The government contractor, Science Applications International Corporation (SAIC), is in a transition period at the moment. The publicly traded company is **splitting itself** into two independent pieces. The effort to make the split is not without cost. The Washington Post recently estimated that SAIC's "Project Gemini" has spent nearly $40 million so far, including $1 million spent on a branding firm to develop the name of one of the new entities. (The new name is Leidos, for those who may be interested.) And that's just for starters. Company executives reportedly told investors that they would spend in the neighborhood of $140 million in FY 2014 on Project Gemini, according to WaPo. The story (link above) reported—

A large chunk of the expense —$55 million — will cover fees for bankers, lawyers, accountants, and consultants and to cover severance, among other things, said Mark W. Sopp, SAIC's chief financial officer, during the call. The contractor also anticipates spending about $65 million to shrink its real estate footprint. It will cost another $20 million to complete the move of corporate employees who have remained in San Diego — where the company previously was based — to McLean and other offices.

How much of the nearly $200 million will be recoverable as "restructuring costs" remains to be seen. Certainly, SAIC expects to see cost savings from its changes. As WaPo reported—

[SAIC Chief Operating Officer] Shea said the contractor plans to cut about $350 million in annual costs, including $220 million by simplifying its organizational structure and cutting 'indirect' staff not tied to specific contracts.

To put that figure in context, the company reported that in the fiscal year ended Jan. 31, it paid $576 million in general, administrative and bid and proposal expenses.

Another $70 million in savings will come from reducing SAIC's facility footprint by about 30 percent, which would be about 2.8 million square feet of the company's 9.2 million total square footage. The contractor also plans to save about $30 million through improving its corporate procurement.

Another interesting aspect of the transition from one to two companies is that it gives each company a "fresh start"—an opportunity to evaluate its practices and discard those that haven't proven optimal, and to replace those suboptimal practices with better ones. The WaPo story quoted Byron Callan (of Capital Alpha Partners) as follows—

… the split is providing an opportunity for SAIC to reconsider the way it has done business. 'With the cost structure they had ... in some of these services [competitions], they were not going to be as competitive,' [Callan] said.

It is perhaps obvious that a VC Partner would focus on the cost aspects of the transition. And it's perhaps obvious that WaPo would focus its reportage on the dollars involved. But we want to focus on another, different, aspect of the transition.

Project Gemini gives SAIC to rethink its corporate culture and commitment to ethical business practices. The transition gives SAIC a chance to deploy better internal audit functionality, better internal controls, and better management dashboards. Each of the two new companies will be smaller—and presumably more manageable. The two new entities—both of which will be government contractors with annual revenues of roughly $5 billion—will have an opportunity to focus on their business, and to ensure that their processes (and employees) adhere to the standards of integrity expected of a government contractor.

It's clear that the company's current organization and culture has failed to instill those standards and values across the $11 billion entity.

We've written about SAIC before. Type "SAIC" into the site's search feature and you'll see that we've written more than a dozen articles that either mentioned SAIC or focused on the company as the main topic. In **one of those focus articles** , we opined on SAIC's relatively sad record with respect to controlling rogue employees. We wrote—

In SAIC's case, one single state/local project led to a $500 million settlement, and one single failure to secure client data has led to eight separate lawsuits and a potential legal liability of *more than $5 billion*. How much more can one corporation, no matter how large, afford? At what point does the Board of Directors—or the shareholders—start to lose confidence in the executive leadership team?

Remember, SAIC only recently became a publicly traded company. From its founding in 1969 through 2005, it was an employee-owned company. … The thing is, the SAIC of today isn't the SAIC of 1969 or even 1999. It's a publicly traded company with responsibilities to its shareholders. We wonder if perhaps it's time, or even past time, for the company to consider changing its entrepreneurial culture and move toward a more centralized command-and-control structure—one that might act to mitigate some of the corporate risks that do not seem to be fully managed by its employees.

We wrote that piece in March, 2012. Now, more than a year later, we read that SAIC has settled another lawsuit, this time one involving allegations of False Claim Act violations. It cost SAIC nearly $12 million of shareholder profits to do so. Here's a link to the Department of Justice **press release** that triggered today's blog article.

According to the DoJ press release, SAIC received subgrants from the New Mexico Institute of Mining and Technology (New Mexico Tech). New Mexico Tech had received six federal grants "to train first responder personnel to prevent and respond to terrorism events involving explosive devices." New Mexico tech had given SAIC funds to "to provide course management, development, and instruction."

The first thing that comes to mind when reading the foregoing is, if SAIC was developing the courses, teaching the courses, and managing the courses, then *what the heck was New Mexico Tech doing?* Where were New Mexico Tech's value-added services? One is very much tempted to think that New Mexico Tech was acting as a shell, a façade through which the federal funds passed on their way to SAIC. But that wasn't the focus of the suit.

The FCA suit, filed by a former SAIC employee, focused on the allegation that SAIC used bait-and-switch tactics in its proposal to New Mexico Tech. As the DoJ press release stated—

SAIC's cost proposals falsely represented that SAIC would use far more expensive personnel to carry out its efforts than it intended to use and actually did use, resulting in inflated charges to the United States.

We used to call that "defective pricing" and there was a legal remedy for such tactics to be found within the Truth-in-Negotiation Act (TINA). But apparently somebody was going for bigger game, because SAIC found itself with a FCA suit on its hands, one initiated by its own (former) project manager who led the program.

The fact of the matter is that this is not the first time that government attorneys have linked defectively priced contracts to the False Claims Act. In our experience, the contractor's intent is one of the key factors in the government's decision to move beyond TINA and into FCA territory. Apparently, the government was confident that it could prove its allegations—that SAIC *always intended* to use lower-priced personnel than it had bid—it this particular case.

But this particular case is simply one of several recent SAIC compliance missteps that have cost its shareholders dearly. As we have asserted, it appears that the company, admittedly staffed by entrepreneurs and managed on a largely decentralized basis, is not controllable by the executive management team. Thus, perhaps the split should be seen as a win/win scenario: where the span of control associated with each of the two smaller entities is more manageable, and where the rate of compliance missteps is reduced, leading to more profit dollars to be returned to shareholders.

And we see it as an opportunity to move away from the “cowboy culture” developed by Dr. Beyster, which seems to have outlived its usefulness. We see it as an opportunity to instill a culture devoted to ethics and integrity, rather than to scheming and gaming “the system” so as to avoid necessary oversight and control. We see it as an opportunity to turn a corner and move forward in a new direction.

We hope SAIC will seize the opportunity. We hope the company will learn from its mistakes, and stop paying fines and penalties for the actions of its employees. If it doesn’t learn, we suspect its shareholders may run out of patience.