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Top Pentagon Contractors, FY 2006: **Major Beneficiaries of the** **Bush Administration's Military Buildup**

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Introduction: Contracts Soar on Strength of Record Military Spending

As part of its effort to fight terrorism and stabilize Iraq, the Bush administration has presided over one of the largest military buildups in the history of the United States. Counting the costs of the wars in Iraq and Afghanistan and the Department of Energy's work on nuclear weapons and naval reactors, proposed military spending for FY 2008 is \$647 billion. After adjusting for inflation, this represents the highest level of military spending since World War II – higher than the peak of the Reagan buildup, higher than spending during Vietnam, and higher than the top year of the Korean conflict. Military spending has more than doubled since President Bush took office in January 2001.

This growth in overall military spending has been accompanied by comparable growth in prime contracts awarded to military firms like Lockheed Martin, Northrop Grumman and Boeing. As we will see below, a number of smaller firms have benefited as well, and in some instances have experienced contracting growth that far exceeds the rates experienced by the largest contracting firms.

Table I provides data on the growth of overall Pentagon contracting from FY 2001 to FY 2006. Contracts are up from \$144 billion in FY2001 to over \$294 billion in FY 2006, an increase of 103%. The largest rates of growth were in FY2002 (+18.1%) and

FY2003 (+22.3%), the period that includes the beginnings of the wars in Afghanistan and Iraq. The rate of contract growth has slowed from those peak years, to an 8.7% increase from FY2005 to FY2006. This may suggest that the demands of the Iraq and Afghan wars for personnel and operations and maintenance expenditures may be cutting into spending for weapons procurement and research and development (R&D).

During the FY2001 to FY2006 time frame, Pentagon contracts as a share of total federal prime contracts have grown as well, from 64.6% in FY2001 to 70.1% in FY 2006. A more inclusive figure that includes military nuclear activities at the Department of Energy and contracting by the Department of Homeland Security would put the ratio of national security-related contracting to total federal contracting at an even higher level.

Table I:
Total Department of Defense Prime Contracts,, FY 2001 to FY 2006
(Figures in billions, with percentage change from year-to-year noted)

2001	2002	2003	2004	2005	2006	%change 01-06
\$144.6	\$170.8	\$208.9	\$230.7	\$269.2	\$294.9	103%
% change year to year	+18.1%	+22.3%	+10.4%	+14.3%	+8.7%	

Source for this and all the following tables is U.S. Department of Defense, 100 Companies Receiving the Largest Dollar Volume of Prime Contract Awards, Fiscal Year 2001 through 2006 editions. Calculations by the author.

Top Beneficiaries, FY2005 to FY 2006:
Did the Rich Get Richer?

Measured in dollar terms, Lockheed Martin was by far the biggest beneficiary of the increase in Pentagon contracts. Between FY2005 and FY2006, Pentagon contracts to this Maryland-based company totaled over \$26 billion, a \$7.1 billion increase over a one-year period (see Table II, below). Other contractors gaining \$1 billion or more between FY2005 and FY2006 included Northrop Grumman (\$3.1 billion), Boeing (\$1.9 billion) and Raytheon (\$1.0 billion).

The presence of four of the top five Pentagon contractors among the biggest gainers in contract revenue from FY2005 to FY2006 suggests that the story line may be “the rich get richer.” But the performance of other contractors among the Pentagon’s Top 10 suggests that the story is more complicated than that.

Three of the top 10 contractors saw their Pentagon awards *decrease* from FY2005 to FY2006: General Dynamics (-.9%), BAE Systems (-16.1%) and United Technologies (10.0%). Another contractor, Halliburton (+5.2%) saw its contracts grow at a slower rate than the rate of growth for overall Pentagon awards.

Table II:
Top Ten Defense Prime Contractors, FY 2005 to FY 2006
(Figures in billions, with percent changes from 2005 to 2006 and 2001 to 2006)

Rank and Company	FY 2006	FY 2005	%change 2005/06	%change 2001/06
1, Lockheed Martin	\$26.6	\$19.4	+36.8%	+81.2%
2, Boeing	\$20.3	\$18.3	+10.9%	+52.1%
3, Northrop Grumman	\$16.6	\$13.5	+23.0%	+222.6%
4, General Dynamics	\$10.5	\$10.6	-.9%	+53.3%
5, Raytheon	\$10.1	\$9.1	+10.9%	+80.6%
6, Halliburton	\$6.1	\$5.8	+5.2%	+1325.2%
7, L-3 Communications	\$5.2	\$4.7	+10.6%	+950.5%
8, BAE Systems	\$4.7	\$5.6	-16.1%	+442.3%
9, United Technologies	\$4.5	\$5.0	-10.0%	+36.4%
10, Science Applications International Corp.	\$3.2	\$2.8	+14.3%	+83.6%

Biggest Winners by Dollar Growth FY2005 to FY 2006

Companies among the Pentagon's Top 10 weren't the only firms to see substantial gains. Among mid-sized defense suppliers, the Harris Corporation (+\$602 million) and the Renco Group (+\$589 million), the parent company of vehicle-producer AM General, were both among the top 10 gainers in dollar terms, as was one oil company, the Kuwaiti Petroleum Corp. (+\$681 million). The increases for Renco Group and Kuwaiti Petroleum are linked to increased weaponry and logistics needs tied to the war in Iraq (see Table III, below).

**Table III: Ten Biggest Winners by Dollar Amount
Pentagon Prime Contracts FY 2005 to FY 2006**
(Figures in millions, with percentage changes 2005/2006 and 2001/2006)

Rank and Company	FY 2006	FY 2005	\$ change and (%change) 2005/2006	%change 2001/2006
1, Lockheed Martin	\$26,620	\$19,447	\$7,173 (+\$36.8%)	+81.2%
2, Northrop Grumman	\$16,627	\$13,512	\$3,115 (+23.0%)	+222.6%
3, Boeing	\$20,293	\$18,317	\$1,976 (+10.9%)	+52.1%
4, Raytheon	\$10,069	\$9,109	\$1,060 (+9.8%)	+80.6%
5, Kuwait Petroleum Co	\$1,011.2	\$330.4	\$681 (+206.1%)	+575.9%
6, Harris Corporation	\$1,339.1	\$736.7	\$602 (+81.7%)	+251.8%
7, Renco Group (AM General)	\$1,994.1	\$1,406.3	\$589 (+41.9%)	+1,260%
8, Electronic Data Systems	\$2,008.0	\$1,450.5	\$558 (+38.4%)	+802.1%
9, L-3 Communications	\$5,197.5	\$4,713.8	\$484 (+10.3%)	+949.9%
10, Science Applications International Corp.	\$3,210.6	\$2,785.9	\$425 (+15.3%)	+83.6%

Biggest Winners by Percentage Change, FY 2005 to FY 2006

The fastest growing firms in percentage terms from FY2005 to FY2006 were divided into a number of different categories. Kuwait Petroleum (#1), American Body Armor (#4) and the Renco Group (#7 on the strength of production of Humvees by its AM General subsidiary) were all clearly linked to spending on the Iraq war. Defense electronics firms Harris Corporation (#6) and Thales (#9) fared well. Lockheed Martin, which supplies a wide range of defense goods and services, came in at number 8 in terms of percentage change in contracts (see Table IV, below). Brief descriptions of each of the firms mentioned in this report are included following Table V.

**Table IV:
Ten Biggest Winners by Percentage Change
Pentagon Prime Contracts FY 2005 to FY 2006
(figures in millions, percentage changes
2005/2006 and 2001/2006)**

Rank and Company	2006	2005	%change 2005-2006	%change 2001/2006
1) Kuwait Petroleum Corp.	\$1,011.2	\$330.4	+206.1%	+575.9%
2) Harris Corp	\$1,339.1	\$736.7	+81.7%	+251.8%
3) Tetra Tech	\$493.8	\$299.5	+64.9%	+79.6%
4) American Body Armor and Equipment (Armor Holdings)	\$634.9	\$419.9	+51.2%	+2,747.1
5) Battelle Memorial Institute	\$519.1	\$358.1	+44.9%	+61.4%
6) Electronic Data Systems	\$2,008.0	\$1,450.5	+38.4%	+802.1%
7) Renco Group (AM General)	\$1,994.1	\$1,406.3	+41.9%	+1,260%
8) Lockheed Martin	\$26,619.7	\$19,447.1	+36.8%	+81.2%
9) Thales	\$656.9	\$481.6	+36.4%	+1,392.5
10) Johns Hopkins University	\$524.7	\$394.2	+33.1%	+

Biggest Winners by Percentage Growth During the Bush Administration

Major contractors that have benefited the most from military spending increases during the Bush administration range from major weapons contractors like Northrop Grumman, which saw its contracts more than triple, to American Body Armor and the Renco Group, which had increased by 28 times and 13 times, respectively (see Table V).

**Table V: Top Pentagon Contractors by Percentage Growth
FY2001 through FY 2006**

Rank and Company	Percentage Growth in Contracts, 2001-2006
1, American Body Armor	2,747.1%
2, Thales	1,392.5%
3, Renco Group (AM General)	1,260.0%
4, L-3 Communications	950.9%
5, Electronic Data Systems	802.1%
6, Kuwait Petroleum Corp.	575.5%
7, BaE Systems	442.3%
8, Harris Corp.	251.8%
9, Northrop Grumman	222.6%

Company Profiles

The following profiles give a few examples of the military goods and services supplied by the major contractors identified in this report, drawn from company web sites, Department of Defense documents, and the industry press. Fuller profiles are available upon request.

AM General is headquartered in South Bend, Indiana and produces the Humvee and other military vehicles, as a subsidiary of the Renco Group.

Armor Holdings, founded in 1996, is a subsidiary of **American Body Armor and Equipment**, which manufactures protective equipment for military personnel. Other things that the Jacksonville, Florida-based company manufactures include military helicopter seating systems, aircraft and land vehicle safety systems. In September 2006, *Fortune Magazine* listed the company as the third fastest growing company in the U.S. on their *100 Fastest Growing Companies* list.

Battelle Memorial Institute is a non-profit science and technology establishment based in Columbus, Ohio. The non-profit company operates five nuclear laboratories under contract with the Department of Energy (in some cases in conjunction with other companies), and conducts research and development on a wide range of systems for the Department of Defense.

Boeing's Integrated Defense Systems is headquartered in St. Louis, Missouri. The company is involved in developing **weapons and aircraft capabilities as well as intelligence and surveillance systems. Some of the company's military systems include: the Apache Longbow attack helicopter, the F-15E Strike Eagle fighter plane, the F-18E/F combat aircraft, and the Joint Direct Attack Munition kit, which increases the accuracy of existing bombs. Boeing is also a major missile and space contractor.**

Electronic Data Systems (EDS) is an information-technology company and its defense sector is based in Plano, Texas. The company offers the military information security systems, support for command and control systems, and personnel, training, and administrative support services.

The Harris Corporation supplies communications technology for military satellites, missiles, and aircraft. The company is based in Melbourne, Florida. The Navy recently awarded the company a three-year, \$66 million contract to create a high-speed digital data link able to transmit many forms of data from military helicopters to their host surface ships.

Johns Hopkins University of Baltimore, Maryland runs the Applied Physics Laboratory, which has contracts in air and missile defense, national security space, precision engagement, and undersea warfare, among other programs.

The Kuwait Petroleum Company is owned by the Kuwaiti government and produces, refines, transports and markets oil and gas.

L-3 Communications is based in New York, NY and offers intelligence, surveillance and reconnaissance (ISR) capabilities to the military, as well as secure communications, guidance and navigation products and systems, satellite communications and more.

Lockheed Martin is headquartered in Bethesda, Maryland and many of its systems are being used by U.S. soldiers in Iraq: aircraft and munitions; electronic warfare and communications systems; satellites and shoulder-launched anti-tank weapons. Major Lockheed Martin programs include the F-16, F-22, and F-35 combat aircraft; the Littoral Combat ship; and a variety of missile and space systems.

Northrop Grumman manufactures the unmanned Global Hawk surveillance plane, which the Los Angeles, California-based company boasts was credited with "accelerating the defeat of the Iraqi Republican Guard, shortening the duration of the war and reducing

casualties, exceeding the combatant commander's expectations.” The company is also engaged in manufacturing ICBMs, missile defense components and ships for the Navy.

Raytheon is based in Waltham, Massachusetts and offers integrated defense systems and support for intelligence systems, as well as hardware like missiles, guided projectiles, exo-atmospheric kill vehicles and directed energy weapons.

Science Applications International Corporation. The San Diego, California-based company has administered war games for the U.S. Air Force and other services, developed enhanced night vision capabilities and secure communications. SAIC also trains military personnel and helps the U.S. Space Command plan, launch, operate, and support their military space systems.

Tetra Tech is based in Pasadena, California and provides consulting, engineering and environmental support services to the military and other customers. It has received contracts for environmental assessment, remediation, and support services for the Department of Defense, the Navy, and the Air Force.

Thales is European military electronics company. Based in France and the United Kingdom, the company has designed radars, electronic warfare systems and mission computers for fighter planes, as well as land based systems.