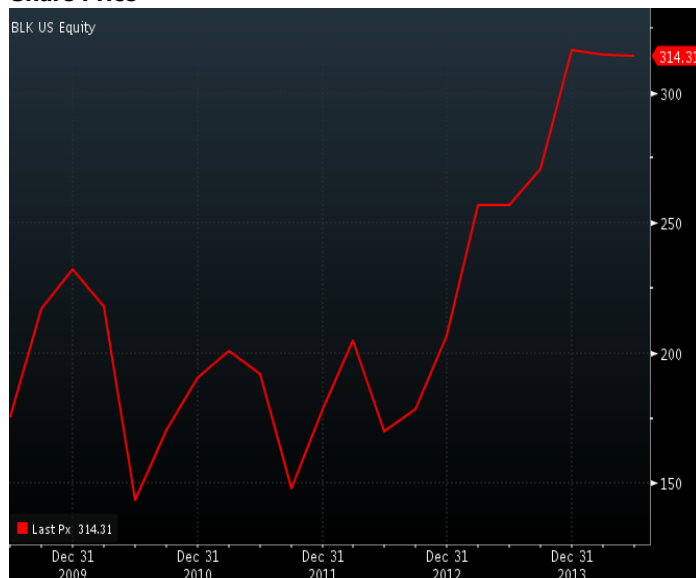
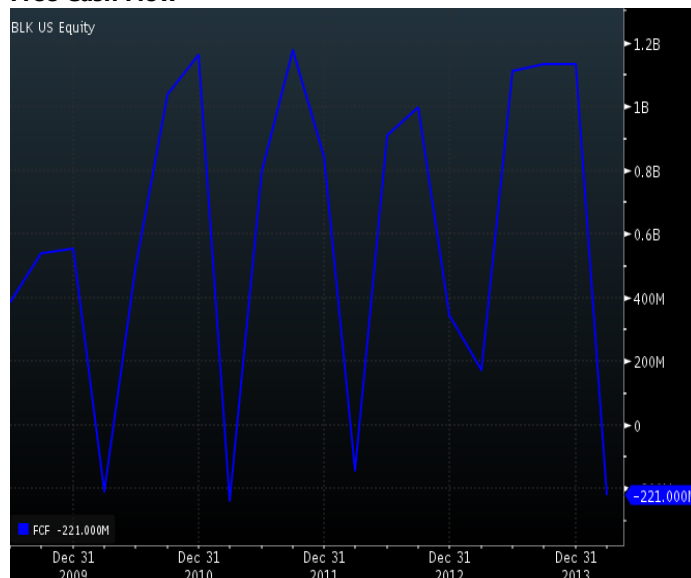
Given the current analysis of the vendor, we find no indication that BlackRock is unable to fulfill its contractual obligations to FRTIB.

**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 )	Q1 2013	Q1 2014	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	31.29	30.74	-2%	↓
Debt to Capital Ratio	23.83	23.51	-1%	↓
Interest Coverage Ratio	20.33	23.38	15%	↑
Enterprise Value	\$47,728	\$56,249	18%	↑
<b>Liquidity</b>				
Cash Ratio	1.87	2.01	7%	↑
Current Ratio	3.03	3.26	8%	↑
Quick Ratio	3.03	3.26	8%	↑
<b>Profitability</b>				
Revenue	\$2,449	\$2,670	9%	↑
EBITDA	\$981	\$1,124	15%	↑
EBIT	\$1,004	\$1,121	12%	↑
ROA	1.30	1.47	13%	↑
ROE	9.56	11.33	19%	↑
ROIC	7.62	9.08	19%	↑
Operating Margin	37.12	39.36	6%	↑
Profit Margin	25.81	28.31	10%	↑
Revenue Growth	8.89	9.02	1%	↑
EPS	3.26	4.14	27%	↑

**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 over 30 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 December 31, 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**

- Diversified and global customer base
- Well positioned to take advantage of the growing cloud market

**Challenges**

- Debt level is high creating poor financial leverage
- ROA and EBIT 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: 473** (101-670) – Moderately low risk – D&B predicts a moderately low 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 (January - March 2014):**

- In February, Equinix completed Statement on Standards for Attestation Engagements (SSAE) 16 Type II examinations covering 47 operational data centers across North America. The audits, which were conducted at Equinix's International Business Exchange™ (IBX®) data centers, determined that 47 sites in North America meet or surpass SSAE16 standards.
- Equinix continued expansion across seven Asia Pacific metros, including opened phases in Tokyo and Sydney and proceeding with second phase of new IBX in Osaka.

**Subsequent Events (after March 2014):**

- No significant events were noted.

**Risk Monitoring:**

- 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 Real Estate Investment Trust (REIT) conversion, and working to define its adjusted funds from operations (AFFO), which is used to estimate the value of a REIT, and will provide this calculation upon receiving approval from the IRS. IRS approval is pending.
- Risk of excessive leverage (Debt/EBITDA is approximately 11x industry average of 7x)* – Debt levels increased from previous year and EBITDA decreased. The company's debt levels are a concern.

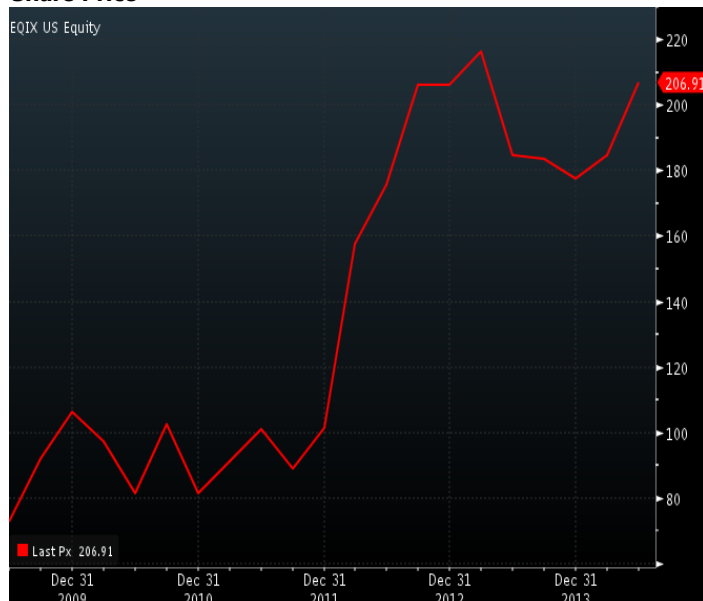
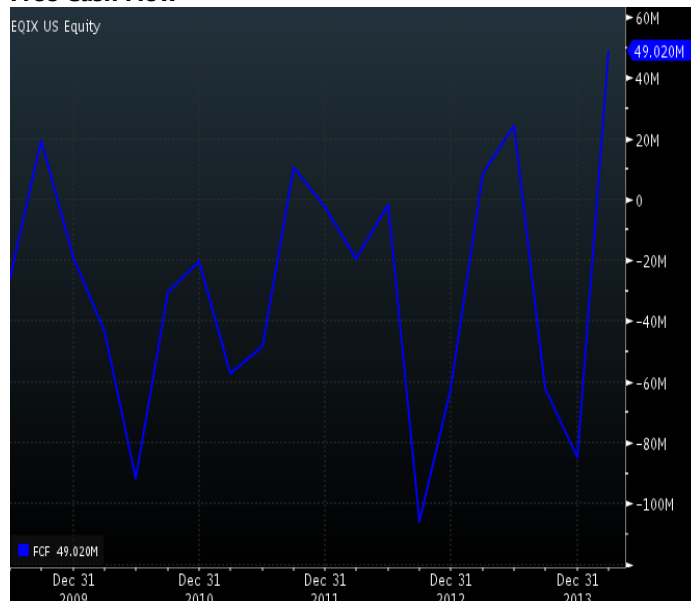
Given the current analysis of the vendor, we find no indication that Equinix is unable to fulfill its contractual obligations to FRTIB.

**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 )	Q1 2013	Q1 2014	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	185.46	161.85	-13%	↓
Debt to Capital Ratio	64.97	61.81	-5%	↓
Interest Coverage Ratio	1.72	1.72	0%	-
Enterprise Value	\$13,148	\$12,484	-5%	↓
<b>Liquidity</b>				
Cash Ratio	0.73	0.73	0%	-
Current Ratio	1.58	1.58	0%	-
Quick Ratio	0.87	0.87	0%	-
<b>Profitability</b>				
Revenue	\$516	\$580	12%	↑
EBITDA	\$212.22	\$237.65	12%	↑
EBIT	\$105.08	\$123.72	18%	↑
ROA	2.26	1.35	-40%	↓
ROE	6.43	4.15	-35%	↓
ROIC	2.84	1.74	-39%	↓
Operating Margin	20.30	20.97	3%	↑
Profit Margin	6.36	7.14	12%	↑
Revenue Growth	16.44	12.38	-25%	↓
EPS	0.66	0.78	18%	↑

**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 insurance as well as commercial mortgage

**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: 546** (101–670) – Lower risk – D&B predicts a low likelihood that MetLife 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 (January - March 2014):**

- In January, MetLife declared first quarter 2014 common stock dividend.
- In February, MetLife announced a loss of at least \$350 million on the sale of a U.K. unit in its first quarter results.
- In February, MetLife declared first quarter 2014 preferred stock dividends.
- In March, MetLife paid \$60 million after New York regulators found subsidiaries solicited business in the state without a license and made intentional misrepresentations to regulators.

**Subsequent Events (after March 2014):**

- In April, MetLife announced a loss of \$343 million (after tax) on the sale of their UK pension risk transfer business.
- In May, MetLife declared second quarter 2014 preferred stock dividends.
- In June, MetLife announced \$1B share buyback, first time since 2008.
- In July, MetLife declared third quarter 2014 common stock dividend.
- MetLife working to demonstrate to members of the Financial Stability Oversight Council that they should not be considered a non-bank Systemically Important Financial Institution (SIFI). No determination has been made by Treasury. As a result, MetLife will continue to take a conservative approach to capital management until there is clarity on these matters.

**Risk Monitoring:**

- 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. MetLife remains under review by FSOC.*

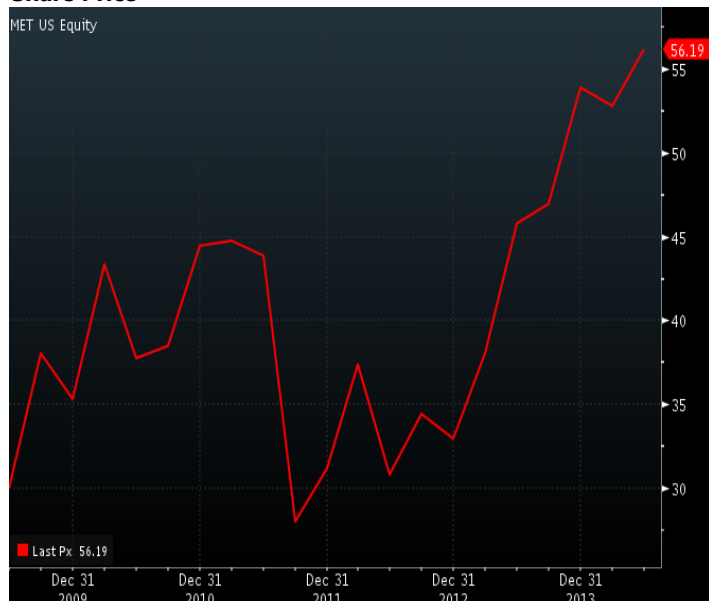
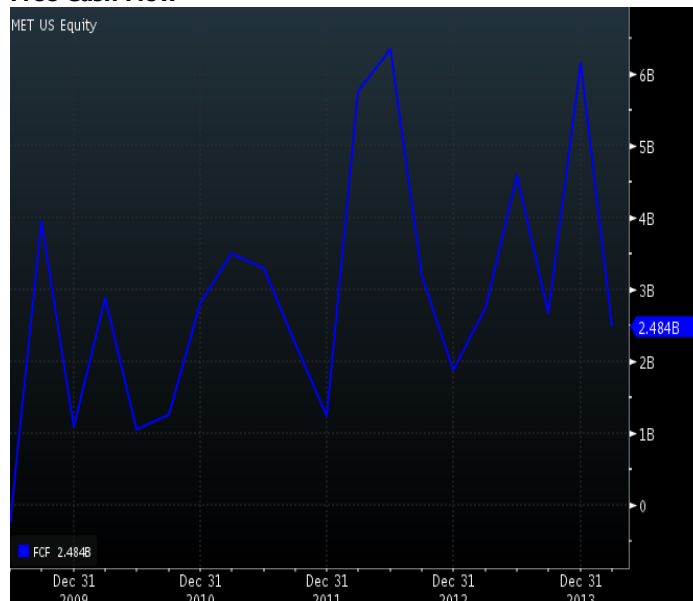
Given the current analysis of the vendor, we find no indication that MetLife is unable to fulfill its contractual obligations to FRTIB.

**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 )	Q1 2013	Q1 2014	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	40.34	36.55	-9%	↓
Debt to Capital Ratio	28.75	26.77	-7%	↓
Interest Coverage Ratio	-	-	-	-
Enterprise Value	\$31,673	\$61,765	95%	↑
<b>Liquidity</b>				
Cash Ratio	0.26	0.24	-8%	↓
Current Ratio	1.20	1.27	6%	↑
Quick Ratio	0.85	0.88	4%	↑
<b>Profitability</b>				
Revenue	\$17,683	\$17,085	-3%	↓
EBITDA	\$1,247	\$1,826	46%	↑
EBIT	\$1,247	\$1,826	46%	↑
ROA	0.30	0.43	43%	↑
ROE	10.66	9.82	-8%	↓
ROIC	2.81	4.35	55%	↑
Operating Margin	7.05	10.69	52%	↑
Profit Margin	5.58	7.77	39%	↑
Revenue Growth	11.1	-3.38	-130%	↓
EPS	3.83	4.08	7%	↑

**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 product and service offering

**Challenges**

- Operating Margin decreased compared to prior year
- Changing industry with increased use of digital technology and electronic substitution

**Services Provided:**

- RR Donnelley provides bulk outgoing mailing services for FRTIB from its Thurmont, MD, Logan, UT and Hyde Park, MA facilities. 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 – Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
- **D&B: 496** (101–670) – Moderately low risk – D&B predicts a moderately low 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 (January - March 2014):**

- In January, RR Donnelley declared quarterly dividends for common stock.
- In January, RR Donnelley completed its acquisition of Consolidated Graphics, a provider of digital and commercial printing, fulfillment services, print management, and proprietary internet-based technology solutions.
- In March, RR Donnelley completed its acquisition of MultiCorpora, a translation technology solutions provider based in Canada and Esselte, a maker of Oxford index cards and other stationery and office products.
- In March, RR Donnelley completed its acquisition of substantially all of the North American operations of Esselte, a privately owned developer and manufacturer of nationally branded and private label office and stationery products.

**Subsequent Events (after March 2014):**

- In April, RR Donnelley declared quarterly dividend for common stock.
- In April, RR Donnelley was awarded a \$175 million multi-year agreement by F+W Media, Inc. expanding the companies' relationship through 2021.
- In May, RR Donnelley completed its acquisition of Vancouver-based signage solutions provider True Colours, a supplier of wide format print solutions in Western Canada. The acquisition expands RR Donnelley's capabilities to support clients' signage requirements across North America.
- In June, RR Donnelley announced it entered into an agreement to provide global supply chain solutions to ZAGG Inc.

**Risk Monitoring:**

- *Risk of not successfully integrating series of latest acquisitions* – RR Donnelley is focused on successfully integrating its acquisitions and expects to increase net sales, drive cost savings from synergies, and provide additional capacity to meet customer needs.
- *Risk of excessive leverage (Debt/EBITDA is approximately 4x industry average of 2.43x)* – Debt levels seem adequately supported by EBITDA levels but should be monitored carefully because leverage increase in the near term could raise credit concern.

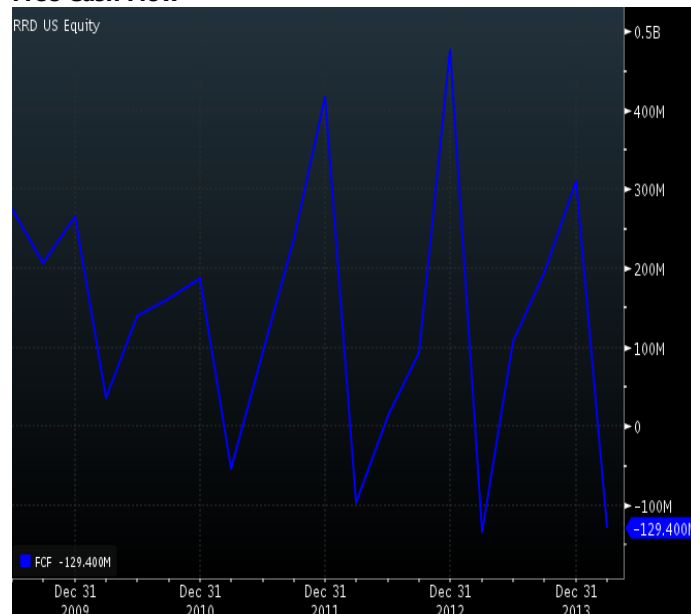
Given the current analysis of the vendor, we find no indication that RR Donnelley is unable to fulfill its contractual obligations to FRTIB.

**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 )	Q1 2013	Q1 2014	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	7011.51	441.05	-94%	↓
Debt to Capital Ratio	98.59	81.52	-17%	↓
Interest Coverage Ratio	2.26	1.35	-40%	↓
Enterprise Value	\$5,196	\$7,189	38%	↑
<b>Liquidity</b>				
Cash Ratio	0.17	0.14	-18%	↓
Current Ratio	1.61	1.45	-10%	↓
Quick Ratio	1.23	1.05	-15%	↓
<b>Profitability</b>				
Revenue	\$2,538	\$2,674	5%	↑
EBITDA	\$276.10	\$257	-7%	↓
EBIT	\$162.50	\$141.20	-13%	↓
ROA	-8.70	2.12	-124%	↓
ROE	61.52	82.37	34%	↑
ROIC	-15.24	3.88	-125%	↓
Operating Margin	5.51	3.59	-35%	↓
Profit Margin	1.07	-1.08	-201%	↓
Revenue Growth	0.54	5.33	887%	↑
EPS	0.27	-0.01	-104%	↓

**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 model

**Challenges**

- Operating Margin decreased when compared to prior year
- Spending reductions and uncertainty around federal funding and contracts in the U.S.

**Services Provided:**

- Serco currently operates a call center, court order, death benefit and agency technical service center, as well as provides incoming mail data entry, imaging, and special processing support through its subcontractor.

**Credit Ratings:**

- Moody's:** NR (Aaa-C) – N/A
- S&P:** NR (AAA-D) – N/A
- D&B:** 497 (101–670) – Moderately low risk – D&B predicts a moderately low 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 (January - March 2014):**

- No significant events were noted.

**Subsequent Events (after March 2014):**

- In May, Serco Plc was awarded the 15-year; £800m contract to run the Caledonian Sleeper service between Scotland and London.
- In July, Serco N.A. announced the award of a new \$25 Million contract to provide parking enforcement, management of parking meter operations and traffic control operations for the City of Inglewood, California.

**Risk Monitoring:**

- Risk of reputational damage and adverse financial impact* – “Serco was involved in scandals” in the U.K. and Australia. Serco agreed to repay the U.K. government for overcharging for prisoner electronic tags and the Australian government for the escaped detainees. The company was audited and cleared for new contract awards.

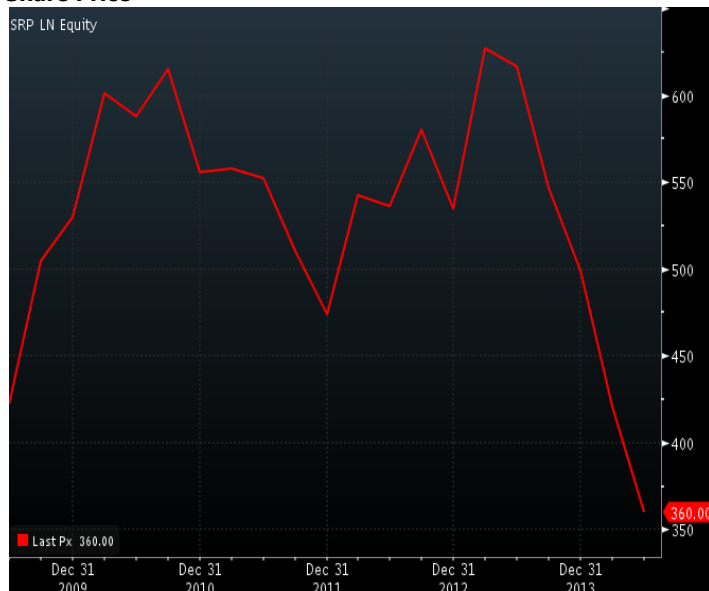
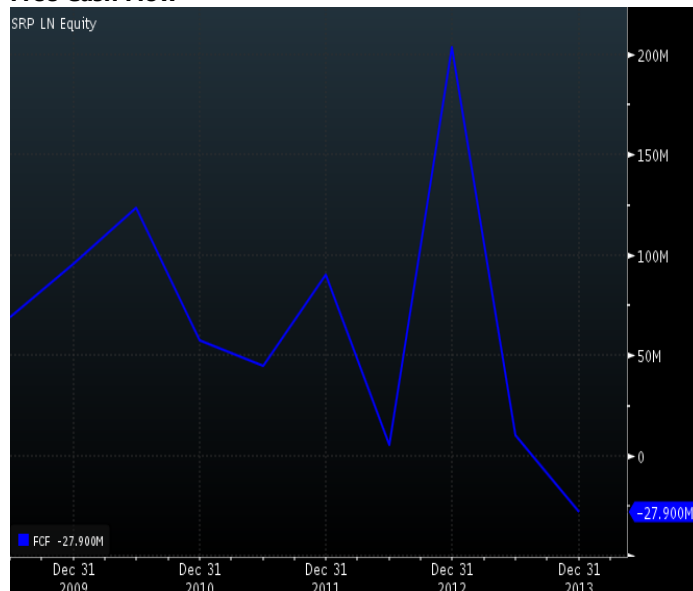
Given the current analysis of the vendor, we find no indication that Serco is unable to fulfill its contractual obligations to FRTIB.

**Serco Group Plc (SRP)**

Exchange: LSE

Sector: Technology

Industry: Technology Services

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

(\$ In Millions, except ratios, yields, and )	Q4 2012	Q4 2013	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	64.64	73.76	14%	↑
Debt to Capital Ratio	39.26	42.45	8%	↑
Interest Coverage Ratio	17.69	0.62	-96%	↓
Enterprise Value	\$5,265	\$5,409	-18%	↓
<b>Liquidity</b>				
Cash Ratio	0.19	0.16	-18%	↓
Current Ratio	1.15	1.26	10%	↑
Quick Ratio	0.99	1.18	18%	↑
<b>Profitability</b>				
Revenue	\$4,847	\$3,585	-26%	↓
EBITDA	\$430	\$103	-76%	↓
EBIT	\$345	\$24	-93%	↓
ROA	52.35	3.99	-0.92%	↓
ROE	132.98	10.22	-0.92%	↓
ROIC	6.47	-20.02	-410%	↓
Operating Margin	4.99	0.52	-90%	↓
Profit Margin	5.12	0.86	-83%	↓
Revenue Growth	30.97	-26.04	-184%	↓
EPS	0.49	0.04	-92%	↓

\*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**

- Diversified client base where no one customer accounts for more than 3% of sales in the last three years

#### **Challenges**

- Revenue decreased year over year
- High level of debt delaying IPO plans
- Cost cutting/spending by financial services companies which would impact revenue base

### 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 provides incoming mail data entry and imaging support as a subcontractor to Serco.
- SunGard's Professional Services unit provides recordkeeping business process services as a subcontractor to SAIC.

### Credit Ratings:

- **Moody's: B2** (Aaa–C) – Negative – Judged to have speculative elements and a high credit risk
- **S&P: B+** (AAA–D) – Negative – More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
- **D&B: 499** (101–670) – Moderately low risk – D&B predicts a moderately low 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 months

### Significant Events (January - March 2014):

- On March 11<sup>th</sup>, as part of the split-off of Availability Services (AS), SunGard did a debt for debt exchange with several investments banks (Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Merrill Lynch, Pierce, and Fenner & Smith), where SunGard exchanged debt in AS for \$389.25mm existing SunGard bonds the investment banks held in their own account. SunGard then retired the \$389.25mm of notes (a portion of the 2018 Notes that were outstanding).

### Subsequent Events (after March 2014):

- In April, SunGard announced that it completed the tax-free split-off of its Availability Services business. SunGard Availability Services is now a separate, independent company with \$1.4 billion in annual revenue and its own Board of Directors.

### Risk Monitoring:

- *Risk of SunGard not meeting its profitability goals* – For the first quarter, SunGard had an operating loss as a result of the split-off of the Availability Services business. Revenue was \$653 million, up 2% year over year, driven by growth in software and services.

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. (privately held company acquired by Vista Equity Partners)

### 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 Network'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: B3** (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: NR** (AAA–D) – N/A
- **D&B: 490** (101–670) – Moderately low risk – D&B predicts a moderately low likelihood that Active Network 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 (January - March 2014):

- In February, Active Network Business Solutions Group separated from its parent company and merged with Lanyon.

### Subsequent Events (after March 2014):

- No significant events were noted.

### Risk Monitoring:

- *Risk of not meeting profitability goals* – Active Network has incurred net losses since its inception and anticipates operating expenses will continue to increase in the coming years as it expands. Private ownership by Vista Equity Partners may allow the company to execute on its strategy without pressure from market investors.

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. (privately held company acquired by Vista Equity Partners)**

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### **Key Metrics Supporting Analysis:**

Note: Active Network became a privately held company and, therefore, there is limited amount of information available to the general public.

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

**Company Overview:**

- Science Applications International Corp. (SAIC) is a scientific, engineering, and technology applications company, serving the U.S. and foreign governments, and selected commercial customers.

**Strengths**

- Balanced distribution of revenue sources with more than 1500 contracts and task orders
- 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
- Spending reductions and pricing pressures for federal contracts.

**Serviced Provided:**

- SAIC provides software development, business process services, data center and operations, under the Technology and Enterprise Support Services (TESS) contract.

**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
- D&B:** **512** (101–670) – Lower risk – D&B predicts a low 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 (January - March 2014):**

- SAIC was awarded \$900 million prime contract with the Space and Naval Warfare Systems Center (SSC) Atlantic.

**Subsequent Events (after March 2014):**

- SAIC was awarded \$14 Million task order by U.S. Transportation Command (USTRANSCOM).

**Risk Monitoring:**

- 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.

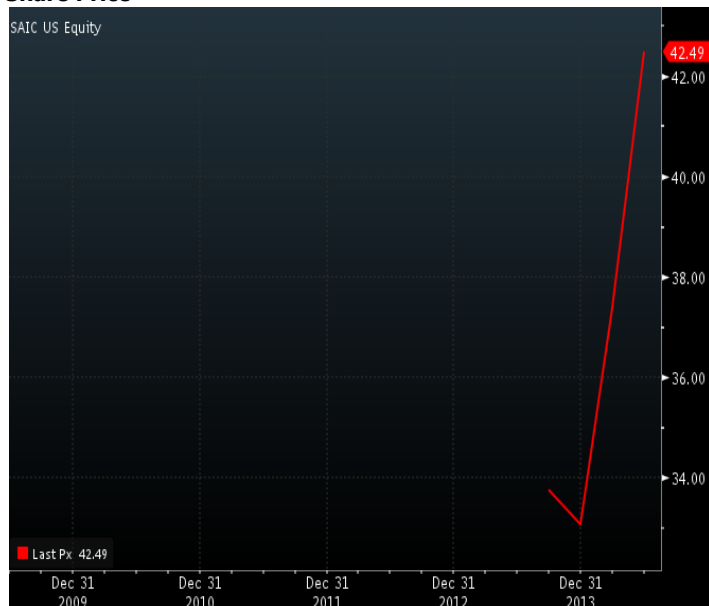
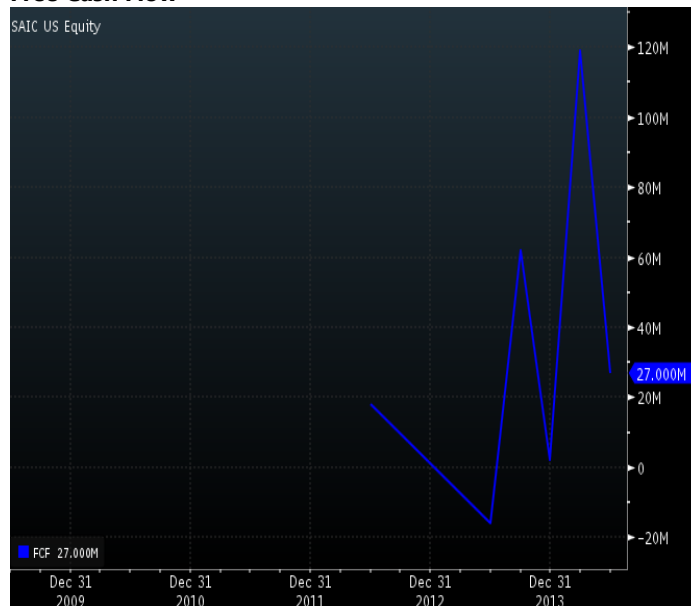
Given the current analysis of the vendor, we find no indication that SAIC is unable to fulfill its contractual obligations to FRTIB.

**Science Applications International Corp. (SAIC)**

Exchange: NYSE

Sector: Technology

Industry: Information

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

Note: This information is reported for first quarter ended May 2, 2014

**Key Metrics Supporting Analysis**

(\$ In Millions, except ratios, yields, and )	Q1 2013	Q1 2014	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	0.48	1.34	179%	↑
Debt to Capital Ratio	32.65	57.31	76%	↑
Interest Coverage Ratio	-	11.80	-	-
Enterprise Value	-	2.15	-	-
<b>Liquidity</b>				
Cash Ratio	0.34	0.46	35%	↑
Current Ratio	1.81	1.81	-	-
Quick Ratio	1.58	1.62	3%	↑
<b>Profitability</b>				
Revenue	\$1,139	\$977	-14%	↓
EBITDA	\$55	\$64	16%	↑
EBIT	\$52	\$59	13%	↑
ROA	3.24	5.03	55%	↑
ROE	7.82	12.98	66%	↑
ROIC	4.99	7.92	59%	↑
Operating Margin	4.57	6.04	32%	↑
Profit Margin	2.90	3.48	20%	↑
Revenue Growth	-58.79	-14.22	-76%	↓
EPS	0.95	0.71	-25%	↓

## 365 Data Centers (privately held company renamed/rebranded from 365 Main)

### Company Overview:

- 365 Data Centers (renamed/rebranded from 365 Main) is a privately held company backed by Crosslink Capital and Housatonic Partners. It is based in San Francisco, CA and is a nationwide owner and operator of 17 U.S. based data centers. 365 Data Centers 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 Data Centers owns and operates the backup data center for FRTIB in Pittsburg, 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:** 344 (101–670) – Moderately high risk – D&B predicts a moderately high likelihood that 365 Main 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 (January - March 2014):

- On October 24<sup>th</sup>, 365 Data Centers announced partnership with Wolfe Internet Services for expanded options to customers.
- On November 13<sup>th</sup>, 365 Data Centers announced that NZingaNet selected the Company's Philadelphia data center to grow its business.

### Subsequent Events (after March 2014):

- On April 29<sup>th</sup>, 365 Main announced that they rebranded/renamed company to 365 Data Centers.

### Risk Monitoring:

- Risk of challenging internal controls environment during expansion* – 365 Data Centers 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 Data Centers is unable to fulfill its contractual obligations to FRTIB.

## 365 Data Centers (privately held company renamed/rebranded from 365 Main)

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### Key Metrics Supporting Analysis:

Note: 365 Data Centers 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>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>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>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>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>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>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>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>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>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>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.	<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>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>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>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.	