

War spending could boost tech industry

By Jon Swartz, USA TODAY

SANTA CLARA, Calif. — Mark Forman is a popular man in Silicon Valley these days. The nation's top information technology official came to town last week to drum up support for the federal government, which is beefing up computer security spending and streamlining the technology-procurement process.



This 3-D model of Saddam's palace is created with Silicon Graphics satellite imagery and software.

What he got, unlike previous visiting bureaucrats, was rapt attention. Nearly 50 CEOs dined with him. The next day, he addressed more than 200 people at Sun Microsystems and 150 at Cisco Systems.

"I've seen \$200 million contracts (signed) in two months or less," he told a room of hopeful executives.

There's more to come. While war might hurt the overall economy, it, along with increased homeland defense spending, could boost the tech industry, mired in a nearly three-year funk. The Bush administration plans to increase government spending on computers, software and services to \$58.1 billion for the fiscal year that started Oct. 1, up 17% from \$49.8 billion in fiscal year 2002.

Business spending on technology, by comparison, is expected to grow 2% to 3% this year after being flat for two years.

And the tech industry is mobilizing like soldiers to cash in. "The government is an oasis in a dry commercial climate," says Rich Yamarone, chief economist at Argus Research. "This war, unlike any other, could invigorate tech."

Landing federal contracts

All kinds of products stand to benefit, from Cray supercomputers to Silicon Graphics software. Big tech companies such as IBM and Oracle, which have partnered with federal contractors for years, are most likely to profit, analysts say.

About 20% to 25% of Oracle's revenue comes from database software sales to governments. Increased federal tech spending should result in "consistent revenue growth," says Kevin Fitzgerald, an Oracle senior vice president. Anne Altman, managing director of IBM's federal division, agrees, "It presents a great deal of opportunity." IBM's federal division saw revenue grow 25% in 2002.

Other tech winners of the federal spending windfall include those selling:

- **Supercomputers.** Cray last week said it received \$62 million in supercomputer and service orders for what is believed to be government defense use. The deal is equal to 40% of the company's 2002 revenue. Cray, a leading supplier of equipment for the intelligence community, declined comment.

Silicon Graphics (SGI), a graphics workstation pioneer, on Tuesday announced the largest defense contract in its 21-year history: \$26 million worth of supercomputers, software and services to the Defense Department for the development of aircraft and missiles.

SGI, whose defense business has surged to 35% of revenue from 20% a year ago, has also developed so-called urban warfare visualization technology. It gives U.S. military planners a three-dimensional view of Saddam Hussein's palaces and other Baghdad landmarks. The supercomputer-and-graphics software package is expected to be used by U.S. armed forces if Iraq is attacked. The military has used 3-D imaging with satellite photos for years, but technological advances the past decade offer more detailed images, says Lang Craighill, SGI's director of homeland securities initiatives.

- **Computing devices** Dell Computer in October sold 60,000 personal computers to the Marine Corps, whose combat troops could use them for e-mail and other communications in the battlefield. A rugged case has been designed for the military.

Panasonic laptops and Compaq handheld devices are used by U.S. troops in the Middle East to check for signs of biological or chemical attacks. The computers also collect data on injuries and ailments as part of a \$4 billion Defense Department project to convert paper records to digital form for nearly 9 million soldiers.

- **Technical services.** Unisys last summer signed a \$1 billion, seven-year deal with the Transportation Security Administration, created after the Sept. 11 terrorist attacks, to improve security at 429 commercial airports. It is supplying computer servers, telecommunications equipment and software for the largest homeland security contract yet. Unisys reported \$5.6 billion in fiscal 2002 revenue.

"It's not about gee-whiz technology," says Paul Murphy, president of research firm Eagle Eye. "It's about upgrading obsolete equipment and making it possible, for instance, for computer systems at the Justice and Agriculture departments to share data in real time if terrorists try to poison food."

- **Network security.** Federal spending on computer security could swell to \$4.2 billion this year, up 56% from \$2.7 billion in 2002, says the Office of Management and Budget.

Tom Noonan, CEO of Internet Security Systems, says the steep spending increase will lead to more contracts, such as the multimillion-dollar contract his company landed with Department of Health and Human Services to safeguard information about chemical and biological agents.

- **RFID.** The Defense Department has expanded its use of radio-frequency identification — technology that combines radio waves and computer networks — to track shipments of supplies. Savi Technology recently signed a \$90 million deal with Defense.
- **Biometrics.** Unisys late last year landed a \$1.23 million deal from the Defense Department to improve face-recognition systems for internal security.

Meanwhile, government proposals are expected soon for the use of fingerprint and facial scanners at more airports and U.S. borders to verify identities, says Michael Thieme, director of special projects at consultant International Biometric Group.

Not a cure all

Despite increased federal spending on technology, it probably isn't enough to lift the overall tech sector out of its worst downturn ever. That won't occur until the second half of the year, when commercial expenditures are expected to pick up, says Sung Won Sohn, chief economist at Wells Fargo.

Also, the specter of a U.S. war against Iraq and a lethargic economy have prompted skittish corporations to shut their wallets on technology purchases. Market researcher Gartner says the \$2 trillion-a-year corporate market is more than 30 times the federal tech budget.

Recently, Cisco Systems and Applied Materials said that an unpredictable "geopolitical environment" had dampened the tech-buying plans of already cautious customers.

Meanwhile, orders for Hewlett-Packard and Dell Computer's PCs could be stunted by anxious corporate buyers, a recent Lehman Bros. report says.

"What tech really needs is for American companies to start spending again," Sohn says. "War spending is helpful, but only for a short time."