

BUSINESS RESTRUCTURING



Many U.S. government contractor businesses are comprised of segments acquired through acquisition. These business units may be partially integrated into a common business model or, as a strategy, managed through a portfolio or holding company, many times retaining legacy practices and business unit structure. Resultingly, many of these contractors find themselves having inconsistent and inefficient business operations; disparate systems, practices, policies and procedures; and stand-alone “siloes” within the company that are not effective in going to market in a unified manner. These factors increase risk and lower enterprise value.

Capital Edge is experienced in development and execution of business strategy to align business units, internal functions, associated processes and rate structures that improve integration, eliminate redundancies, increase the competitive position, and also provide flexibility for segment business models to take advantage of the current favorable changes to federal procurement regulation, e.g., establishment of “non-traditional defense contractor” business units. Combination and establishment of new business units requires consideration and analysis of customer, products and services delivered, contract values and regulatory-based terms and conditions attaching to the contract type.

Effective design of the business unit rate structure to include treatment of inter-company transactions, transfer pricing, and alignment of cost estimating and accounting practices, can typically result in immediate increased margin realization during the current year. Accounting for products and services may be segregated both by and within business units to provide pricing flexibility and reduced regulatory oversight and audit risk and exposure.

Government contractors may be susceptible to contract clawback of backlog and margin for cost and structure alignment changes. Typically, the clawback takes the form of “no increased cost” terms on contract novations and “cost impacts” on contracts subject to the Cost Accounting Standards (CAS). Companies reorganizing, integrating and standardizing under an “External Restructuring” may avoid some of the adverse impact of clawbacks but must properly account for and support the government audit of the proposed restructuring cost and savings. Generally, this includes analysis of salaries, benefits, facility consolidations, ERP, information technology and supply chain.

Restrictions must also be understood as they are applicable to cost allowability of business restructuring that ultimately are memorialized in Advance Agreements, contract novations, CAS Disclosure Statement updates, Forward Pricing Rates, and Business System maintenance and disclosure.



Key Restructuring Activities

- Define timing, Resources, Impact on P&L, Implementation Challenges
- Develop Communication Plan and Branding – Internal, Customer, Shareholders
- Consolidate Business Unit Structure – Defense, Non-Traditional, Hybrid, Shared Services
- Redefine Rate Structure - Allocation Bases, CAS Compliance, Disclosure Statements
- Maintain Adequate / Approved Business Systems
- Design Plan and Conversion/Upgrade of ERP Systems and Data
- Cost Accounting Practice Changes Identified
- Update Forward Pricing Rates / TINA Disclosure
- Policy and Procedure Updates
- Personnel Training
- Estimate Contract Claw-Back on Voluntary Changes in Absence of External Restructuring
- Develop Business Case for External Restructuring Proposal
- Establish Target on Savings to Cost, e.g., 4:1
- Develop External Restructuring Proposal and Bridge to FPRP

Federal Contracting Expertise

Capital Edge Consulting combines our team's experience in consulting, public accounting, industry, and government to provide you with unmatched Federal Contracting Compliance expertise. Our consultants provide government contractors with a wide variety of services, from strategic planning to contracts management. This breadth of offerings enables us to provide the exact services and level of expertise you need to succeed.

Capital Edge Consulting can assist Federal Award Recipients with many service offerings, including:

- Indirect Cost Rate Proposal Development
- Indirect Rate Structure Assessment
- Subcontract Monitoring Support
- Business System Assessment & Remediation
- Audit Support & Findings Remediation
- Cost Accounting Standards (CAS)
- Incurred Cost Submissions
- Policies & Procedures
- Internal Controls Assessment
- Forensic Investigations
- Contract Closeout Support
- Proposal Development Support
- Operational Efficiency Solutions
- M&A Due Diligence
- Contract Novations
- Communication Plans & Training

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