

Washington's \$8 Billion Shadow



Mega-contractors such as Halliburton and Bechtel supply the government with brawn. But the biggest, most powerful of the "body shops" - SAIC, which employs 44,000 people and took in \$8 billion last year - sells brainpower, including a lot of the "expertise" behind the Iraq war.

One of the great staples of the modern Washington movie is the dark and ruthless corporation whose power extends into every cranny around the globe, whose technological expertise is without peer, whose secrets are unfathomable, whose riches defy calculation, and whose network of allies, in and out of government, is held together by webs of money, ambition, and fear. You've seen this movie a dozen times. Men in black coats step from limousines on wintry days and refer guardedly to unspeakable things. Surveillance cameras and eavesdropping devices are everywhere. Data scrolls across the movie screen in digital fonts. Computer keyboards clack softly. Seemingly honorable people at the summit of power - Cabinet secretaries, war heroes, presidents - turn out to be pathetic pawns of forces greater than anyone can imagine. And at the pinnacle of this dark and ruthless corporation is a relentless and well-tailored titan - omniscient, ironic, merciless - played by someone like Christopher Walken or Jon Voight.

To be sure, there isn't really such a corporation: the Omnivore Group, as it might be called. But if there were such a company - and, mind you, there isn't - it might look a lot like the largest government contractor you've never heard of: a company known simply by the nondescript initials SAIC (for Science Applications International Corporation), initials that are always spoken letter by letter rather than formed into a pronounceable acronym.

SAIC maintains its headquarters in San Diego, but its center of gravity is in Washington, D.C. With a workforce of 44,000, it is the size of a full-fledged government agency - in fact, it is larger

than the departments of Labor, Energy, and Housing and Urban Development combined. Its anonymous glass-and-steel Washington office - a gleaming corporate box like any other - lies in northern Virginia, not far from the headquarters of the CIA, whose byways it knows quite well. (More than half of SAIC's employees have security clearances.)

SAIC has been awarded more individual government contracts than any other private company in America. The contracts number not in the dozens or scores or hundreds but in the thousands: SAIC currently holds some 9,000 active federal contracts in all. More than a hundred of them are worth upwards of \$10 million apiece. Two of them are worth more than \$1 billion. The company's annual revenues, almost all of which come from the federal government, approached \$8 billion in the 2006 fiscal year, and they are continuing to climb. SAIC's goal is to reach as much as \$12 billion in revenues by 2008.

As for the financial yardstick that really gets Wall Street's attention - profitability - SAIC beats the S&P 500 average. Last year ExxonMobil, the world's largest oil company, posted a return on revenue of 11 percent. For SAIC the figure was 11.9 percent. If "contract backlog" is any measure - that is, contracts negotiated and pending - the future seems assured. The backlog stands at \$13.6 billion. That's one and a half times more than the backlog at KBR Inc., a subsidiary of the far better known government contractor once run by Vice President Dick Cheney, the Halliburton Company.



It is a simple fact of life these days that, owing to a deliberate decision to downsize government, Washington can operate only by paying private companies to perform a wide range of functions. To get some idea of the scale: contractors absorb the taxes paid by everyone in America with incomes under \$100,000. In other words, more than 90 percent of all taxpayers might as well remit everything they owe directly to SAIC or some other contractor rather than to the IRS. In Washington these companies go by the generic name "body shops" - they supply flesh-and-blood human beings to do the specialized work that government agencies no longer can. Often they do this work outside the public eye, and with little official oversight - even if it involves the most sensitive matters of national security. The Founding Fathers may have argued eloquently for a government of laws, not of men, but what we've got instead is a government of body shops.

The unhappy business practices of the past few years in Iraq - cost overruns, incompetence, and corruption on a pharaonic scale - have made the American public keenly aware of the activities of

mega-contractors such as Halliburton and Bechtel. Although SAIC takes on government projects such as those pursued by contractors like these, it does not belong in exactly the same category. Halliburton and Bechtel supply the government's brawn. They pour concrete, roll out concertina wire, build infrastructure. They call on bullnecked men to provide protection.

In contrast, SAIC is a body shop in the brain business. It sells human beings who have a particular expertise - expertise about weapons, about homeland security, about surveillance, about computer systems, about "information dominance" and "information warfare." If the CIA needs an outside expert to quietly check whether its employees are using their computers for personal business, it calls on SAIC. If the Immigration and Naturalization Service needs new record-keeping software, it calls on SAIC. Indeed, SAIC is willing to provide expertise about almost anything at all, if there happens to be a government contract out there to pay for it - as there almost always is. Whether SAIC actually possesses all the expertise that it sells is another story.

What everyone agrees on is this: No Washington contractor pursues government money with more ingenuity and perseverance than SAIC. No contractor seems to exploit conflicts of interest in Washington with more zeal. And no contractor cloaks its operations in greater secrecy. SAIC almost never touts its activities in public, preferring to stay well below the radar. An SAIC executive once gave a press interview and referred to the enterprise as a "stealth company," a characterization that is accurate and that has stuck. "Nobody knows who they are," says Glenn Grossenbacher, a Texas lawyer who has battled SAIC in court on a whistle-blowing case.

"Everybody knows Northrop Grumman and G.E., but if you went out on the street and asked who the top 10 [defense] contractors are, I can guarantee you that SAIC would not be one of them." Which is all the more remarkable in light of two developments. The first is a mounting collection of government audits and lawsuits brought by former employees for a variety of reasons, some of them personal and some coming under federal whistle-blower statutes. In a response to written queries, SAIC characterized itself as a "highly ethical company and responsible government contractor, committed to doing the right thing." But a review by Vanity Fair of thousands of pages of documents, including corporate e-mail messages, offers disturbing revelations about the company's inner workings, its culture, and its leadership.

The second development is that several of SAIC's biggest projects have turned out to be colossal failures, failures that have occurred very much in public.

One involves the National Security Agency (NSA), America's intelligence-gathering "electronic ear" and for many years SAIC's biggest customer. The volume of telephone, e-mail, and other electronic communications that the NSA intercepts worldwide is so massive that the agency urgently needs a new computer system to store it, sort it, and give it meaning - otherwise it will keep missing clues like the Arabic message "Tomorrow is zero hour," intercepted the day before 9/11 but not translated until the day after. SAIC won the initial \$280 million, 26-month contract to design and create this system, called Trailblazer. Four years and more than a billion dollars later, the effort has been abandoned.

General Michael V. Hayden, the former head of the NSA and now the director of the CIA, blamed the failure on "the fact we were trying to overachieve, we were throwing deep and we should have

been throwing short passes." Happily for SAIC, it will get the chance for a comeback in the second half. The company has been awarded the contract for a revised Trailblazer program called ExecuteLocus. The contract is worth \$361 million.



Another failed effort involves the FBI, which paid SAIC \$124 million to bring the bureau, whose computer systems are among the most primitive in American law enforcement, into at least the late 20th century. The lack of information-sharing is one reason why the FBI failed to realize that in the year leading up to 9/11 two of the future hijackers - including one with known "jihadist connections" - were actually living in the San Diego home of an FBI informant. SAIC set to work on a system called the Virtual Case File. V.C.F. was supposed to become a central repository of data (wiretap transcripts, criminal records, financial transactions) from which all FBI agents could draw. Three years and a million lines of garbled computer code later, V.C.F. has been written off by a global publication for technology professionals as "the most highly publicized software failure in history." The failure was due in part to the bureau's ever shifting directives, which points up the perverse nature of government-by-contract. When the government makes unrealistic demands, the contractors go along anyway: they are being paid not to resist but to comply. If it turns out they can't deliver, new contracts will simply be drawn up. Responding to questions about the FBI project, the company conceded that "there were areas in which SAIC made mistakes, particularly where we failed to adequately communicate our concerns about the way the contract was being managed."

These and other SAIC activities would seem to be ripe targets for scrutiny by the new Democratic Congress. But don't be surprised if you hear nothing at all: SAIC's friends in Washington are everywhere, and play on all sides; the connections are tightly interlocked.

To cite just one example: Robert M. Gates, the new Secretary of Defense, whose confirmation hearings lasted all of a day, is a former member of SAIC's board of directors. In recent years the company has obviously made many missteps, and yet SAIC's influence in Washington seems only to grow, impervious to business setbacks or even to a stunning breach of security.

Much to the embarrassment of a company entrusted with some of the nation's most precious secrets, its San Diego offices were mysteriously burgled in January of 2005. A censored San Diego police-department report reveals the basic outline. The report notes that the building "is patrolled by DOD certified security" and that "the interior lights are on motion sensors and would have been activated by the suspects." Nevertheless, burglars managed to break into SAIC's headquarters, pry open 13 private offices, and walk out with one desktop-computer hard drive and four laptops. By SAIC's account, the computers contained personal data on thousands of present and past employees, presumably including the company's many former CIA operatives, NSA executives, and Pentagon officials. To date, the burglary remains unsolved.

SAIC has displayed an uncanny ability to thrive in every conceivable political climate. It is the invisible hand behind a huge portion of the national-security state - the one sector of the government whose funds are limitless and whose continued growth is assured every time a politician utters the word "terrorism."

SAIC represents, in other words, a private business that has become a form of permanent government.

A Plain Brown Envelope



On the evening of January 17, 1961, Dwight D. Eisenhower came down from the White House living quarters to the Oval Office and delivered his last address to the American people as president. This was the famous speech in which he warned against the "disastrous rise of misplaced power" in the hands of what he called "the military-industrial complex" - the sturdy hybrid formed by crossbreeding American corporate interests with those of the Pentagon and the intelligence community.

As Eisenhower spoke, a quietly ambitious man on the other side of the country, John Robert Beyster, was going about his business as head of the accelerator-physics department at the General Atomic corporation, in La Jolla, California, one of many secretive companies that sprouted early in the atomic era. Beyster had grown up outside of Detroit, served in the navy during World War II, and earned a Ph.D. in nuclear physics from the University of Michigan before migrating to Southern California in the 1950s. He was a lanky and nerdy-looking technocrat, but the tortoiseshell glasses concealed a driven personality. Beyster believed that General Atomic didn't

appreciate his ideas, and he began to lay plans. Within a decade of Eisenhower's farewell speech, Beyster would create an enterprise epitomizing the military-industrial complex that caused Eisenhower such dismay. Now, four decades later, that company epitomizes something beyond Eisenhower's worst nightmare - the "military-industrial-counterterrorism complex."

Science Applications International Corporation was born in February of 1969 in a stucco office building in La Jolla next to a ballet studio overlooking the Pacific. "I was not the brilliant, flash-of-inspiration type of entrepreneur," Beyster would later recall; rather, he was more a "persistent builder type." The name he decided on for his company, though brilliantly opaque, reflected an assumption that the real future of national defense - or, at any rate, the real future profits to be had from national defense - lay in science and technology, not in boots on the ground. And a lot of that scientific work would necessarily be analytical; it would be about thinking as much as about making. Beyster's very first government contract came from the Defense Atomic Support Agency: he was given the task of calculating "the output of nuclear devices."

Beyster understood that this particular moment of the American Century was the perfect time for shrewd consultants to get into the war business. The conflict in Vietnam was still raging, and the Cold War seemed to have become a permanent fixture of the geopolitical landscape. The Nixon administration was promoting a missile-defense system to protect its ICBM installations. Scientists were hard at work on a host of nuclear projects, including the fabled neutron bomb. Although computers had yet to revolutionize government and business, visionaries like Beyster could see that eventually they would, and so, for SAIC, computer systems represented another target of opportunity.

Joined by research scientists from General Atomic and elsewhere, Beyster developed a straightforward business plan. As he later explained it, "People who came into the company went out and got contracts." Everyone who worked for SAIC had to carry his own weight. You might have a Ph.D. in physics or applied mathematics, but at SAIC your job fundamentally was to sell your high-tech ideas and blue-chip expertise to the army, navy, air force, CIA, NSA, Atomic Energy Commission, and any other government agency with money to spend and an impulse to buy. Contracts were everything. There is much to be said for SAIC's approach: in its four decades of existence, the company has turned a profit every single year.

Beyster aggressively packed his company with former generals, admirals, diplomats, spies, and Cabinet officers of every kind to fill the company's board of directors and the upper echelons of its staff. These were the kinds of people who would always have easy access to the agencies they had left behind - and who someday might even go back into government. To be sure, every Beltway defense contractor tries to bring retired generals and admirals into the fold, but Beyster offered an incentive that others couldn't match: an internal stock-ownership program, which promised to make government officials rich after they left public service. The stock-ownership program would eventually be expanded to include everyone on the company's payroll, but it began as Beyster's way of rewarding favoured executives and board members, whose identities were kept secret. A lucky recipient would learn of his good fortune when a messenger appeared in his office carrying a

plain brown envelope containing a newly minted stock certificate.

SAIC had its own brokerage subsidiary, licensed by the S.E.C., a kind of in-house Merrill Lynch called Bull, Inc. The name accurately predicted the stock's vitality. Beyster and his board managed every aspect of the stock - the number of shares, who received them, and, most important, the price. Unlike on Wall Street, where individual stock prices go up and down, the SAIC stock price, controlled by Beyster and his board, usually moved in one direction only: up. The more contracts you landed, the more stock you received. Even if you stayed at SAIC for only a short time, you could in the long run earn a lot of money. And if you left SAIC to go back into government service, you had considerable incentive to keep SAIC's continuing good fortunes in mind. SAIC's internal stock market was instrumental in the company's early success. Peter Friesen, a San Diego attorney who has represented former SAIC employees in civil complaints against the company, says, "If you find somebody [in government] who wants a job with SAIC later, and he sees the steady rise in the stock price over the years and knows he can get a job with stock options and stock bonuses, then he's going to be sending business over to SAIC. And it worked."



SAIC opened its Washington office in 1970. Although San Diego would remain SAIC's home base, the workforce in the Washington area soon eclipsed the workforce everywhere else. To ensure support on Capitol Hill, corporate outposts were prominently set up in key congressional districts. Meanwhile, scores of influential members of the national-security establishment clambered onto SAIC's payroll, among them John M. Deutch, undersecretary of energy under President Jimmy Carter and CIA director under President Bill Clinton; Rear Admiral William F. Raborn, who headed development of the Polaris submarine; and Rear Admiral Bobby Ray Inman, who served variously as director of the National Security Agency, deputy director of the CIA, and vice director of the Defense Intelligence Agency.

SAIC's relative anonymity has allowed large numbers of its executives to circulate freely between the company and the dozen or so government agencies it cares about. William B. Black Jr., who retired from the NSA in 1997 after a 38-year career to become a vice president at SAIC, returned to the NSA in 2000. Two years later the agency awarded the Trailblazer contract to SAIC. Black managed the program. Donald Foley, a current SAIC director, came out of a top position at the Defense Advanced Research Projects Agency, the Pentagon group responsible for developing new

military technology. SAIC might as well operate an executive shuttle service between its McLean, Virginia, offices and the CIA, the FBI, the Pentagon, and the Department of Energy. Technically, federal ethics rules stipulate that former government officials must wait one year before contacting anyone in their former agencies. Sometimes they can't wait: Mark A. Boster left his job as a deputy assistant attorney general in 1999 to join SAIC, and was already calling Justice three months later on behalf of his new employers - a violation of federal law. Boster paid \$30,000 in a civil settlement.

The Young-Boy Network



The driving force behind SAIC, the man who shaped its personality and culture across nearly four decades, until he was forced out in 2004, was of course Bob Beyster. From the beginning Beyster was indefatigable, constantly on the road, promoting SAIC to any government official who would listen. On a 10-day trip, he'd jam in as many as 80 appointments. If he had an hour between planes, he'd order his secretary to jam in one more. Beyster may have been a scientist by training, but he was a salesman at heart. He described himself as a "marketeer."

Although he could be an engaging companion when dealing with military brass and agency heads, around the office Beyster could also be distant and imperious, an autocrat who ruled with an iron hand. SAIC presented itself as a friendly "employee owned" company. Inside, everyone understood how the stock program was really used - to punish and reward. No one harbored any illusions about whose company it was. "In Bob Beyster's mind, that company was not the shareholders' company, it was Bob Beyster's company," said Gerald Pomraning, a nuclear physicist who helped Beyster set up SAIC, in a legal proceeding. "When I was on the board of directors, he told us many times that the board of directors was simply a legal entity that was required, but it was his company."

Beyster advocated a form of internal entrepreneurship that led to cutthroat competition for contracts. Operations were chaotic because divisions independent of one another frequently fought for the same business. Glenn Grossenbacher, the Texas lawyer, describes the dynamic as "eat what you kill." Chief financial officers, frustrated by Beyster's exacting and sometimes mercurial demands, came and went. The company's organizational chart was often in flux. According to one former executive, Beyster was known around the office as a "control freak" who undermined

managers by going around them and dealing directly with their staffs. Bernice Stanfill King, a former SAIC executive who managed the company's internal stock program, says that Beyster would often assign a single job to two executives. "He would call in one high-level guy and put him on a project," she explains. "Then he would call another guy in a totally different part of the company and put him on the project. Then these guys would bump into each other and [wonder], 'What's he doing?' You never honestly knew what was going on inside. Nothing was ever in the open."

As befits a company with deep ties to the intelligence and national-security community, SAIC's culture has always had a military cast to it. Employees are expected to follow orders. Even former employees are wary of discussing SAIC. One former manager who has worked on sensitive, even dangerous assignments abroad spoke about SAIC only after receiving assurances of anonymity, saying, "This is a very powerful company."

Beyster's close associates within SAIC were a succession of young men. Known as aides-de-camp, they were usually handsome, well educated, and intelligent, with a facility for numbers and a willingness to perform personal tasks for their boss. Beyster was an ardent sailor, and in the summertime he liked to spend afternoons cruising the waters off San Diego aboard his yacht in the company of these young men. George Wilson, who once headed SAIC's public-relations operation, has stated in a legal proceeding that the young men provided a variety of personal services for Beyster, including using SAIC equipment to make copies of pornographic movies that Beyster would watch aboard his boat.

When Beyster travelled on business, he often took one of the aides-de-camp with him, and asked his secretary to arrange for them to stay in the same hotel room - this according to the secretary's courtroom testimony. Wilson said in a deposition that one of the young men he knew who slept in the same room with Beyster on these trips told him that he didn't like doing it, but that "it was part of travelling with Beyster." Some of the young aides-de-camp went on to become executives at SAIC. Bernice King testified that Beyster had a name for his young assistants: he called them his "baby boys." When asked about these assertions, which surfaced in a sex-discrimination case, Beyster declined to comment on any particulars, saying, "Although I cannot address the specific points you raise from court testimony, I will say that during this trial a number of very personal accusations were levelled against me that are not accurate."

Klondike on the Euphrates

Civilians at SAIC used to joke that the company had so many admirals and generals in its ranks it could start its own war. Some might argue that, in the case of Iraq, it did.

There isn't a politically correct way to put it, but this is what needs to be said: 9/11 was a personal tragedy for thousands of families and a national tragedy for all of America, but it was very, very good for SAIC. In the aftermath of the attacks, the Bush administration launched its Global War on Terror, whose chief consequence has been to channel money by the tens of billions into companies promising they could do something - anything - to help. SAIC was ready. Four years

earlier, anticipating the next big source of government revenue, SAIC had established the Center for Counterterrorism Technology and Analysis. According to SAIC, the purpose of the new unit was to take "a comprehensive view of terrorist threats, including the full range of weapons of mass destruction, more traditional high explosives, and cyber-threats to the national infrastructure." In October of 2006 the company told would-be investors flatly that the war on terror would continue to be a lucrative growth industry.



SAIC executives have been involved at every stage of the life cycle of the war in Iraq. SAIC personnel were instrumental in pressing the case that weapons of mass destruction existed in Iraq in the first place, and that war was the only way to get rid of them. Then, as war became inevitable, SAIC secured contracts for a broad range of operations in soon-to-be-occupied Iraq. When no weapons of mass destruction were found, SAIC personnel staffed the commission that was set up to investigate how American intelligence could have been so disastrously wrong. It is Wednesday afternoon, March 25, 1998, and David A. Kay, who had been a UN official in Iraq in the aftermath of the 1991 Gulf War, is on Capitol Hill testifying before the Senate Armed Services Committee. Americans generally remember Kay as the head of the Iraq Survey Group, the man who showed that Saddam Hussein didn't possess WMD when America invaded in 2003, and that the war was launched under false pretences. But today, in 1998, he is not David Kay, weapons inspector, but David Kay, director of SAIC's Center for Counterterrorism Technology and Analysis. He is a stockholder in a company known to cognoscenti in the hearing room as a fraternal twin of the intelligence establishment. With great authority, Kay tells the committee that Saddam Hussein "remains in power with weapons of mass destruction" and that "military action is needed." He warns that unless America acts now "we're going to find the world's greatest military with its hands tied."

Over the next four years, Kay and others associated with SAIC hammered away at the threat posed by Iraq. Wayne Downing, a retired general and a close associate of Ahmad Chalabi, proselytized hard for an invasion of Iraq, stating that the Iraqis "are ready to take the war ... overseas. They would use whatever means they have to attack us." In many of his appearances on network and cable television leading up to the war, Downing was identified simply as a "military analyst." It would have been just as accurate to note that he was a member of SAIC's board of directors and a company stockholder. (Downing was also the chief proponent of a weapons system called Metal Storm, capable of firing a million rounds of ammunition a minute; SAIC received \$10 million from the Pentagon to develop prototypes, but in the last two years the Metal Storm company has lost millions.) In the run-up to the war, David Kay remained outspoken. He told NBC News in October of 2002, "I don't think it's possible to disarm Iraq as long as Saddam is in power and desires to maintain weapons of mass destruction."

On all these points Kay and Downing were buttressing the views of Vice President Dick Cheney, Defense Secretary Donald Rumsfeld, and others in the Bush administration. They were also echoing the assertions of Iraqi exiles living in the United States, who had been trying to overthrow Saddam Hussein for years. Many of those exiles - people like Khidhir Hamza, a onetime atomic-energy official in Iraq, who insisted that Saddam posed an imminent nuclear danger to the United States - would in time receive pay-checks from SAIC. Although his evidence had long been discredited by weapons experts, Hamza was among about 150 Iraqi exiles designated by the Pentagon as members of the newly chartered Iraqi Reconstruction and Development Council. The plan was that, once American troops secured Iraq, the I.R.D.C. recruits would move into influential positions in a rebuilt Iraqi government.

SAIC served as the paymaster for the Iraqi exiles under a \$33 million government contract. It brought them all together in the Washington, DC, suburbs, rented apartments for them, paid their living expenses, provided various support services, and, later, after the invasion and occupation, flew them to their jobs in the new, democratic Iraq. This SAIC operation reported to Douglas Feith, the undersecretary of defense for policy at the Pentagon, a key assistant to Rumsfeld, and one of the architects of the Iraq invasion and occupation. Feith's deputy was Christopher "Ryan" Henry, a former SAIC senior vice president.

It was understood in Washington, long before the actual onset of "shock and awe," that the Iraq war would be a Klondike gold rush for contractors. Prior to the war, SAIC was awarded seven contracts, together worth more than \$100 million, without competitive bidding. The Defense Department's justification for the no-bid contracts: "We need the immediate services of a fully qualified contractor who has the unqualified support and confidence of the Pentagon leadership." SAIC's personnel, designated "subject-matter experts," were expected to lend a hand on such matters as "business development, international and regional political relations, the role of women in government, and government reform." Among SAIC's subject-matter experts was Shaha Riza, an Arab feminist and communications adviser at the World Bank. Riza also happened to be the girlfriend of Paul Wolfowitz, the deputy secretary of defense.

One week before the invasion, SAIC was awarded yet another no-bid contract, this one for \$15

million, which within a year would balloon to \$82 million. The contract gave SAIC the responsibility for establishing a "free and independent indigenous media network" in Iraq, and for training a cadre of independent Iraqi journalists to go with it. The selection of SAIC for this job may have seemed counter-intuitive. A year earlier, SAIC had been involved in a Pentagon program designed to feed disinformation to the foreign press. The program was overseen by a Pentagon entity with the Orwellian name of Office of Strategic Influence, and its aims proved sufficiently odious that someone inside the Pentagon leaked its existence to The New York Times. An unrepentant Donald Rumsfeld stated that he would shut down the Office of Strategic Influence - but in name only: "There's the name. You can have the name, but I'm going to keep doing every single thing that needs to be done."



To create its Iraqi Media Network, SAIC hired professional newsmen from the United States as consultants. One of them was a former NBC News staff member, Don North, who had launched his career as a cameraman in Vietnam and eventually rose to become the NBC News bureau chief in Cairo. North began with high expectations. Once Saddam Hussein was ousted, he and his colleagues hoped to create a BBC-like news operation, instilling "standards of international broadcasting and news reporting" that Iraqis had never known before. It soon became clear that the Pentagon and the Coalition Provisional Authority had other ideas. To them, the Iraqi Media

Network represented an opportunity to push the US agenda in Iraq in the most simplistic sort of way. With SAIC's cooperation, the network quickly devolved into a mouthpiece for the Pentagon - "a little Voice of America," as North would put it. Iraqis openly snickered at the programming. Every time North protested, he recalls, he was rebuffed by SAIC executives. "Here I was going around quoting Edward R. Murrow," North says, "and the people who were running me were manipulating and controlling a very undemocratic press and media that was every bit as bad as what Saddam had established." In the end the network was turned over to Iraqi control. Today it is a tool of Iraq's Shiite majority and spews out virulently anti-American messages day and night. "And to think we started it," says North. The SAIC-created television network may be the only functioning weapon of mass destruction in today's Iraq.

As everyone now acknowledges, no other such weapons have ever been found, although search teams ran through more than \$1 billion looking for them. The closest they came was the discovery, in May of 2003, of a "mobile bioweapons lab" in the form of a tractor-trailer whose interior configuration looked suspicious. David Kay was on hand to lend credence to the notion that the trailer was a weapons lab. "This is where the biological process took place," he explained in one NBC News broadcast. "You took the nutrients. Think of it sort of as a chicken soup for biological weapons. You mixed it with the seed stock, which came from this gravity-flow tank up here into the fermenter, and under pressure with heat, it fermented." Kay outlined the process step by step. The discovery of the trailer was, as the NBC News interviewer allowed, "very close to that elusive smoking gun."

It turned out, however, that the mobile weapons lab was nothing of the kind. To be sure, the military, back in the United States, did have in its possession something that looked a lot like the Iraqi trailer. In advance of the invasion, SAIC had built its own version of a mobile bioweapons lab, intended to help US troops recognize such a facility if they ever came across one. SAIC had built, in effect, a self-fulfilling prophecy.

After failing to find the WMD, Kay told Congress in January of 2004: "Let me begin by saying we were almost all wrong, and I certainly include myself here." The next month President Bush appointed a commission to look at how American intelligence managed to miss the truth about Iraq's weapons programs. The commission delivered its report one year later, and although it sternly pointed to obvious intelligence failures, it kept its gaze, as it had been told to do, at a very low level - and far away from the issue of whether senior policymakers had deliberately manipulated intelligence findings: "The Commission found no indication that the Intelligence Community distorted the evidence regarding Iraq's weapons of mass destruction," the report concluded.

Three of the commission's staff members had direct ties to SAIC. One was Gordon Oehler, the commission's deputy director for review. When Oehler left the CIA, in October of 1997, after a 25-year career, he in essence walked down the street and into the McLean offices of SAIC to become a vice president for corporate development. A second commission staff member with ties to the company was Jeffrey R. Cooper, vice president for technology and chief science officer in one of SAIC's major sub-units. The third member was Samuel S. Visner, who holds a graduate

degree in Washington's revolving-door system. From 1997 to 2001, Visner was an SAIC vice president for corporate development, and also a business-development manager. Next, he moved into a government spymaster job, becoming chief of signals-intelligence programs for the National Security Agency. During this time SAIC was one of several firms to receive a \$280 million contract from the NSA to develop one of its secret eavesdropping systems. In 2003, Visner returned to SAIC to become a senior vice president and the director of strategic planning and business development of the company's intelligence group.

As for General Downing, he has become a regular contributor on television as a military expert on the war in Iraq and America's options. Everyone seems to have forgotten his earlier bellicosity.

The Flying Hummer



SAIC's ability to prosper is all the more remarkable given its record of lawsuits, charges brought by whistle-blowers, allegations of profiteering, fines assessed by federal judges, and repeated investigations and government audits. According to one former executive, in a sworn deposition in 1992, the practice of "mischarging" became "institutionalized within the company." (SAIC denies such allegations.)

The job of establishing the Iraqi Media Network's infrastructure - cables, transmitters, dishes - was rife with corruption and waste. In one instance, government auditors questioned an SAIC invoice for approximately \$10 million. (SAIC says it is unaware of the auditors' report.) In March of 2004 the Pentagon's inspector general found widespread violations of normal contracting procedures: improper payments to subcontractors, unsubstantiated equipment purchases, unauthorized personnel on the payroll. One of the more blatant transgressions concerned SAIC's overall manager of the media effort in Iraq. The investigators discovered that he had bought a Hummer and a pickup truck in the United States and then chartered a DC-10 cargo jet to fly them to Iraq. When a Pentagon official refused to allow the charge, the inspector general reported, "SAIC then went around the authority of this acquisition specialist to a different office within the Under Secretary of Defense for Policy to gain approval and succeeded."

SAIC's performance on the Iraqi Media Network contract is now, indirectly, at issue in a lawsuit

brought by an employee who alleges that she was fired after she tried to draw the attention of SAIC executives to what she described in the suit as "unethical, illegal, and unsafe practices" by the company in Iraq. Because of the pending legal action, this employee declined to be interviewed, but considerable documentation is already part of the public record, including portions of her personnel file. SAIC's corporate priorities are suggested by one commendation the employee received, for her "excellent billing credentials."

This way of doing business has been an SAIC character trait for years. In 1991, SAIC was charged with falsifying data submitted to the EPA on soil samples from Superfund toxic-waste sites. The law required the EPA to identify toxic dumps and determine which ones posed the gravest risks. To perform the analysis, the EPA contracted with independent labs, including SAIC's Environmental Chemistry Laboratory, in La Jolla. The lab was supposed to test soil and water samples within a certain number of days of their being received "to ensure the chemicals being tested for would not have dissipated in the interim." But technicians at SAIC's lab tested some samples after the deadline and then backdated the results. SAIC mounted a high-powered behind-the-scenes campaign to escape prosecution. A member of SAIC's board of directors, former secretary of defense Melvin R. Laird, wrote a personal letter to Attorney General Dick Thornburgh. "I can assure you there was no wrongdoing on the part of the corporation," Laird stated. Criminal prosecution of SAIC, he went on, would be "entirely inappropriate." Ultimately the company was accused by the government of making "false, fictitious and fraudulent statements," and pleaded guilty to ten counts of making false statements or claims. SAIC paid \$1.3 million in fines and restitution.

A few years later SAIC was in trouble again, this time over its efforts to design a flat-panel liquid-crystal-display screen to be used as a navigational device in the cockpits of air-force fighter jets. The initial contract had been awarded in 1987, but SAIC kept going back for more money. The government would shell out millions - even as SAIC assured the Air Force that steady progress was being made. And in fact Air Force officials had no reason to believe otherwise: they had seen what they thought was a demonstration model when SAIC officials unveiled a slick-looking compact box with a backlit screen. SAIC officials travelled to military bases around the country to show off the prototype. A respected magazine, *Engineering Design News*, published a photograph of the display screen on its cover. But the box was a fake. SAIC had been unable to develop the actual technology. The prototype - in effect, nothing more than a cheap video game - had been cobbled together with components taken from TV sets, computers, and everyday consumer appliances. When two SAIC employees complained to their superiors, both were fired. Two employees later filed whistle-blower lawsuits charging SAIC with defrauding the government. While denying any wrongdoing, in 1995 SAIC settled the suit with the government and paid a fine of \$2.5 million.

The ill-fated cockpit-display project was hardly an isolated case. A recent case revealed one method SAIC employed to increase the profits on a contract. In San Antonio, the air force awarded SAIC a \$24 million contract to clean up contaminated-waste sites at Kelly Air Force Base. Once

the project was under way, the SAIC manager overseeing the job realized that the work would cost much less than the amount SAIC had negotiated. "It was massively overstaffed," Michael Woodlee, the former manager, said in an interview. "I didn't need that many [people]." Woodlee said he told one of his superiors that "there was no way under the moon we could spend all this money."

This is not what SAIC wanted to hear. Woodlee said that, because he couldn't spend everything in his budget, his SAIC superiors suggested that he "harvest money out of [his] project and send it up the corporate ladder." After he resisted, Woodlee contended, the project was taken away from him, and he was laid off.

In 2002, Woodlee filed a whistle-blower lawsuit charging SAIC with fraud under the federal False Claims Act. Working with air-force investigators, the U.S. attorney in San Antonio concluded that SAIC had in fact grossly understated profits on the contract: rather than the 8 to 10 percent profit the contract allowed, SAIC had, "unbeknownst to the Air Force," realized profits of three times that amount, and had submitted "false and fraudulent statements of its expected costs and profits."

SAIC's response was audacious. It told federal officials, in effect, that the government was right: the company does increase the profit margin beyond the terms of the contract. But there's a reason: risk is involved, and the additional profit is compensation for that risk. According to documents in the case, SAIC explained that it employs something called "Quantitative Risk Analysis" to identify potential business risks, and that it factors those costs into its contracts, although without ever mentioning the fact to customers. In a written response, the company stated that this kind of risk analysis is "commonly used throughout industry" and "such purely judgmental information was not required to be disclosed under [federal law] based on longstanding legal principles." But by failing to disclose that information to federal negotiators, the Air Force maintained, SAIC induced it "to agree to much higher prices than [the Air Force] would have agreed to had SAIC truthfully disclosed its cost and pricing data." After SAIC's "risk defense" surfaced, the Air Force issued a written alert to warn other agencies about SAIC's business methods, which it said SAIC "intends to continue using."

Although the amount of money in contention was relatively small, the principle involved was large, and it had potentially national implications. Was SAIC using the same formula in thousands upon thousands of other contracts it had with the government? We'll never know. For reasons that remain unclear, the Justice Department decided against expanding the probe beyond San Antonio. Is it possible that a call was made from one well-placed individual to another? In April of 2005, SAIC, while denying wrongdoing, settled the San Antonio lawsuit by paying a fine of \$2.5 million.

More important, the company had forestalled a wider investigation. One of Woodlee's lawyers, Glenn Grossenbacher, who has represented other whistle-blowers against other companies, describes SAIC as unlike any other company he has ever confronted. "These guys handle things very differently than other people," he said. "They had better access to the Pentagon than the government's own attorneys. They are so well connected they were able to isolate this one case. This should have been a [national] case. The reason it wasn't was because of their political clout to

shut it down and localize it."



Not every SAIC client is as forgiving as the United States government. When SAIC failed to deliver a highly touted security system for the 2004 Athens Olympics, the Greek government refused to make a final payment. SAIC had proposed the most extensive security shield in Olympic history: more than 100 command posts, vehicle-tracking devices and sensors everywhere, 1,600 video cameras, and a blimp loaded with "sensitive equipment" floating "silently overhead acting as an airborne surveillance center." As video feeds flowed to a central command post, SAIC's state-of-the-art software would link all these capabilities. The system was to remain in place as an anti-terrorism tool in Athens for years to come. But turmoil within SAIC plagued the effort from the start. Project managers came and went. On the eve of the games a source close to the Olympic planners stated that "the entire Committee without exception believe that the ... system doesn't work."

The Olympics started up on schedule. SAIC's security system did not. A newspaper in Athens described the system as "operationally useless," and Greek officials improvised simply by adding more guards. Before the games began, SAIC and the Greek government had quietly come to an agreement that called for continued testing of the system and "final acceptance to occur no later than October 1, [2004]" - one month after the games ended. A payment of \$23 million would follow. SAIC missed this deadline, too. After more wrangling the two sides, according to an Athens newspaper, reached an understanding that calls for SAIC to complete work by May 2008, almost four years after the Olympics. As of last fall, SAIC's losses on the project totalled a staggering \$123 million, and the company acknowledges "our poor performance on the Greek Olympics contract." SAIC is trying to recoup some of its losses in an arbitration and so far has managed to keep the lid on potentially embarrassing revelations about the competence of a company whose operations are built on claims of technical expertise.

Radiation Sickness

Given that its founder came from a company called General Atomic it is hardly surprising that

SAIC has been heavily involved in the nuclear business. One early project came in the 1970s and 80s, when SAIC received Pentagon contracts to reconstruct the amount of radiation absorbed by military personnel during atomic-bomb tests and other service-related exposures. The government's bookkeeping was so erratic from the early days of the Cold War that it was often difficult to tell how much radiation soldiers had received and whether it might have been responsible for their various cancers. When SAIC did the numbers, few veterans qualified for compensation. The Pentagon's nuclear testing was in effect off the hook, and ailing veterans were out of luck. After years of hearings, Congress in 1988 passed the Radiation-Exposed Veterans Compensation Act, which gave veterans the benefit of the doubt. It was presumed that their cancer was attributable to nuclear exposure without considering the radiation dose. By then many of the veterans were dead. A health physicist who testified later on behalf of the veterans spoke unkindly of the original SAIC work: "Atomic veterans have been deprived of benefits intended by Congress through [SAIC's] deceptive internal dose reconstructions and poor understanding of radioactive material distribution in the body." SAIC disagrees, saying that it "continues to work with the government to apply the best science to performing dose reconstruction for atomic veterans." Periodically over the years, the Nuclear Regulatory Commission and the US Department of Energy, prodded by executives in the nuclear industry, have sought to ease the rules against re-using "lightly" contaminated radioactive waste. The impetus has been the inexorably growing stockpile of nuclear debris - much of it lethal - that has been accumulating at weapons sites and power plants in America for decades. One way to draw down the stockpile would be to recycle large volumes of discarded nickel, aluminium, copper, steel, and other irradiated metals into usable products. If slightly radioactive metal were combined with other metals, the resulting material could be made into all kinds of consumer items - knives and forks, baby strollers, chairs, rings, eyeglass frames, bicycles, reclining rockers, earrings, frying pans. It also could be used in construction.

Lest any of this sound improbable, in the 1980s radioactive table legs began turning up in the United States everywhere from restaurants to nursing homes. A radioactive gold ring cost a Pennsylvania man his arm. The public outcry was so great that in 1992 Congress set out to ban this form of recycling. The N.R.C., D.O.E., and nuclear industry saw the ban coming and were not happy about it, but they also saw a way out: maybe it would be possible to develop broad guidelines that would allow the contaminated waste to be recycled based on what were deemed "safe" exposure levels. Never mind that there is no such thing as a safe dose of radiation. Two months before the ban was signed into law, the N.R.C. gave the multi-million-dollar job of formulating the guidelines to an outside contractor. The contractor was SAIC.

As the years slipped by, across town, another federal agency, the Department of Energy, was handing out a \$238 million contract to B.N.F.L. Inc., at that time the US subsidiary of British Nuclear Fuels, "to clean up and reindustrialize three massive uranium enrichment facilities" at Oak Ridge National Laboratory, in Tennessee. The agreement called for B.N.F.L. to recycle "hundreds of thousands of tons of metals." British Nuclear Fuels had a questionable track record in the nuclear industry. For decades it had dumped plutonium and other radioactive waste into the Irish Sea and the North Atlantic. Its workers had falsified critical quality-control data. When the D.O.E.

announced the contract, SAIC was identified as a major subcontractor in the recycling of radioactive scrap metal.



Because the N.R.C. and the D.O.E. for some reason weren't talking to each other, the elegance of this arrangement escaped everyone's attention. To connect the dots: SAIC was writing the regulations for one government agency, the N.R.C., which would set the permissible limits of radioactive contamination for recycling, even as it partnered with another company, under contract to a different federal agency, the D.O.E., to recycle the radioactive metal for which it was drafting the regulations.

The synergy of this arrangement was discovered accidentally by a Washington lawyer, Daniel Guttman, whose long-time passion has been conflicts of interest that inevitably - purposefully - arise from government outsourcing. Guttman called attention in public hearings to what was happening, thoroughly embarrassing officials at the N.R.C. and the D.O.E. and stirring the ire of public-interest groups. The N.R.C. killed its contract with SAIC. The recycling project was put on hold. And the N.R.C. filed suit against SAIC, alleging "false and/or fraudulent representations to the effect that [SAIC] was providing services to the NRC which were free from bias." SAIC has denied the conflict-of-interest claims, and the suit is still pending.

But SAIC is by no means out of the nuclear business. It may be under a cloud at the N.R.C., but it's still a partner, with the construction giant Bechtel, in the largest nuclear project of all - the \$3.1 billion effort to build a repository for America's high-level radioactive waste. The firm Bechtel SAIC is constructing the repository deep under Yucca Mountain, Nevada, where the buried waste will remain lethal for at least 10,000 years. It could provide a revenue stream for SAIC as far into the future as one can imagine.

The Permanent Government

Bob Beyster turned 79 in 2003. He was in his 34th year with the company. A writer for The San Diego Union-Tribune, granted a rare interview around this time, observed that Beyster was a "little more stooped now," but still vigorous. He continued to run three or four miles almost every day.

Over the years numerous executives rumoured to be his successor had come and gone as it became apparent that Beyster had no intention of relinquishing power. But the sheer size of the company and its aggressive, internally competitive style were catching up to Beyster. Even Pentagon officials had begun to complain that SAIC's overlapping divisions were creating confusion. When the Pentagon talks, contractors listen. In 2003, the SAIC board forced him out. By 2004, SAIC had a new chairman, Kenneth Dahlberg, a top executive at General Dynamics with long experience in the defense industry.

In October of 2006, SAIC carried out a long-anticipated I.P.O., selling 86 million shares at \$15 a share in its debut on the New York Stock Exchange, raising \$1.2 billion. Reflecting investor bullishness, shares rose to \$21 in a matter of days. Its prospects have never looked brighter.

Unlike traditional wars, which eventually come to an end, the Global War on Terror as defined by the Bush administration can have no end: it is a permanent war - the perfect war for a company that has become an essential component of the permanent government. Political change causes scarcely a ripple. As one former SAIC manager observed in a recent blog posting: "My observation is that the impact of national elections on the business climate for SAIC has been minimal. The emphasis on where federal spending occurs usually shifts, but total federal spending never decreases. SAIC has always continued to grow despite changes in the political leadership in Washington."

And the revolving door never stops spinning. One of the biggest contracts ever for SAIC is in the works right now. It's for a Pentagon program called Future Combat Systems, which is described as "a complex plan to turn the US Army into a lighter, more lethal, more mobile force" and also as "the most difficult integration program ever undertaken by the US Department of Defense." The contract runs into the billions of dollars. The man who helped craft this program at the Pentagon was Lieutenant General Daniel R. Zanini. Zanini recently retired from the army, and he now has a new job. Can you guess where it might be?

> Donald L. Barlett and James B. Steele wrote this article for the March 2007 edition of Vanity Fair.