

## Holland & Knight Defense Situation Report: January 2026

### A monthly roundup of defense policy news

Welcome back to Holland & Knight's monthly defense news update. We are pleased to bring you the latest in defense policy, regulatory updates and other significant developments. If you would like additional information on anything in this report, reach out to the authors or members of Holland & Knight's [National Security & Defense Industry Sector Group](#).

## LEGISLATIVE UPDATES

### Appropriations Updates

President Donald Trump on February 3, 2026, signed into law [H.R.7148, the Consolidated Appropriations Act, 2026](#), which included full-year funding for fiscal year (FY) 2026 for the Defense appropriations bill. H.R.7148 included the Defense appropriations bill, along with full-year funding for the U.S. Department of State, Labor-Health and Human Services bill, Transportation, Housing and Urban Development bill, Financial Services and General Government bill, and a two-week continuing resolution of FY 2025 funding for the U.S. Department of Homeland Security (DHS).

The final legislative push required intense negotiations and procedural maneuvering to secure passage. The U.S. House of Representatives initially passed the above six FY 2026 appropriations bill on January 22, 2026, sending the bill to the U.S. Senate for approval. Because of events in Minnesota, the Senate blocked the funding package on January 29, 2026, prompting lawmakers to negotiate a new package and reach an agreement that attached two weeks of DHS funding to five full-year spending measures. The Senate passed this revised deal on January 30, 2026, with a 72-19 vote. The House was on recess, triggering a brief shutdown. When the House returned, Democratic opposition to clearing the measure under suspension of the rules forced Republican leadership to route it through the House Committee on Rules. The full chamber advanced the rule vote on February 3, 2026, with a narrow 217-215 margin, ending the four-day shutdown and sending the bill to President Trump's desk for signature, which he signed later that afternoon.

The FY 2026 Defense appropriations bill includes a topline of \$839.2 billion and marks the first full-year funding for defense appropriations since FY 2024. The topline exceeds President Trump's original budget request to Congress by \$8.4 billion, reflecting congressional priorities that diverged from the administration's initial proposal. The bill was also supplemented by more than \$150 billion for defense programs included in the One Big Beautiful Bill Act, which was the Republican-passed reconciliation bill, previously reported in the [September 2025 Holland & Knight Defense Situation Report](#). Together with the reconciliation bill and the just-passed Defense appropriations bills, Congress funded nearly \$1 trillion in defense programs in FY 2026.

The FY 2026 defense appropriations bill significantly increased funding for U.S. Navy shipbuilding and various aircraft programs beyond the administration's requests. Navy shipbuilding received \$27.1 billion, representing a \$6.3 billion increase over the original budget request of \$20.8 billion. This substantial boost included \$1.9 billion for the Virginia-class submarine program, funding for Arleigh Burke-class destroyers, \$242 million for the Navy to begin purchasing raw materials for the planned new frigate FF(X) and \$800 million for additional medium landing ships. The bill also allocated \$897 million for the development of the Navy's next-generation fighter, the F/A-XX.



Beyond shipbuilding and aircraft, the appropriations bill included significant allocations for international security initiatives, such as the Taiwan Security Initiative and Baltic Security Initiative, reflecting congressional priorities in addressing strategic challenges in the Indo-Pacific and European theaters.

The bill also included policy provisions that constrain executive authority in certain areas. Notably, the bill restricts presidential authority to significantly reduce U.S. troop levels in Europe, building on the FY 2026 National Defense Authorization Act (NDAA). Though expressing strong bipartisan support for NATO and its member states, the bill does not impose more stringent conditions linking funding to specific military commitments. Finally, the bill funded multiyear contracts for eight missile systems out of the 13 requested by the Pentagon, though it did not fully address all emergent needs outlined by the Pentagon for the year, suggesting that some capability gaps may require attention in future appropriations cycles.

## **NDAA Updates**

As covered in the [December 2025 Holland & Knight Defense Situation Report](#), the [FY 2026 NDAA](#) was signed into law on December 18, 2025. [View comprehensive Holland & Knight insight](#) into the legislation.

Though it's always a feat to pass the annual NDAA, members of Congress will soon turn their attention toward the FY 2027 NDAA. The House Armed Services Committee (HASC) has already begun accepting requests from its members, and the committee will likely close its internal request process at the end of February. As such, HASC members are soliciting requests from stakeholders who want to influence the FY 2027 bill.

Should you or your organization have any questions on FY 2027 NDAA requests, please reach out to the *Holland & Knight Defense Situation Report* authors.

## **House China Select Committee Minority Leadership Change**

On January 5, 2026, the House Select Committee on the Strategic Competition Between the U.S. and Chinese Communist Party [announced](#) that Ranking Member Raja Krishnamoorthi (D-Ill.) would be stepping down. In a [statement](#) released that same day, House Democratic Leader Hakeem Jeffries (D-N.Y.) announced that Rep. Ro Khanna (R-Calif.) would be stepping into leadership of the committee as the top Democrat.

Prior to assuming leadership, Ranking Member Khanna [shared his priorities](#), stating, "We need an economic and strategic reset to build critical industries at home, open lines of communication, prioritize effective military deterrence, and tackle the opioid crisis that has torn families and communities apart. We also need a Manhattan Project to source and process critical minerals so that we are not dependent on China for rare earths and magnets. As Ranking Member, I will be committed to strengthening our economy, revitalizing manufacturing, and putting American workers first."

## **SASC Cyber Workforce Hearing**

On January 28, 2026, the Senate Armed Services Committee (SASC) Cybersecurity Subcommittee held a [hearing](#) on the U.S. Department of War's (DOW) [Cyber Command \(CYBERCOM\) 2.0 initiative](#) and cyber force generation implementation plan.



The hearing underscored bipartisan agreement on the critical need for enhanced cyber capabilities but revealed disagreement over approaches to talent acquisition, training methodologies and organizational structure. The DOW defended CYBERCOM 2.0 as a necessary transformation to address long-standing workforce challenges, but subcommittee members raised concerns about the program's timeline, effectiveness and competition with private sector alternatives.

Representing the DOW were Assistant Secretary of Defense for Cyber Policy Katherine Sutton, Deputy Director for Global Operations, J3 Joint Staff Brig. Gen. R. Ryan Messer, and U.S. Cyber Command Acting Commander Lt. Gen. William Hartman, who also is performing the duties of National Security Agency Director and Central Security Service Acting Chief.

Assistant Secretary Sutton testified that "Cyber Command 2.0 ... [is] the most significant transformation of U.S. Cyber Command since its inception 15 years ago." The importance of getting the initiative right was made clear by subcommittee leadership, with Chair Mike Rounds (R-S.D.) reflecting, "there will never be another kinetic activity ... without cyber activity to the left of it," and Ranking Member Jacky Rosen (D-Nev.) echoing the sentiment that "cyber isn't an add-on ... it has to be part of the fabric of everything we do."

## EXECUTIVE AND DEPARTMENTAL UPDATES

### AI Strategy for DOW

On January 9, 2026, the DOW [released](#) a comprehensive artificial intelligence (AI) strategy intended "to accelerate America's Military AI Dominance by becoming an 'AI-first' warfighting force across all components, from front to back."

In alignment with [Executive Order \(EO\) 14179](#), "Removing Barriers to American Leadership in Artificial Intelligence," the DOW Secretary Pete Hegseth called for AI-enabled warfare, intelligence and enterprise operations to be reimagined – not incrementally modernized – and for the department to eliminate legacy processes that slow adoption.

To support this outcome, the DOW will pursue rapid integration by experimenting with and integrating top commercial AI models, removing bureaucratic barriers, focusing investment on U.S. asymmetric strengths in the space and executing seven "Pace-Setting Projects" (PSPs) intended to model the speed, accountability and iterative learning expected across the DOW.

The seven identified PSPs are broken into three categories: Warfighting – Swarm Forge, Agent Network and Ender's Foundry; Intelligence – Open Arsenal and Project Grant; and Enterprise – GenAi.mil and Enterprise Agents.

In closing, the secretary issued a department-wide directive to reimagine workflows, concepts, and tactics, techniques and procedures (TTPs) as if modern AI had existed at their inception. The secretary characterizes 2026 as the year the DOW will "emphatically raise the bar" for Military AI dominance, making AI integration a baseline expectation across the Joint Force.

## **DOW Defense Innovation Ecosystem Restructuring**

The DOW [released a memo](#) on January 9, 2026, titled "Transforming the Defense Innovation Ecosystem to Accelerate Warfighting Advantage."

Secretary Hegseth's directive frames the current innovation environment as a "tangle of overlapping organizations and confused authority" that slows progress and diffuses accountability. The new model replaces the legacy, linear "technology maturation pipeline" with a system aligned to three innovation outcomes – technology innovation, product innovation and operational capability innovation – led by a single chief technology officer (CTO).

To fully integrate innovation organizations and secure durable authorities for speed, the memo directs the Under Secretary of War for Research and Engineering and Director of Administration and Management to prepare certification packages for the Defense Innovation Unit (DIU) and Strategic Capabilities Office (SCO) to become DOW field activities.

Further, the innovation ecosystem is now explicitly comprises six organizations, aligned under the CTO's direction:

- DIU (commercial product innovation)
- SCO (cross-service operational capability innovation)
- Defense Advanced Research Projects Agency (technology innovation and strategic surprise)
- Chief Digital and Artificial Intelligence Office (AI and data infrastructure across all outcomes)
- Test Resource Management Center (test resources and continuous evaluation)
- Office of Strategic Capital (private capital alignment for critical technologies)

Finally, the memo consolidates outreach into two complementary channels designed to preserve ethical, fiscal and information-integrity standards:

- Mission Engineering and Integration Activity: problem-driven engagement aligned with Joint Operational Problems
- DIU: product-driven engagement based on commercially available solutions

## **DIU and DAWG Launch Autonomous Vehicle Orchestrator Prize Challenge**

On January 13, 2026, the DIU, Defense Autonomous Warfare Group (DAWG) and Navy [launched a \\$1 million prize challenge](#) to prototype market-ready solutions to establish a robust, scalable and vehicle-agnostic capability for understanding, tasking and coordinating autonomous systems at the fleet level.

An operationally viable Autonomous Vehicle Orchestrator – a layer of technology that can translate a battlefield commander's intent from voice, text and haptic input into machine execution – is framed as an essential next-generation capability. This capability is intended to integrate autonomous systems at "fleet level" scale while ensuring human operators retain clear situational understanding and ethical control.

Leaders emphasized the need for a system that supports natural human expression of desired effects – rather than menu-driven programming – and can synchronize complex autonomous behaviors under operational conditions.

## DOW Review of Small Business Set-Aside Contracts

On January 16, 2026, Secretary Hegseth posted a video on social media calling for a line-by-line review of DOW 8(a) sole-source contracts of more than \$20 million. This was followed by a memorandum dated January 16 that substantially expanded the coverage of his video announcement.

The secretary noted that the 8(a) Program's goals of assisting small, disadvantaged individuals and Tribes were "laudable." However, he went on to state that the 8(a) Program has morphed into "swamp code word" for diversity, equity and inclusion (DEI) race-based contracting and claimed that in many instances, small, disadvantaged businesses don't do any work and simply put a fee on top and pass the work on to "large consulting firms," which he characterized as "beltway bandits." From there, the secretary emphasized that "lethality" was the DOW's driving objective, that "contracts that don't help win wars are gone" and that the DOW would be doing away with pass-through schemes.

On January 21, 2026, Secretary Hegseth issued a memorandum (dated January 16, 2026, but apparently not immediately released) that substantially expanded the coverage of his video announcement. Citing that the DOW's 8(a) spending is nearly 10 times that of any other agency, the memorandum positions the reviews as a necessary and an "above and beyond" measure to ensure taxpayer funds support legitimate small businesses and the defense industrial base, rather than "illegal pass-through schemes." The memorandum cited similar reviews by the U.S. Small Business Administration and U.S. Department of the Treasury and notes the DOW review is authorized under EO 14265, "Modernizing Defense Acquisitions," and intended to align with the cost-efficiency goals of EO 14222, which launched the Department of Government Efficiency (DOGE). The memorandum also provides additional detail on the DOW's plans and a schedule for implementation.

For a full analysis of the review's implications, see Holland & Knight's previous alert, "[DOW Announces Review of All Small Business Set-Aside Contracts Over \\$20 Million](#)," January 27, 2026.

## JIATF 401 Releases Guide for Physical Protection of Critical Infrastructure

The DOW's [newly established](#) Joint Interagency Task Force (JIATF) 401 [published guidance](#) on January 30, 2026, reflecting TTPs to better prepare critical infrastructure against small unmanned aerial systems (sUAS).

The [three-page document](#) emphasizes the emerging threat of sUAS to surveil or attack critical infrastructure from beyond the fenceline. In response, JIATF 401 offers a practical, low-cost model for infrastructure owners, with many measures requiring no specialized counter-sUAS technology. The framework proposes hardening (creating obstacles that disrupt flight paths), reducing what a drone can see and extending the perimeter beyond the fenceline as a layered security envelope.

## Productivity EO and the Defense Industrial Base

The White House on January 7, 2026, issued an EO titled "Prioritizing the Warfighter in Defense Contracting," which aims to accelerate defense procurement and enhance the defense industrial base by shifting contractor priorities from investor returns to production and performance, including by limiting stock buybacks, dividends and executive compensation.

According to the EO, some contractors have prioritized "newer, more lucrative contracts, stock buybacks, and excessive dividends" while underperforming on existing contracts or investing in increased capacity and innovation.

In response, the EO provides that the stated policy of the U.S. government is to revitalize the defense industrial base to "maintain peace through strength." To achieve this, the EO establishes a new policy preventing major defense contractors from conducting stock buybacks or issuing dividends if doing so comes at the expense of accelerated procurement and increased production capacity. The EO states that, "[e]ffective immediately" contractors who fail to remedy government-identified deficiencies are not permitted to pay dividends or buy back stock until they can deliver a "superior product, on time and on budget."

For more information, see Holland & Knight's previous alert, "[Defense Contractors Face New Scrutiny Under the Trump Administration](#)," January 8, 2026.

## DIU Open Solicitations

The DIU currently has three [open solicitations](#):

- [Containerized Autonomous Drone Delivery System \(CADDs\)](#) is seeking solutions for UAS storage, deployment and management of multi-agent systems that can provide UAS coverage over extended periods within a single region.
- [Sensors and Seekers for Fire Control](#) seeks sensor systems that are capable of fire control-quality detection, tracking and discrimination.
- [Deorbit as a Service](#) seeks solutions that enable the rapid, safe and reliable deorbit of unprepared satellites. Desired solutions must reduce orbital congestion and sustain proliferated orbit operations by enabling deorbit even after loss of command or catastrophic system failure.

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