

CS Defense Budget Update

Research Analysts

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SECTOR REVIEW

FY10 Appropriation Bill Supportive of DoD

With the deadline for the continuing resolution fast approaching on Friday, December 18, we understand that the leadership of the House and Senate Appropriation Committees met last Friday to finalize the FY10 Defense Appropriations bill, forgoing the traditional conference process.

Total base budget funding is as expected at \$534B (ex ~\$36B from adjacent accounts). Overseas Contingency Operations (“OCO”, or “Supplemental”) funding is also in-line at \$128.3B. Because our data is from a summary document, most items are positive. The key details we do have are listed below:

■ **Aircraft**

- + Fully funded all 30 F-35 aircraft requested (LMT), and added \$465M not requested for the alternative engine (GE/RR.L).
- + \$2.5B for 10 C-17s (BA), not requested.
- + funded \$306M for KC-X (BA vs. NOC/EAD.PA) as requested.
- + added 9 F-18 Super Hornets to the 9 requested by the Administration, and matched the 22 F-18 Growlers requested for a total of 40 aircraft (BA/NOC).
- + Funded \$1.2B for continued RDT&E on P-8 (BA); not detailed, but we expect add'l \$1.8B procurement for first (6) units.
- + Added 3rd E2-D (NOC), one above the two requested.
- + Presidential Helicopter, added \$100M (total \$130M) to continue R&D for further development of mission equipment.
- + Funded (30) MV-22s and (5) CV-22s (BA, TXT) as requested.

■ **Shipbuilding**

- + Funded (1) DDG-51 (NOC/LMT), (1) VA-class submarine (GD/NOC), (2) LCS (GD or LMT) and (2) T-AKES (GD).

■ **Ground Vehicles**

- Funded FCS at \$2.2B, \$330M below request (BA/SAI).
- Funded Stryker at \$364M, \$25M below request due to excessive costs [we believe there could be an add'l \$150M in OCO funding].
- + \$6.6B total funding for MRAP-ATV, \$800M above request, paid for with cut to Afghanistan security force funding.
- + Funded \$498M for FMTV (BAES.L) plus \$863M in OCO, which is \$577M above request.
- + Funded \$613M for FHTV (OSK), plus \$803M in OCO, \$180M above request.

■ **Space**

- Funded \$389.4M for GPSIII (LMT), \$97.4M below request.

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Companies Mentioned (Price as of 14 Dec 09)

BAE Systems (BAES.L, 346.60 p)
 Boeing (BA, \$56.05, NEUTRAL, TP \$52.00)
 EADS (EAD.PA, Eu12.44)
 General Dynamics Corporation (GD, \$70.66, OUTPERFORM, TP \$74.00)
 General Electric (GE, \$15.95)
 Lockheed Martin (LMT, \$77.82, NEUTRAL, TP \$75.00)
 Northrop Grumman Corporation (NOC, \$56.63, NEUTRAL, TP \$58.00)
 Oshkosh Corporation (OSK, \$36.32, NEUTRAL [V], TP \$40.00)
 Rolls-Royce (RR.L, 493.20 p, OUTPERFORM [V], TP 530.00 p, MARKET WEIGHT)
 SAIC (SAI, \$19.25, OUTPERFORM, TP \$22.00)

Disclosure Appendix

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