

A Band of Brothers: The Rebuilding of Iraq

The Wall Street Journal describes it as “the largest government reconstruction effort since Americans helped to rebuild Germany and Japan after World War II.” Just how much the rebuilding of Iraq will cost American taxpayers is a figure still too elusive to capture. But, the President’s request for an additional \$87 billion in September atop the \$3.7 billion a month we are already spending, indicates the final figure will be, as one pundit described it, quite “an adult number.”

Recent estimates now put the final figure somewhere between \$200 billion to as much as half a trillion dollars over the next ten years.

America’s Iraq-sticker-shock may turn to anger when taxpayers discover the small group of men and companies reaping the benefits of President Bush’s newly found appreciation for nation building.

While Vice President Dick Cheney’s company, Halliburton, has attracted most press attention for its Iraq-related contracts, Halliburton is hardly the whole story. Its share is but a slice of the multi-billion dollar pie being divided up among a brotherhood of unusually well connected and economically related individuals and entities.

Science Applications International, Inc. (SAIC)

San Diego California

www.saic.com

The Associated Press describes Science Applications International Inc. (SAIC) as “the most influential company most people have never heard of.” The Asia Times calls it “the most mysterious and feared of the big 10 defense giants.”

SAIC ranks among the top ten companies receiving defense contracts. Founded in 1969 by former Los Alamos physicist, Dr. J.R. Beyster, the company is the largest employee-owned company in the nation. The company boasts in excess of \$6 billion in annual revenues and 30,000 employees worldwide. Employees are encouraged to buy shares in the company and are allowed to sell them to one another once a year at prices set by the company’s auditor. If they leave the company they are required to sell their shares back to the company.

SAIC might best be described as “*the-company-of-what’s-happening-now*” in defense and intelligence. If it’s important and it’s happening, it’s likely that SAIC has piece of the action. The company’s ranks overflow with former or retired government personnel, many from the military and intelligence agencies. Much of SAIC’s work is highly classified.

At any given point in time, SAIC’s board of directors represents a Who’s Who of former military and intelligence officials. Retired Admiral Bobby Inman has been a fixture on SAIC’s board of directors for years. Inman served as Director of Naval Intelligence, Vice Director of the Defense Intelligence Agency, Director of the National Security Agency, and finally Deputy Director of Central Intelligence.

SAIC’s board changes to reflect the politics of the time. Gone from SAIC’s board are directors with expertise in Cold War and Iran/Contra eras, like former Nixon Defense Secretary Melvin Laird, ex-CIA Director Robert Gates, Secretary of Defense William Perry, and former CIA Director John Deutch.

They have been replaced by people with more timely contacts, such as SAIC director Gen. Wayne Downing (US Army retired). Before the war, Downing served as a lobbyist for the US-backed Iraqi National Congress and its head, Ahmad Chalabi. Downing (along with Bechtel director George Shultz) also served on the board of the Committee for the Liberation of Iraq.

Long before the shooting even began, SAIC was already at work on Iraq. The trail of contracts begin with William Owens, another former high-level military officer who sits on the boards of five companies that received millions in defense contracts last year. Owens also served as president, chief operating officer and vice chair of SAIC. And,

Owens is a member of Defense Secretary Donald Rumsfeld's internal think-tank, the Defense Policy Board.

Noteworthy: In 1995 the company was ordered to pay a \$2.5 million fine after a whistleblower charged SAIC had cheated the Air Force on a contract to develop jet fighter cockpit displays. (*Hollis v SAIC*, #93-CV-390)

To say that the Defense Policy Board's membership tips to the right would not be an overstatement. Among its members: Ken Adelman (who made the rounds of network talk shows, assuring Americans a war in Iraq would be "a cake walk"); Newt Gingrich; Richard Perle; Dan Quayle; and Bechtel senior vice president, retired Army General Jack Sheehan. The *Center for Public Integrity* reports that, of the 30 DPB members, nine have ties to companies that won more than \$76 billion in defense contracts last year.

SAIC's Iraq contacts (at least those not classified) appear to begin sometime in February 2003, nearly two months before the war, when the Pentagon formed the *Iraqi Reconstruction and Development Council* (IRDC). Initially based in Virginia, the group was comprised of a hastily assembled group of Iraqi dissidents. The IRDC was the first attempt to "put an Iraqi face" on the US's postwar administration of Iraq. While it had an Iraqi face, the IRDC had an American paymaster -- SAIC. IRDC members were on the SAIC payroll. (Ref. **Middle East Conference** <http://middleeastreference.org.uk/irdc.html>)

Today, IRDC members hold key positions at each of Iraqi two-dozen ministries.

Another of SAIC's operations did not go quite as smoothly. In mid-April, the Pentagon launched the "Iraqi Indigenous Media Network" (IMN). SAIC was hired to oversee the project. The company hired former Voice of America director Robert Reilly to direct the new network. Reilly's conservative views were well known. During the Reagan administration, Reilly headed the White House information operation backing the Nicaraguan Contras. (Ref: *BBC World Trust Audit Report*: <http://www.bbc.co.uk/worldservice/us/trust/docs/Iraqmediaaudit.pdf>)

But, times had changed and Reilly's heavy-handed methods backfired. He lasted less than two months as IMN staffers walked out in disgust. "SAIC didn't have any suitable qualifications to run a media network," Rohan Jayasekera, a media analyst for London-based Index on Censorship. *The Washington Post* reported that under SAIC's stewardship, "Increasingly, the newscasts became irrelevant for Iraqis."

"Saddam Hussein is doing better at marketing himself through al-Jazeera and al-Arabiya," said Ahamad Rikabi, a highly regarded Iraqi brought in to help manage the project who later resigned in protest.

Just how much more of the Iraq-reconstruction pie SAIC has cornered is impossible to determine. Some of the work is done under subcontracts with other prime contractors. Other work is classified as secret. But a look at the company's web site showed SAIC job

openings in Iraq ranging from communications, engineers, and protection security analysts, database techs, recruiters and personnel screeners and movement control team leaders. All required a “Secret” security clearance.

Noteworthy: Some of SAIC’s work comes through sub-contracts with defense firm Vinnell Corp., a subsidiary of TRW. One of those contracts involves advising the Saudi Royal family on security matters. Vinnell is a leader in training foreign military forces to U.S. standards. Vinnell has been the contractor for training and modernization of the Saudi Arabian National Guard. It advertises for ex-soldiers able to train the Saudis in battalion operations, the Bradley fighting vehicle, anti-tank weapons and physical security to guard against terrorist attacks.

(Ref: *Global Research*

<http://globalresearch.ca.myforums.net/viewtopic.php?p=210>)

Noteworthy: In March, the General Services Administration awarded SAIC the contract to upgrade the GSA with telecommunications systems. SAIC Telcordia Technologies subsidiary was awarded the three-year contract (with five one-year options to renew). The company will provide voice, data, video, wireless and cable upgrades. The “Connections” contract was described as a “indefinit-delivery/indefinit-quality” contract. (Ref:

www.saic.com/news/2003/mar/25.html)

Finally, some SAIC trivia;

- SAIC’s venture capital arm funded the development of software web-based collaboration software that is used by Halliburton and the US Navy “to create a secure collaborative environment for advanced materials development.”
- In August, the US Office of Force Transformation released a study that outlined what had learned during Operation Iraqi Freedom. That report was prepared for the OFT by SAIC.
- Finally, there has been no small degree of hand wringing since the 2000 Florida vote-counting fiasco over well-connected companies getting contracts to design the new generation of computerized voting machines and the software that operates them. Diebold Election Systems, a leading builder of e-voting systems, has caused the biggest stir. Earlier this year, a study by researchers at Johns Hopkins University reported what they called serious security flaws in Diebold’s machines. The report concluded, “Diebold’s electronic voting system did not meet even the most minimal security standards.” To quell fears that Diebold’s machines can be programmed to spit out desired results, the company hired SAIC to investigate.

Noteworthy: When former germ warfare scientist Dr. Steven Hatfill became “a person of interest” to the FBI following the October 2001 anthrax attacks, the feds did not have to look far to find him. At the time,

Hatfill was employed by SAIC where he was working on related projects. The company promptly fired Hatfill, who has still not been charged with anything. “Ironically, after they fired me,” Hatfill said, “they had me come back to finish work on several projects I had going there at the time.” (Ref: *From a public statement issued by Dr. Hatfill.*)

Baker-Hughes

Houston, Texas

Another company in early on the planning for a post-war Iraq was Houston oil services company, Baker-Hughes. In December 2002, the Council for Foreign Relations (CFR) joined with former Bush I administration Secretary of State James Baker III to release an outline for rebuilding post-war Iraq entitled “Guiding Principles for U.S. Post-Conflict in Iraq.” (Full report: <http://www.bakerinstitute.org/Press/18dec2002.htm>)

The committee that conducted the study was chaired by Edward P. Djerejian, a director of the **James A. Baker III Institute for Public Policy**.

Djerejian is also a director and head of compensation committee for Baker-Hughes.

Among the conclusions of the Baker Institute’s report: “After two major wars and a decade of sanctions, Iraq’s oil industry is in desperate need of repair and investment.”

Even before the report was made public, investors were already picking winners and losers. “On a longer-term basis, however, the (Iraqi oil) fields have been long neglected and are in need of repair. Two U.S. companies that are obvious beneficiaries are **Halliburton** (HAL), and **Baker Hughes** (BHI).” (*Bull & Bear Investors Report*).”

While Baker-Hughes was not among the first to bag contracts in Iraq, they are on the short list of those who will be in the second, and potentially more lucrative, wave of contracts to rebuild and operate Iraq’s oil fields. According to a recent report by petroleum industry publication Platts Global Energy Report, Iraq oil reserves will exceed the 300-billion barrels and more than 110 trillion cubic feet of natural gas.

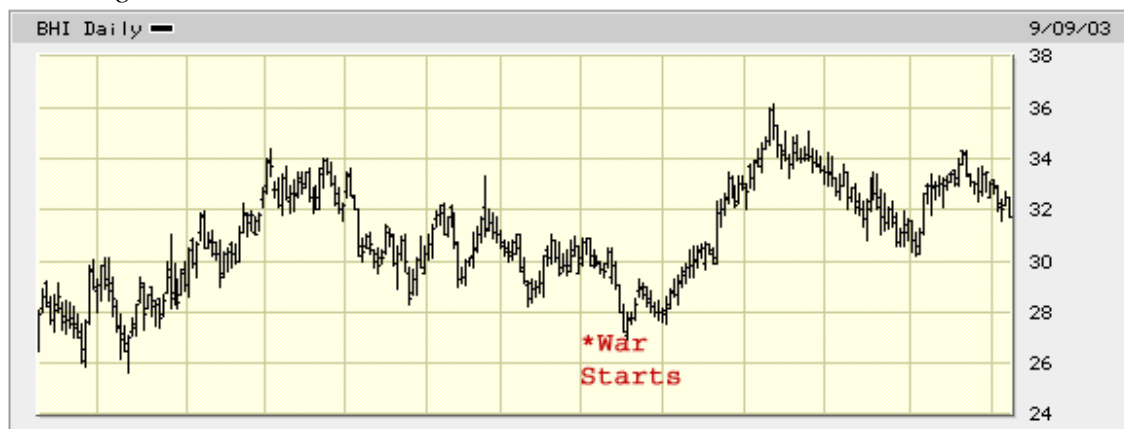
(www.platts.com) With natural gas now fueling a growing number of US power plants and prices on the rise, Iraq’s natural gas reserves may end up being the real prize.

Noteworthy: In March 1999, the Securities and Exchange Commission accused Baker-Hughes and its accounting firm KPMG of violating the Foreign Corrupt Practices Act of 1995. The SEC alleged that the two companies conspired to bribe foreign officials to gain contracts in Indonesia, Brazil and India, disguising the bribes in its SEC filings as normal business expenses. The company settled with the SEC in 2001. (Ref: SecMail - <http://www.ffhsj.com/secreg/archives/sc010926.htm>)

Noteworthy: Following accounting scandals, KPMG changed the name of its business-consulting arm to BearingPoint. BearingPoint has been granted a \$76 million USAID contract in Iraq to oversee and manage “*Economic Recovery, Reform and Sustained Growth in Iraq.*” (Ref: USAID.)

Noteworthy: In August, the SEC opened an investigation into Baker-Hughes’ business practices in Nigeria, Angola and Kazakhstan. The investigation stems from a March 2002 complaint alleging that the company had actively tried to bribe government officials. (Ref: *Houston Business Journal* - <http://houston.bizjournals.com/houston/stories/2002/04/01/daily1.html>)

Baker-Hughes 1 Year Stock Price



As we sorted through the relationships that brought Baker-Hughes to the table, we ran into a familiar name from an earlier noteworthy event. **Djerejian** shared authorship of the Baker Institute report **with Frank Wisner, Jr.**, a name that surfaced earlier among the ashes of Enron. Wisner was appointed to Enron’s board of directors in 1997 and was a prime mover behind one of Enron’s most notorious and controversial projects: the Dabhol Power project in Dabhol, India. (Ref: Corporate Watch - www.corpwatch.org/news/PND.jsp?articleid=1773)

Among those Wisner hired to lobby India’s leaders to back Enron’s various projects was James Baker, III.

But, the power plant project blew up in Enron’s face when India’s press reported the terms of the contract, which allowed Enron to grossly overcharge its Indian clients for

energy. When the deal erupted into a political scandal alleging bribery and influence peddling, India tried to cancel the contract, only to be confronted by intense political pressure from both Vice President Dick Cheney and National Security Advisor Condoleezza Rice. Both Rice and Cheney pressured India to comply with the original terms of the contract threatening negative consequences if it did not do so. (Enron's subsequent bankruptcy ended the project.)

Not every US company can boast such high-octane contract negotiators. But then, Frank Wisner Jr. is no ordinary corporate executive. He spent much of his adult life in the upper echelons of government serving in a succession of posts: U.S. Ambassador to India, Under Secretary of Defense for Policy, Under Secretary of State for International Security, Ambassador to the Philippines, Ambassador to Egypt, Deputy Secretary for African Affairs and Ambassador to Zambia. (Wisner's father was a legendary CIA official who ran propaganda operations for the CIA in Eastern Europe from 1947 until his suicide in 1965.)

His brush with scandal left Wisner unscathed. He is now vice chairman of international insurance giant, AIG, which donated more than \$1 million to Republican candidates and the Republican Party during the 2002 election cycle. AIG itself has an eye on post-war Iraq.

"In the long run, financial services institutions like AIG are very interested in the Iraq market," Wisner told reporters last month, "but we recognize there has to be a political authority, a regulatory environment. These rules do not today exist. When they do, we will come in."

Noteworthy: This September, the Securities and Exchange Commission slapped AIG with one of the largest penalties in its history: \$10 million. The commission accused AIG of conspiring in an accounting fraud to hide losses at a troubled cell phone company by providing a phony \$12 million asset in return for a secret \$100,000 fee and for providing false responses during the investigation. (Ref: http://biz.yahoo.com/djus/030911/1221000536_1.html)

Fluor International Corp.

Aliso Viejo, California

www.fluor.com

Fluor may sound French, but it's an all-American company now based in California with roots in Houston, Texas. Fluor Corporation is one of the world's largest publicly owned engineering, procurement, construction, and maintenance services organizations with deep involvement in military logics.

Fluor spokesman Jerry Holloway would not disclose the total potential value of the Iraq contracts when asked by reporters; published reports have put the dollar figure at \$900 million, but one expert said it could easily go higher. (Ref:

<http://greenvilleonline.com/news/business/2003/04/08/200304084365.htm>)

Even before bagging nearly a billion dollars in Iraq contracts, Fluor had already been enjoying tens of millions of dollars in contracts in Afghanistan.

While Fluor bills itself as an “environmental services company,” environmentalists’ opinions might differ. Fluor manages the government’s Hanford Nuclear Reservation in Washington, one of the most heavily polluted sites in North America. Since Fluor took over the site in the mid-1990s, workers and local citizens have charged the company with cost cutting measures that have created potential environmental and health concerns. The company responded by firing whistleblowers and shutting down the **Hanford Joint Council**, a public forum established eight years ago to air employee and local government concerns over safety at the plant. (Ref: Gov. Accountability Project - <http://www.whistleblower.org/article.php?did=424&scid=28>)

Noteworthy: On March 10 of this year, the United States Supreme Court rebuffed an effort by Fluor to block a suit by eleven Hanford pipe fitters who claimed they were either terminated or harassed for complaining about safety issues. The pipe fitters worked at the high-level nuclear waste tank farms at the Hanford Nuclear Site.

Fluor’s Hanford contract was set to expire at the end of 2001, but the Department of Energy has extended Fluor Hanford's contract through 2006. The six-year contract is worth approximately \$3.8 billion, with incentives for Fluor to earn up to about \$168 million in profit. (Ref: <http://www.tri-cityherald.com/news/2000/1222/story2.html>)

Noteworthy: In August, lawyers in Sasolburg, South Africa filed a \$1 billion claim against Fluor, alleging that the company discriminated against its black workers during apartheid. The suit, which the lawyers say will be filed in California courts, alleges that Fluor paid blacks less than whites and that the company helped repress black workers during a 1987 strike in which two strikers were killed. The plaintiffs’ attorney, Ed Fagan, also charged that Fluor aided the

apartheid by helping the country evade UN oil sanctions. The company has denied the accusations. (Ref:

<http://www.busrep.co.za/index.php?fSectionId=566&fArticleId=127911>)

But, as other large defense contractors have found, sometimes it's just cheaper to pay a fine and move on to the next contract. In 1994, Fluor paid a \$3.2 million fine for "submitting heavily padded repair bills" for work on Navy bases after hurricane Hugo; in 1997, the company was charged with "violations of the False Claims Act" when the company sought government reimbursement. The company settled for \$8.4 million, and in the same year, was charged with "failure to effectively complete corrective actions" on a DOE project and fined \$10,000. In 1998, Fluor was fined \$140,625 for safety violations on a DOE project; in 1999, it was fined \$30,000 for "multiple and recurring failure to adequately and fully implement Quality Assurance," on another DOE project. (Ref: Project on Gov. Oversight <http://www.pogo.org>)

More recently, in May 2001 Fluor was charged with falsely claiming millions of dollars in costs on DoD contracts. The company settled for \$8.5 million. And, in May 2002, Fluor was sued for \$24 million for "numerous design and construction failures" at the Refugio Mine in northern Chile.

How do companies that get so much bad press also end up with fresh contracts like those being handed out now in Iraq?

When you look at the people at the top at Fluor, you quickly see the kind of relationships that fuel such success. **Peter J. Fluor**, age 56 is the company's "Lead Independent Director." Fluor has also chaired the company's compensation committee and served as CEO of Texas Crude Energy, Inc., an international oil and gas exploration and production company headquartered in Houston, Texas.

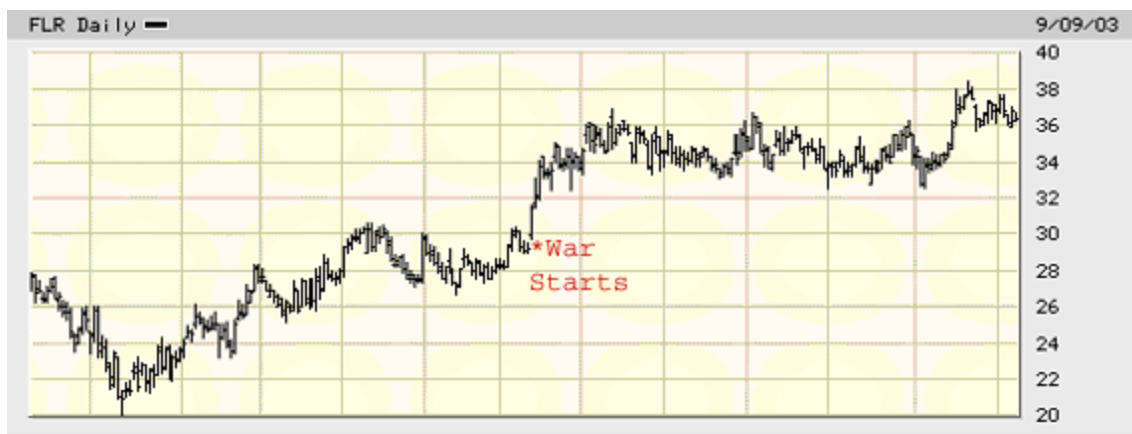
Fluor is also a director of **Ocean Energy, Inc.** headquartered in Houston. Ocean Energy, now part of Devon Energy), is also on the list of companies contracted for work in Iraq. And, in August of this year, Devon Energy -- described by the Houston Business Journal as "a small Houston exploration company" -- hit pay dirt by signing the first US oil contract with Syria in 15 years. The contract was for wells along the Syrian/Iraqi board, prompting the Houston Business Journal to describe the contract as "a stepping stone to an even bigger bonanza" in Iraq.

Noteworthy: In 1998, Halliburton/KRB and Fluor joined forces under the name Arctic Pacific Contractors to provide oil field services to Russia in developing the potentially oil and gas-rich Sakhalin oil fields.

"Fluor continues to focus on reconstruction efforts in post conflict Iraq and Afghanistan," the company said. "While the release of actual work programs has slowed due to stabilization and security issues, Fluor remains confident that it will be a key participant in helping with overall reconstruction efforts."

Noteworthy: In turn, Devon Energy CEO Larry Nichols sits on the board of **Baker-Hughes**. Devon's chief operating officer, Larry Hackett (listed at #34 on Houston's highest compensated executives), sits on Fluor's board of directors and the board of oil concern Temple-Inland. SAIC board member Bobby Inman also holds seats on Fluor's board of directors and compensations committee and Temple-Inland.

Fluor's 1-Year Stock Price



Computer Sciences Corp

El Segundo, CA 90245 USA

www.csc.com

DynCorp

Reston, Virginia

www.dyncorp.com

DynCorp Aerospace Operations (UK) Ltd., (a subsidiary of Computer Sciences Corporation) was awarded a \$50 million contract to train police and security personnel in Iraq – though the open-ended nature of the contract could boost it to half a billion dollars over time. By last year, Dyncorp, headquartered in Reston, Virginia, was the nation's 13th largest military contractor with \$2.3 billion in revenue. The company ranked #13 on the 2002 list of top defense contractors. (CSC ranked #21.)

Noteworthy: In 1994, DynCorp was caught removing parts from damaged aircraft and installing them on other aircraft delivered to the US Navy. The company settled for \$1.6 million. (Ref: *Project on Gov. Oversight*)

DynCorp has a colorful history -- so much so that its company's employees are often featured in Soldier of Fortune and American Legion magazines. Tapped by the US to provide police training and security services in post-war Bosnia, the company became embroiled in allegations that its employees were running a sex-slave ring exploiting underage girls. In 2002, Kathryn Bolkovac, a former U.N. International Police Force monitor under contract to DynCorp, brought charges in London against the company for wrongful termination after she was fired for reporting that DynCorp police officers were participating in sex trafficking. The court ruled in Bolkovac's favor awarding her damages of nearly \$200,000. (Ref: www.telegraph.co.uk/news/main.jhtml?xml=/news/2002/04/25/wbos25.xml)

A second DynCorp employee filed suit alleging the same, but this time in Texas. DynCorp settled with him out of court just before the trial was to start. (In June of 2002, Salon Magazine published a two-part expose on two cases entitled "**Outside the Law**.")

DynCorp employees also serve on the frontlines of the US war on drugs. Under a contract to the Defense Department, the company maintains more than 300 employees and operates 88 aircraft flying drug eradication missions over Columbia. In 2001, a group of Ecuadorian farmers filed suit against the company alleging that its pilots have sprayed their crops, cattle and, in several cases, their children, resulting in both illness and death. The State Department intervened on behalf of the company in the case citing national "security concerns." (Ref: <http://www.insightmag.com/news/415933.html>)

Noteworthy: In October 1990, CSC was charged with defense procurement fraud. The company settled the case by paying a \$1.7 million fine. In 1993, CSC was charged with making false and misleading statements and over-billing the federal government on a major Environmental Protection Agency contract. The company paid \$2.1 million that time. In July 2000, CSC was charged by Defense Criminal

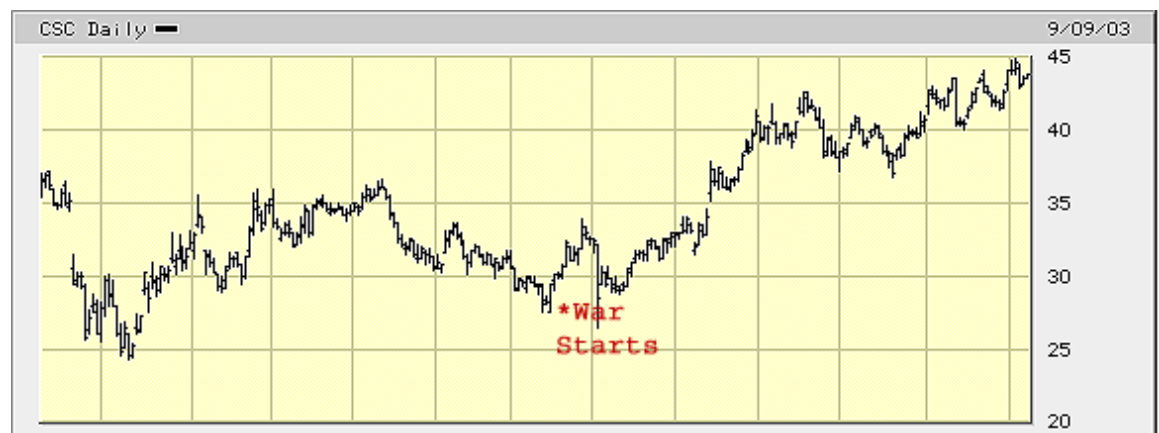
Investigative Service, which alleged that CSC employees attended college classes while their time was being billed against a defense contract. The company settled for \$8,730. And, in October 2000, CSC was again charged with procurement fraud and settled for \$1.75 million. (Ref: *Project on Gov. Oversight*)

Noteworthy: In 2001, Computer Science Corp. of California was awarded a 10-year \$2.5 billion contract to take over technology services for the super-secret **National Security Agency**, making 1,000 NSA employees of Computer Science employees in the biggest outsourcing arrangement ever for a federal agency. (Ref: <http://fcw.com/fcw/articles/2001/0430/web-nsa-05-03-01.asp>)

In Afghanistan, DynCorp security forces provide protection for Afghan president **Hamid Karzai**. In the US, DynCorp mans many border posts between the US and Mexico, Pentagon's weapons-testing ranges, and provides security for the **Air Force One** fleet of presidential planes and helicopters.

Noteworthy : CSC and SAIC joined forces and won the contract with IRS to modernize the technology behind the nation's tax system. (Ref: <http://www.saic.com/news/dec98/news12-9-98.html>)

Computer Science Corp's President/CEO, Van Honeycutt, chairs President's National Security Telecommunications Advisory Committee (NSTAC), under the Dept of Homeland Security.



Bechtel Group Inc.

San Francisco, Ca.

www.bechtel.com

It was a clash of titans. When word got out that Washington was looking for a few good companies to rebuild Iraq, both Bechtel and Halliburton rushed the door. When the elbows stopped flying, Halliburton had pushed rival Bechtel out of the way, grabbing not only the first contracts, but positioning itself for lion's share to come.

While Bechtel was initially awarded contracts with a potential \$680 billion ceiling, Halliburton walked away with contracts that could payout a potential \$2 billion.

Well-connected Bechtel was not accustomed to losing important government contracts and was less than gracious in defeat. "The very nature of the bidding process gives the inside track to Halliburton," a Bechtel insider complained to reporters. The unnamed source said the two contracts that were up for bid did not even specify precisely what work needed to be done, making it all but impossible for Bechtel to formulate a bid. Not so Halliburton.

"They (Halliburton) had data and information the rest of us are not even capable of gathering... so it is hard to pull together a cohesive plan," he said.

But, with heavy lifters like former Reagan administration secretary of state George Shultz on its board, Bechtel's complaints soon registered with the Pentagon. On September 9, the Pentagon announced it had awarded Bechtel an additional \$350 million in Iraqi infrastructure contracts, finally pushing Bechtel's total contracts over the billion-dollar mark. A company spokesman explained the no-bid contract extension as money needed so "the company can carry out repairs on projects in which costs are overrunning initial estimates."

The U.S. Army Corps of Engineers admitted KBR had an advantage, since they had been at work in the fields for months. "KBR does have an advantage on bidding for these contracts -- we're mitigating that advantage as much as possible," said Corps of Engineers spokesman Bob Faletti.

According to Dena Montague of the *Arms Trade Resource Center*, the list of Bechtel ties to top Republicans is long.

- Key Bechtel alumni include Reagan Secretary of Defense Casper Weinberger former Bechtel general counsel, and Reagan Secretary of State, George Schultz former Bechtel President, and current Bechtel board member. W. Kenneth Davis, former vice-president for nuclear development became Reagan's deputy secretary of Energy and head of the Atomic Energy Commission under Reagan.

- William Casey, chairman of the Security and Exchange Commission under Nixon, head of the Export-Import bank under Ford, Reagan campaign manager and head of the CIA under Reagan was also a Bechtel consultant.
- Richard Helms was CIA director under Nixon and eventually became a Bechtel consultant.
- Robert L. Hollingsworth, Atomic Energy Commission general manager under Nixon became manager of manpower services at Bechtel.
- Nixon Treasury secretary William Simon also served as a Bechtel consultant.

The Center for Responsive Politics suggested that there may be a quid pro quo at hand. The Center calculated that the construction companies involved in the bidding for the USAID contracts have given a combined \$2.8 million in campaign contributions since 1999. Bechtel gave the most, at \$1.3 million.

Noteworthy: UN inspectors listed Bechtel as one of 24 US companies that supplied Iraq with weapons during the 1980s. (Ref: <http://www.rense.com/general32/suppe.htm>)

Like SAIC, Bechtel is not publicly traded, so the effect of its Iraqi contracts on the company's bottom line cannot be fully measured. But, since Bechtel's Iraqi contracts, like Halliburton's contracts, are protected from cost overruns by President Bush's promise that the US will spend "whatever it takes" to rebuild Iraq, the company can hardly lose.

The Washington Group II

Boise, Idaho

<http://www.wgint.com/>

Washington Group International is an international engineering and construction firm fresh out of bankruptcy. WGI was part of the original early wrangling over a contract that is expected to reach something like \$100 million, to destroy weapons and weapons infrastructure in Iraq. Though the company claims that particular contract ended up going to Halliburton and Bechtel, Washington Group is listed among those who got Army Corps of Engineers contracts for what was simply described as "CENTCOM Contingency Support." On Oct 3rd, WGI announced it was awarded a \$110 million contract to repair Iraq's electrical infrastructure. Fluor is also listed as a contractor for the Army Corps of Engineers.

WGI reported \$ 3.7 billion in revenue for 2002. Much of the company's defense contract work involves destroying weapons of mass destruction in the United States. Washington Group destroys chemical weapons stockpiles -- including chemical bombs at Anniston Army Depot in Alabama -- and is also involved in the cleanup of certain nuclear weapons plants, including the one at Hanford in the state of Washington.

Typical of the hurriedly issued post-war contracts, WGI's Iraqi contract does not identify any specific work or location. Only in general terms does the contract simply state that the company will be responsible for "design-build activities, construction (new work, renovation or repair), and short-term operations and maintenance." The contract is not limited to work in Iraq and may include work in Afghanistan.

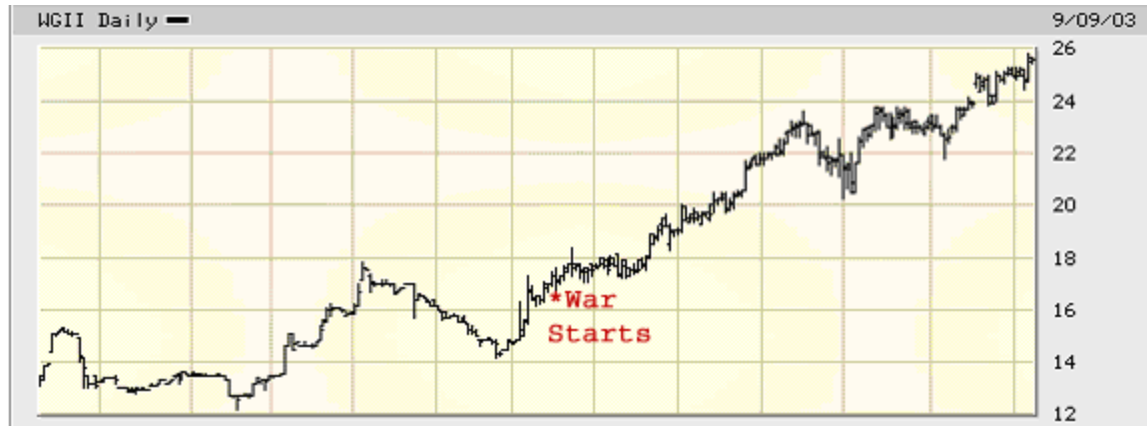
Noteworthy: In 2000, WGI doubled its size by purchasing Raytheon's engineering and construction unit. However, the Raytheon acquisition came with baggage. At the time, Raytheon's construction unit was under SEC investigation for cooking its books. It was the second probe into Raytheon's accounting practices. The first, in 2000, resulted in the resignation of the company's chief financial officer. But, when WGI stepped in and purchased the troubled construction unit the SEC promptly closed its investigation. But, the new acquisition's problems were severe enough to throw WGI into Chapter 11, from which it reemerged in 2002. (Ref: Boston Business Journal - <http://boston.bizjournals.com/boston/stories/2001/08/27/daily16.html>)

The acquisition and later closing of the investigation may have been prompted by concerns over Raytheon's critical role in US defense. The company ranks number 4 on the list of top US defense contractors. By removing the construction unit from Raytheon's lineup, the Washington Group may have saved both Raytheon and the Pentagon an embarrassing investigation that could have jeopardized other more important Raytheon contracts.

Noteworthy: Raytheon did not stay out of trouble for long, though. In February of this year, the SEC opened a new investigation into Raytheon's accounting practices related to the timing of revenue recognition at the company's aircraft unit. The revelation came just days after the Justice Department announced that Raytheon Aircraft paid some \$4 million to settle a case related to allegations that it falsely billed the government for insurance costs incurred by its jet trainer program. (Ref: www.forbes.com/newswire/2003/09/09/rtr1077360.html)

Noteworthy: In April, **Raytheon** and **Halliburton** Co.'s Kellogg, Brown & Root unit won a \$30 million contract to neutralize any chemical or nuclear weapons found in Iraq. (Ref: boston.bizjournals.com/boston/stories/2003/04/07/daily34.html)

Washington Group Int.1-Year Stock Price



Halliburton / Kellogg Root & Brown (KRB)

Houston, Texas

www.halliburton.com

By far the biggest winner in post-war Iraq has been Vice President Dick Cheney's former company, Halliburton. It is difficult for anyone unfamiliar with the scope and depth of Halliburton's relationship with the Pentagon to comprehend the lock this company has on key defense projects.

The key to the company's success can be traced directly to a document penned during the first Bush administration. As Secretary of Defense under Bush I, Dick Cheney hired Brown & Root Services (now Halliburton subsidiary, Kellogg, Brown & Root (KBR)), paying the company \$3.9 million to conduct a study and complete a report on how the Defense Department could cut costs by privatizing some of its non-combat activities. Apparently, the advice was to hire Brown & Root. The company won the exclusive contract to provide logistics for the U.S. Army Corp of Engineers -- around the world.

Shortly thereafter, Dick Cheney was freed up to pursue other interests and became CEO of Halliburton. During his tenure the company jumped from number 73 to 18 on the Pentagon's list of top defense contractors, benefiting from at least \$3.8 billion in federal contracts and taxpayer-insured loans, according to the Center for Public Integrity.

The Corps of Engineers' contract was the first installment in ten-year contract (with option to renew) that Kellogg, Brown & Root won from the Pentagon. The contract was titled **Logistics Civil Augmentation Program** (LOGCAP). The Pentagon describes it as a "cost-plus-award-fee, indefinite-delivery/indefinite-quantity service." In simple English,

this basically means that the DoD has an open-ended mandate to hire Kellogg, Brown & Root whenever or for whatever it deems in the national interest. (Ref: Global Policy - <http://www.globalpolicy.org/socecon/tncs/2002/cheneyafghan.htm>)

Most of Halliburton's defense work comes through its KBR subsidiary. Besides specializing in putting out burning oil wells, KBR has become the de facto quartermaster for the US Army overseas: the Army has hired KBR to provide housing accommodations for approximately 100,000 soldiers in Iraq (\$200M) through a long-term contract from December 2001 called the Logistics Civil Augmentation Program (LOGCAP). Other LOGCAP orders have included: a pre-invasion order to repair oil facilities in Iraq; \$28.2 million to build enemy prisoner-of-war camps; and \$40.8 million to accommodate the Iraqi Survey Group, which was deployed this spring to find hidden weapons of mass destruction.

In addition to the Army contracts, Halliburton has profited from other government-related work in Iraq and the war on terrorism, and has a \$300 million contract with the Navy.

Terrorism and unrest in the Islamic world has been meant solid work for KBR. In mid-November 2001, KBR was paid \$2 million to reinforce the United States embassy in Tashkent, Uzbekistan. When the US attacked the Taliban in Afghanistan, KBR was paid \$16 million to build 400 prison cells at Guantanamo Bay, Cuba to house captured Taliban fighters.

Noteworthy: In 1992, Brown and Root won the first five-year LOGCAP contract to provide housing for our troops in Bosnia as part of its LOGCAP contract. But in 1997, it lost the contract (to DynCorp) when the GAO accused KRB for significant cost overruns – one example cited – charging the military \$85.98 per sheet of plywood (US cost was \$14.00 a sheet at the time) -- and billing the Army to pay its employees' income taxes in Hungary. (Ref: GovExec Magazine - <http://www.govexec.com/features/0803/0803s2.htm>)

Noteworthy: In February 2002, KBR paid \$2 million to settle a lawsuit with the Justice Department, which alleged that the company defrauded the government during the closure of the Fort Ord military base in Monterey, California in the mid-1990s. (Ref:

<http://dallas.bizjournals.com/dallas/stories/2002/02/04/daily39.html>)

Iraq has become Halliburton's personal Horn of Plenty. Statistics provided by the Army Joint Munitions Command show that about \$1 billion had been allocated to Brown and Root Services through August 2003 in connection with Operation Iraqi Freedom. That was on top of the \$700 million it earned for an initial round of oil field rehabilitation work after the shooting stopped. The oil rehabilitation deal was part of KBR's LOGCAP contract. The deal is a one-year agreement renewable for 10 years. Work orders signed under LOGCAP do not have to be competitively bid.

Noteworthy: In addition to its Iraq contracts, KBR earned \$183 million from Operation Enduring Freedom in Afghanistan – so far.

The Bush administration is quick to point out that the work of rebuilding Iraq has just begun. Nevertheless, KBR's revenue from Operation Iraqi Freedom has already rivaled its earnings from its contracts in the Balkans. Iraq has become major factor in increasing the value of Halliburton shares by 50 percent over the past year. The company reported a net profit of \$26 million in the second quarter of this year, in contrast to a \$498 million loss in the same period last year.

It is a stunning turnaround for a company, which, just months ago, was struggling under the weight of hundreds of millions of dollars of legal claims brought against it by workers suffering from asbestos-related ailments from more than 200,000 plaintiffs. (Ref: TheStreet.com -

<http://dallas.bizjournals.com/dallas/stories/2002/02/04/daily39.html>)

The acquisition of Dresser Industries – and the enormous asbestos liabilities that came with it -- was Dick Cheney's idea. According to insiders, Cheney pushed hard for the acquisition, ignoring warnings from analysts. Why Cheney thought acquiring Dresser Industries was a good idea is not entirely clear. But Dresser's board of directors and some of its largest shareholders might provide some clues.

When the acquisition was completed, Dresser shareholders were given Halliburton stock in return and five members of the Dresser board of directors joined Halliburton's board. One of them was former Bush I Secretary of State Lawrence S. Eagleburger. Eagleburger had been a Dresser shareholder and became a Halliburton shareholder after the acquisition. Eagleburger left Halliburton's board on May 21, 2003.

Noteworthy: In July, a federal court in Houston extended an order temporarily protecting Halliburton from asbestos claims. The temporary restraining order will expire if a pre-packaged Chapter 11 filing by Halliburton's subsidiaries including **Kellogg Brown & Root** and certain of their subsidiaries is not made on or prior to September 30, 2003.

Noteworthy: In June, Nigeria launched an investigation into alleged bribery and fraud by Halliburton. (This was unrelated to the Baker-Hughes Nigerian bribery charges.) Halliburton disclosed in SEC filings that it *might* owe up to \$5 million in taxes to Nigeria and also admitted the company "paid" \$2.4 million to a Nigerian official to get favorable tax treatment. (Ref:

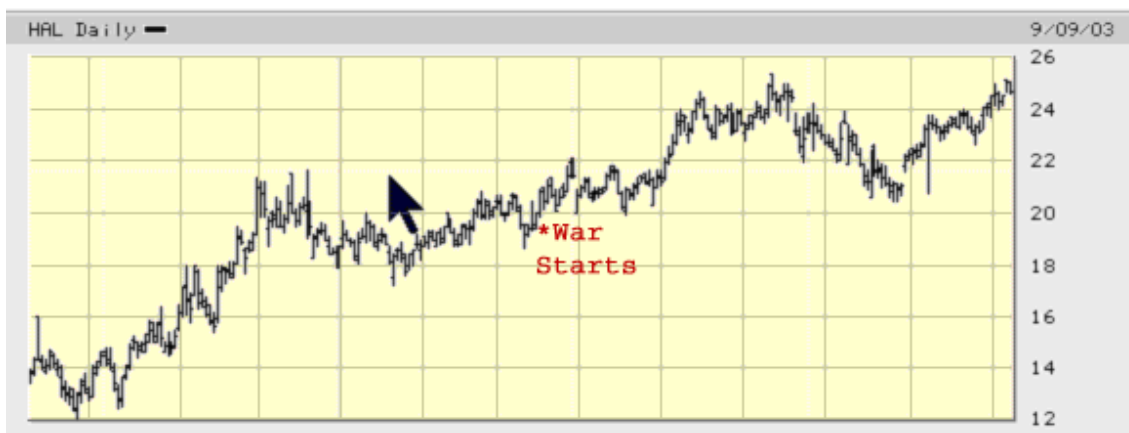
<http://www.forbes.com/markets/newswire/2003/06/18/rtr1003461.html>)

Just how much Halliburton will end up earning for its work in Iraq will not be known for probably a decade. Already, though, estimates are up to \$1.7 billion and sure to go higher. According to The Washington Post, the LOGCAP contract awarded to KBR in 2001 "was the third, and potentially most lucrative super-contract awarded by the Army."

KBR has become the Pentagon's Swiss Army knife of contractors. The company now controls Army operations that range from building bases for US troops, to catering millions of hot meals to US troops, to providing up to 1200 intelligence officers to hunt down Iraq's weapons of mass destruction. But, if you are looking for Halliburton's people in Iraq they may be hard to find. They dress in Army fatigues and the only hint they are not military is a civilian arm patch.

Noteworthy: In March, it was reported that, despite claims he had divested all interest in Halliburton, Vice President Dick Cheney was still receiving around \$165,000 annually in what was described as "deferred income" from Halliburton. The payments are set to run through 2005. (Ref:

<http://www.chron.com/cs/CDA/ssistory.mpl/nation/2103986>)



Selected Shorts

Got Phones?

Before the shooting stopped in Iraq, Bahranian-based cellular company Batelco rushed into Iraq and started putting up cellular transmission towers to serve what the company hoped would be the beginnings of a new Iraqi phone service. It was an exercise in risk-taking free enterprise one would expect the Bush administration to admire and encourage. Not so.

Even though phones were completely out of service across Iraq and Iraqis were desperate for phone service, the Pentagon ordered Batelco out of the country and warned that if they failed to take their transmission towers with them they would be destroyed.

A month later, the contract for civilian cell-phone service was awarded to bankrupt and criminally-indicted Worldcom (now MCI). It was a strange choice on several fronts. First, the company had never installed a cellular network; Worldcom's expertise was in operating the world's largest data networks. Most Internet traffic flows over Worldcom-created networks. Then, of course, there was the not-so-small matter of Worldcom being accused of the largest financial fraud in human history.

But, the Pentagon had plenty of reasons for wanting Worldcom to survive. In 2002, the Defense Information Systems Agency selected WorldCom Inc. for the 10-year, \$450 million Defense Research and Engineering Network. The Pentagon called it one of its "most valuable technologically-driven networking initiatives."

Worldcom also held a 10-year, \$4 billion contract to provide fiber and satellite communications services through the DISA for all federal users stationed in the Middle East, Caribbean, South America and Asia-Pacific. And, the company is part of a team that won an eight-year, \$7 billion Navy and Marine Corps intranet contract, providing secure access to voice, video and data communications.

The relationship between Worldcom and the US government had become so close that it was Worldcom who federal authorities turned to on Sept. 11 to ensure that military command and control networks between the Pentagon and forces around the world continued to function.

WorldCom also holds key contracts with the FAA, the Postal Service and the Congressional House of Representatives for telecommunications services.

All of which may explain why Iraqis will be complaining about the American occupation over a Worldcom/MCI cellular network rather than one built by Batelco.

Bush Associate Heads Iraqi Business Effort

When President Bush decided Iraqis needed some lessons in business, he chose Thomas Foley, 51, to teach them. Bush and Foley both attended Harvard and Foley will report directly to U.S. administrator Paul Bremmer.

Foley is chairman and founder of the NTC Group, a private equity investment company. He was chairman of Bush's Connecticut campaign finance committee in 2000, after raising more than \$100,000 for his college pal.

Foley is in charge of advising more than 200 state-owned enterprises, including mining, chemical, cement and tobacco companies. One of his jobs is to draft a privatization plan for state-owned businesses. He also manages all trade and foreign investments coming into Iraq.

"Basically, I need to help get Iraq's economy going in the right direction," Foley said.

Before he left for Iraq, Foley had to qualify for a top-secret clearance from the CIA.

Bush Associates Hired to Rewrite Iraqi Law

To historians, sending lawyers to rewrite Iraq's laws might seem a bit like telling a gorilla how to eat a banana. After all, Iraq had advanced laws centuries before Europeans. Nevertheless, they are going to get a taste of US law and it's coming from a law firm with close ties to George W. Bush.

The law firm chosen was Squire, Sanders & Dempsey. The firm donated more than \$41,000 to George Bush's 2000 campaign. One of the firm's partners, Ronald James, was appointed personnel chief for the Department of Homeland Security. James used to work for Donald Rumsfeld back when Rumsfeld was in Congress. During the Nixon administration, he shared an office in the White House with Dick Cheney.

The law firm was tapped as part of an \$80 million contract overseen by BearingPoint (formerly KPMG) to rewrite Iraq's business and regulatory code and consult on privatizing Iraq's formerly state-run industries. The contract is expected to reap the law firm several million dollars in fees.

Conclusion:

In the financial services world when a bank or other financial institution gets so big that its failure would send shockwaves through the economy, that institution is deemed TBF - "Too Big to Fail." Once a bank achieves TBF status the government steps in and does whatever it takes to plug the holes and keep it afloat. Sometimes executives are fired and occasionally even prosecuted. But, the institution lives on.

But the biggest US defense contractors who have cornered critical chunks of defense work have achieved an even more dubious status: TBF/ TBJ - "Too Big to Fail/ Too Big to Jail."