



Moody's Investors Service

Rating Action: Moody's assigns B1 CFR to TASC, Inc.; Outlook stable

Global Credit Research - 02 Dec 2009

\$690 million of rated facilities

New York, December 02, 2009 -- Moody's Investors Service assigned initial B1 Corporate Family and Probability of Default ratings to TASC, Inc. ("TASC") and Ba2 ratings to the company's secured bank obligations. The bank credit facilities are part of the financing for the announced \$1.65 billion leveraged acquisition of TASC by affiliates of General Atlantic and Kohlberg Kravis Roberts from Northrop Grumman Corporation ("Northrop Grumman"). The rating outlook is stable.

TASC has annual revenues of approximately \$1.6 billion which it earns as a systems engineering and technical assistance ("SETA") provider to multiple US Government intelligence agencies as well as the Department of Defense ("DoD") and various civil agencies. By selling its advisory services unit, Northrop Grumman will strategically address organizational conflict of interest ("OCI") requirements created in the recent Weapon Systems Acquisition Reform Act of 2009 and allow it to focus on its much larger weapon systems and other non-consulting operations and services.

The B1 Corporate Family and Probability of Default ratings recognize TASC's well established business position as one of the larger prime contractors in a focused niche of providing complex system design and procurement strategies to a collection of intelligence agencies and the DoD. It further incorporates healthy operating profitability and ongoing free cash flow generation, but also emphasizes a leveraged capital structure. TASC's revenues have been relatively consistent for the last few years but should expand going forward for multiple reasons. These include organic growth in federal government expenditures on intelligence and cyber security, being freed of earlier OCI complications from Northrop Grumman's other businesses which may have inhibited it bidding on or being awarded government contracts; and OCI issues at other prime weapons and systems contractors who have yet to resolve OCI challenges. TASC's track record of contract retention, high award fee achievement, below average attrition rates among critical employees and steady operating margins should sustain its profitability. The critical technical expertise, track record and classified nature of the work performed offer advantages to experienced providers. Combined with low capital intensity, the company should produce strong levels of free cash flow, enabling it to comfortably service material fixed charges stemming from its initial debt burden.

The company's starting capital structure will consist of \$900 million of funded debt and \$865 million of equity. Despite the significant equity contribution, Moody's would gauge TASC's starting adjusted debt/EBITDA to be around 6 times. Although it will incur incremental administrative costs as a stand-alone entity, the rating agency considers TASC's EBITA margins to be sustainable with EBITA/adjusted interest expense expected to be around 2 times.

The stable outlook reflects a favorable environment for SETA contractors with demonstrated expertise in intelligence and cyber security, TASC's sizable backlog, margins which are unlikely to come under near-term pressure, as well as a good liquidity profile.

Ratings assigned:

Corporate Family, B1

Probability of Default, B1

\$100 million secured revolving credit facility, Ba2, LGD-2, 27%

\$200 million secured term loan A, Ba2, LGD-2, 27%

\$390 million secured term loan B, Ba2, LGD-2, 27%

The Ba2 rating on the secured debt, two notches above the Corporate Family rating, flows from its priority of claim over \$310 million of subordinated debt (not rated) and other junior obligations in the liability

waterfall.

The principal methodology used in rating TASC was the Global Aerospace/Defense Industry methodology, published in January 2007 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in Rating Methodologies sub-directory on Moody's website. Further information will be available in TASC's credit opinion which will be posted on moodys.com.

TASC, Inc., headquartered in Chantilly, VA, provides advanced systems engineering and technical services to U.S. Government intelligence agencies and the DoD.

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