



Palladyne AI Corp.

Strategic Update Conference Call and Webcast

November 17, 2025

C O R P O R A T E P A R T I C I P A N T S

Brian Siegel, *Senior Managing Director, Hayden IR*

Benjamin Wolff, *President, CEO and Co-Founder*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Brian Kinstlinger, *Alliance Global Partners*

Michael Latimore, *Northland Capital Markets*

James Kisner, *Water Tower Research*

P R E S E N T A T I O N

Operator

Good day, and welcome to Palladyne AI's Strategic Update Conference Call and Webcast.

If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. Please note this conference is being recorded.

I will now turn the call over to Brian Siegel, Senior Managing Director of Hayden Investor Relations.

Brian Siegel

Thank you, Operator.

Today I'm joined by Ben Wolff, Palladyne AI's President and Chief Executive Officer, and Trevor Thatcher, Palladyne's Chief Financial Officer. On this call, Ben will discuss the details of the strategic transformation announced in this morning's press release, followed by a Q&A.

Any forward-looking statements made during today's prepared remarks or in the question-and-answer session, whether general or specific in nature, are subject to risks and uncertainties that may cause actual results in the future to differ materially from those discussed on today's call. These risks and uncertainties include, but are not limited to, specific risks and uncertainties disclosed in Palladyne AI's periodic SEC filings. The Company assumes no obligation to update any forward-looking statements or to update the factors that may cause actual results to differ materially from those that are discussed on today's call.

Please note that today's press release and this presentation will be available on the Investor Relations page of Palladyne AI's website. They have also been filed on Form 8-K with the SEC.

Now I'd like to turn the call over to Ben to discuss this morning's exciting news in more detail.

Benjamin Wolff

Thank you, Brian.

Good afternoon, and thanks for joining us.

Today is a defining moment for Palladyne AI, an American Company where artificial intelligence meets the physical world. We build embodied AI, systems that don't just analyze data but sense, decide and act at the edge in real time. Our mission is to be America's first multiplier, whether for the Department of War or industrial customers.

Today I'll cover how the GuideTech and the Crucis companies' acquisitions, which for the latter I'll refer to as Crucis in today's presentation, and the launch of Palladyne Defense transform us into a fully integrated AI and Defense Technology Company.

Before we begin, a brief reminder, today's presentation includes forward-looking statements that are subject to risks and uncertainties described in our SEC filings. With that said, let's begin the strategic review.

Most people think of AI as something that happens in a data center, algorithms that analyze information and deliver insights. Embodied AI is different. It's intelligence that lives in the real world. Again, we enable

physical systems that can sense, decide and act at the edge in real time. That difference between intelligence that analyzes, and intelligence that acts, is where the next generation of capability will come from. The Department of War has made it clear that future advantage lies not in analytics alone but in autonomous systems capable of executing missions in complex contested environments. That is the world Palladyne is building for.

Before this transformation, Palladyne AI was a pure play embodied AI Company, developing software that brings autonomy to the physical world. Our two core products, Palladyne IQ and Palladyne Pilot, form the foundation of that capability. Palladyne IQ powers robotics automation, enabling intelligent, adaptive operation for commercial and industrial robots. Pilot provides advanced autonomous cooperation for unmanned systems, currently aerial, and in the future, unmanned ground, space, and maritime systems, and will continue as one of our core commercial offerings.

For defense and public safety, though, we've rebranded the Pilot variant as SwarmOS, a specialized version designed for collaborative, multi-agent missions and swarming behaviors. Together, IQ and Pilot extend our commercial reach, while SwarmOS positions Palladyne to lead in national security, one connected embodied AI ecosystem serving both domains.

Palladyne's evolution has been defined by four major inflection points, each one building on the lessons of the past. We began with robotics, designing and building sophisticated machines. Then we moved into robotics plus software, embedding decision-making directly into those systems. In the third phase, we paused building hardware to focus exclusively on software, building the intelligence layer that could power any platform.

Today, we enter our fourth inflection, one that unites artificial intelligence, aerospace design and American manufacturing into a single vertically integrated defense business. This is where Palladyne becomes more than just an AI Company. We're redefining what it means to be a mid-tier Defense Technology Company.

With the closing of these acquisitions, we have formally launched Palladyne Defense, a new business focused on embodied AI for national security, including both defense and public safety missions. Palladyne Defense combines ethical autonomy, cost-effective mission capability, and precision-driven design, all produced in the United States.

Every system we build follows one rule, human oversight by design, while reducing human cognitive load and letting humans and machines each do what they do best. This is intelligence that protects, autonomy that serves national interests with control, precision and accountability. With the acquisitions of GuideTech and Crucis, we've evolved from a pure software innovator into a purpose-built, vertically integrated defense technology business that is fully aligned with the priorities set by the White House and the Department of War over the past six months. We now bring AI intelligence, aerospace design and U.S. manufacturing together under one umbrella. For the Department of War, it means a partner that can design, prototype and produce, not just code.

GuideTech contributes deep engineering talent and rapid iteration of an optimal aerospace platform design. Crucis adds certified expandable manufacturing capacity supporting flagship programs like the F-35 and the Tomahawk. Together with SwarmOS, they form Palladyne Defense, a new American force built on speed, intelligence and sovereignty.

We're not just making moves in a vacuum. The world has fundamentally changed, and the Department of War is reshaping its priorities around three forces that directly align with what we build and that are driving demand for what we build. First, the Department of War's focus on cost per effect. It's no longer about the largest platform or the most complex platform. It's about maximum operational impact per dollar.

Second, reshoring and sovereignty. The National Defense Industrial Strategy calls for rebuilding American production and supply chain resilience. Crucis is part of that national resurgence, a certified U.S. manufacturer already supporting legacy and next-generation programs.

Third, AI and mission systems. AI is moving out of data centers and into real mission hardware, into systems that think, coordinate and act at the edge. Autonomy is no longer theoretical. It is becoming a core operational requirement. These forces define the new rules of readiness, and they create the exact demand environment Palladyne Defense is built for.

Why does Palladyne Defense exist? Because the market has a structural gap that neither startups nor large primes are designed to fill. Startups innovate quickly, but they're too small often to scale production, certify systems, or deliver sustained readiness. Large primes, on the other hand, can scale, but they sometimes move too slowly to keep pace with emerging threats and rapid iteration requirements.

The Department of War is asking for something new with its replicator initiative, an agile, vertically integrated American defense company that can design, build and deliver advanced autonomous capabilities at speed and at scale. That's the gap Palladyne Defense is built to fill. We're the bridge between fast and small and big and bureaucratic. In short, we are the new mid-tier prime engineered for this era of embodied AI, rapid capability delivery and American production.

Palladyne Defense is built around three core capabilities. First is SwarmOS, our embodied AI and autonomy core for defense and public safety missions. It brings the decision-making intelligence that autonomously coordinates unmanned systems in the field. Second is GuideTech, our aerospace design, avionics and precision, low-cost, attributable systems group. These are former prime contractor engineers who can take a new concept from digital model to working flight prototype in less than six months, a fraction of traditional timelines. Third is Crucis, a certified U.S. manufacturer with the ability to scale rapidly that is already supplying major defense programs like the F-16, the F-35, the Tomahawk, Harpoon, and the Bradley Tank.

Individually, each is already assisting large primes and defense tech startups in meeting the evolving demands of the Department of War. Together, we believe one plus one plus one has the potential to equal 10 as they will give Palladyne Defense one integrated stack; AI, engineering, components, and American production, which is exactly the structure the Department of War has been asking for.

GuideTech is the aerospace engineering nucleus of Palladyne Defense. As I just mentioned, the company is composed of former prime contractor engineers, veterans of missile, space and unmanned programs who know how to design and iterate at speed. GuideTech is already supplying avionics and design support to multiple defense contractors proving its value in the field today. For the Department of War, that speed and responsiveness align perfectly with modernization directives calling for faster prototyping and deployment across unmanned and autonomous systems.

GuideTech isn't just fast. It's built around a continuous design process from concept to field. Designs move from simulation to prototype, to flight test and into initial production, all within the same integrated team. That's how you close the gap between an idea on a whiteboard and a system on station. This process is critical to the Department of War's modernization initiatives, including the push for accelerated capability delivery under the replicator program and related autonomy efforts. Palladyne Defense now has the structure to answer that call, with the AI brain, the engineering muscle, and the manufacturing backbone to move faster than most others.

Let's start with BRAIN, our mission-grade avionics architecture. It delivers the performance of legacy flight computers at roughly one-tenth of the cost, which is ideal for attributable and autonomous system. BRAIN isn't just a concept. It's already being built into attributable systems. The system is modular, programmable, and capable of full integration with SwarmOS, so that the same AI decision-making driving our autonomy can also run natively inside the airframe. In short, BRAIN gives us the intelligence hardware that connects our AI to the real world.

Next is Banshee, a low-cost, reusable, precision-loader ammunition that demonstrates how embodied AI can transform mission economics. Banshee isn't a hobby drone or a repurposed quadcopter. It's a purpose-built system engineered for tactical and strategic operations with the ability to deliver multiple effects similar to much larger platforms, but at a fraction of their cost.

Our plan is to integrate SwarmOS and BRAIN into Banshee, enabling coordinated swarming, target sharing and precision execution. The Department of War's modernization priorities, including cost-per-effect and scalable autonomous systems, are directly addressed by this design. Banshee represents the shift from one-to-one weapon systems to one-to-many intelligent effects. Here is a quick video of a Banshee test where it is dropping ordnance within a designated target area.

I think that's the wrong video. All right; there's the right video. All right. That gives you a good idea of what the Banshee platform is about.

Now next, we will talk about the SwarmStrike platform. SwarmStrike takes that same philosophy to a higher tier of mission capability. It's a long-range, intelligent loitering munition that delivers cruise missile reach at dramatically lower cost. SwarmStrike is designed to work individually or in teams with onboard autonomy that enables self-coordination and adaptive targeting. It's an example of how our embodied AI and avionics technology scales upward from tactical systems to strategic assets while keeping cost and complexity down. This is the future the Department of War is calling for; intelligent, adaptive systems that deliver operational effects affordably and at speed.

Here is a quick video of SwarmStrike's first flight test, so you can see this is something tangible, not just a concept or something in a PowerPoint.

SwarmStrike isn't the only cruise-scale loitering munition we're working on. GuideTech is already down the path of developing a near-hypersonic long-range, affordable mass strike vehicle for the U.S. Navy. GuideTech is far more than an acquisition. It's the core engineering and avionics brain trust behind our defense components. It also provides the foundation for IntelliSwarm, the next generation embodiment of our autonomy architecture.

Here's how it evolves. SwarmOS, the defense and public safety variant of Pilot that integrates unique capabilities specifically required for national security applications. When you combine SwarmOS with BRAIN, you get IntelliSwarm, a unified intelligent autonomy system that merges AI, sensors and avionics into one cohesive operating layer. IntelliSwarm will be the connective tissue across our entire defense product line, the same AI that thinks, flies and fights. Pilot, our commercial autonomy product, continues to serve applications and use cases that don't need the full capabilities of SwarmOS.

The second pillar of Palladyne Defense is Crucis, our new manufacturing and fabrication business. Crucis is a certified U.S.-based manufacturer supplying major defense programs, including the F-16, F-35, Tomahawk, Harpoon and Bradley. Among its customers are Lockheed, the Boeing Kratos teaming effort, and more. It has a growing 18-month backlog exceeding \$10 million and is expanding capacity to support both Palladyne Defense programs and external defense products. Crucis is AS9100 certified and built for precision. For the Department of War, this acquisition aligns perfectly with the broader national strategy, reshoring production, securing supply chains and ensuring that critical components are built in America.

What makes Crucis so compelling isn't just what it builds today, it's what it can build tomorrow. The companies have the physical space, the workforce and the tooling to expand rapidly from precision machining to full system integration. Together with the R&D and production space we have at Palladyne, we now have more than 100,000 square feet of production capacity. That means Palladyne will be able to take a concept from design to prototype to flight test to production and do it all in-house. It also means we can serve as a surge capacity provider for the Department of War, supporting modernization, readiness and reshoring initiatives that demand flexible, American-made manufacturing. In every sense, Crucis gives Palladyne the backbone to scale.

Crucis is the piece that completes our loop, AI, engineering and U.S. manufacturing under one umbrella. With Crucis, we have certified American production tied to programs like the F-35, F-16, Tomahawk and Bradley, work that's already flowing through its facilities today. We'll also look at how we implement Palladyne IQ on the shop floor to drive higher throughput and quality, so the factor becomes smarter as we scale. Strategically, this aligns directly with the Department of War's industrial-based modernization efforts, reshoring capacity, building resilience and reducing lead times with American suppliers. We're not waiting for others to build the future; we're building it here.

This is the all-up picture. All the pieces you've just seen, SwarmOS, GuideTech and Crucis will now operate as one Palladyne defense business. In practice, that means we are a partner and supplier to large primes, not a challenger to their core franchises. We provide software, avionics, components, complete systems and design capacity, which gives us multiple shots on goal across the value chain. We only build proprietary systems when there is a clear capability gap. That model lines up directly with the Department of War's priorities, cost-effective autonomous capability that can be fielded quickly, backed by an American industrial base.

Financially, these transactions are disciplined, high-leverage, accretive transactions. For 2026, the combined acquisitions are expected to push consolidated Palladyne AI revenue to more than triple our 2024 revenue of about \$8 million, with positive Adjusted EBITDA contributions from the two acquisitions. Importantly, we are entering the next phase with a growing 18-month backlog of more than \$10 million, including ongoing development contracts with the U.S. Air Force and the U.S. Navy.

Total consideration paid in these two transactions is approximately \$31 million, consisting of stock, cash and assumed equipment and real estate debt, plus an earn-out over the next five years of up to an additional \$25 million, once revenues relating to GuideTech's products exceed \$71 million. Assuming this hurdle is achieved, the payout will be more than worth it for Palladyne and our Shareholders. In addition, we plan to invest \$5 million over the next 12 to 18 months to take Banshee and SwarmStrike from TRL6 to TRL9. That investment is aimed at unlocking a much larger revenue opportunity while keeping our capital structure highly efficient.

We've talked about the assets. Now let's talk about how the business will run. Coming out of these acquisitions, Palladyne AI now operates through two focused businesses that share one autonomy core. Palladyne Defense integrates SwarmOS, GuideTech and the Crucis companies, giving us mission autonomy, aerospace design, new products, and U.S. manufacturing in a single stack. That lets us move from concept to prototype to production on timelines the Department of War is demanding.

Palladyne Commercial continues to scale IQ and pilot across manufacturing, logistics, and aerospace. It remains a core business opportunity for us. The headline is simple. Defense is an expansion of our platform, not a substitution for our commercial business. Two focused businesses, both strategically important, both powered by the same autonomy engine.

Here's how the structure looks formally. Palladyne AI manages strategy, capital and our shared autonomy platform. Palladyne Defense combines SwarmOS, GuideTech and Crucis to serve government, defense, and public safety customers. Palladyne Commercial scales IQ and Pilot across industrial automation and logistics. One platform, two focused businesses, each with distinct customers and strengths.

Before we wrap up, I want to come back to where I believe a lot of our long-term upside sits, which is in Palladyne IQ. IQ is our original AI platform and the foundation of our embodied AI ecosystem. It was built to orchestrate complex multi-robot environments and from that work, we derived Pilot for unmanned systems. IQ delivers the intelligence layer for industrial and operational efficiency. Its focus is simple. Enable robots and automated systems already working in manufacturing, logistics, and infrastructure to perceive, reason and adapt, instead of just repeating fixed, pre-programmed emotions. IQ is hardware-agnostic and enterprise-wide, so customers can standardize on one intelligence layer across many

facilities and robot types. The business model is attractive, software licensing and services that can scale as customers add robots and lines.

Before we talk about the road ahead, I want to anchor us in the fundamentals. We are executing from a strong financial foundation. For the quarter ended September 30, we closed with \$57.1 million in cash and equivalents and used about \$6.3 million in operating cash. That discipline gives us the runway to integrate GuideTech and Crucis and advance our autonomy products. We also announced a new U.S. patent covering key elements of our embodied AI and autonomous coordination capabilities. This IP directly supports SwarmOS and reinforces our role in edge autonomy.

In parallel, we are advancing existing programs and pursuing new development work. For example, we think we are well-positioned for an upcoming Department of War contract award. In addition to our relationship with Red Cat, we also launched a collaboration with Draganfly that reflects the type of ecosystem engagement we expect to grow.

Finally, we further strengthened our leadership bench, specifically for defense and national security priorities with the additions of retired Lieutenant General Twitty, who during his career led roughly half of the U.S. Army to our Board, and Doug Dynes, as President of Palladyne Defense, a former Presidential appointee and National Security Advisor to Senator Hatch, and retired Major General Lee Levy, former Commander of the Air Force Sustainment Center, who will serve as Vice Chairman of Palladyne Defense. All three of these men complement existing Board member, retired Admiral Olson, the first Navy SEAL to attain a three-star Admiral rank, and among his other distinguished roles was head of SOCOM. Overall, we remain on track for a 2026 that we expect will see a significant uptick in customer engagement across our portfolio.

Stepping back, our investment thesis rests on five pillars. Technology leadership, a proven autonomy architecture built for embodied AI at operational scale. Vertical integration, AI software, avionics, systems engineering and U.S. manufacturing in one stack. Two, growth engines, IQ in the commercial and industrial sectors, and our vertically integrated defense-focused businesses. Financial strength, with roughly \$50 million in cash post-acquisitions, we have the runway to execute. Finally, strategic timing. Our structure and technology align directly with Department of War priority (phon) for rapidly fielded, cost-effective autonomous capability, as evidenced by our ongoing contracts with the Air Force and the Navy.

This slide pulls the structure together visually. On the left, Palladyne Defense. SwarmOS, BRAIN Avionics, Banshee, SwarmStrike, and the IntelliSwarm architecture powering AI-enabled mission systems. On the right, Palladyne Commercial; IQ and Pilot, delivering industrial autonomy for manufacturing, logistics and infrastructure. Both businesses share the same AI core, so innovation on one side accelerates the other. That's the advantage of a single autonomy platform supporting two complementary markets.

But before I close, I'm going to show you a short video that helps you visualize our vision.

In summary, I hope you come away from today's call with the understanding that Palladyne AI is now a fully integrated autonomy Company serving national security customers through Palladyne Defense and industrial customers through Palladyne Commercial, all powered by embodied AI. Our technology is advanced, our structure is aligned with the national security priorities, and our financial position gives us the runway to execute on near-term deployments. We're building an American Company designed for this moment, one platform, two businesses and a significant opportunity ahead of us, Palladyne AI, America's cross-domain force multiplier.

Thank you. Operator, we can open the floor for questions.

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For any participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from Brian Kinstlinger from Alliance Global Partners. You may proceed with your question.

Brian Kinstlinger

Great. Thanks, and congrats on your transactions. In terms of BRAIN hardware from GuideTech, how much of that revenue is commercial versus government? Do they go to market as a prime generally, or a subcontractor? Then maybe can you quantify the sales cycle, including the design-win phase?

Benjamin Wolff

Thank you for your question, Brian. Their customers are all in the defense sector. At least today, they are defense sector. They have also done some things in the space arena, and I think there's a lot of opportunity in space, not necessarily tied directly to the Department of War. But the BRAIN sales today are focused on them being a supplier to other primes who are building the BRAIN into their aviation platforms or aerospace platforms. To be able to win that business, it has to be part of a design win that ultimately the entire system gets sold to a defense customer, the Department of War, one of the services, etc.

That is what they've been working on for the last couple of years, and they have got some great traction in that regard.

Brian Kinstlinger

Great. Then prior to the GuideTech acquisition, did your drone partners have another third party they used for edge compute system? Now the value is the drone manufacturer can come to you with one solution as opposed to using a variety of suppliers?

Benjamin Wolff

It is very common in the smaller drone space to have either NVIDIA or Qualcomm boards that are being used on those platforms. Today, our SwarmOS software is being implemented on both NVIDIA and Qualcomm boards. Depending on the size of the platform of the aviation or, I should say, aerospace platform, depending on what the mission capabilities are that are required, you might see the BRAIN being a supplement to an NVIDIA or Qualcomm board or in lieu of an NVIDIA or Qualcomm board. It just depends on what the mission requirements are. But yes, you can think of us as being a vendor now for that avionics or guidance and navigation system that gets put onto a new type of weapons system.

Brian Kinstlinger

Great. Then is there anything you can share in terms of either install base, the number of partners GuideTech has, just any information to help understand average deal size, how to think about their customer base?

Benjamin Wolff

I hope to be able to give you more details after the first quarter. We're not at a point today that we're prepared to start talking about all of those details, Brian, but I think after the first quarter, we'll have some more information for you.

Brian Kinstlinger

Okay, two more. In terms of Crucis, first address how this, maybe how this addresses manufacturing concerns that prospective customers might have had about your ability to scale large programs. Then talk about the type of components they're manufacturing today and who their primary customers have been. I think you said the F-15 and some vehicles, sorry.

Benjamin Wolff

Yes, no problem. Whenever you talk about producing systems at scale, one of the concerns that potential customers have is, okay, great, you've got a good concept. Now can you actually execute on it? Can you produce it at scale? Because we're going to be a big customer. We want to buy a lot of these. We don't want to just buy a few. That has always been a challenge for startups is to figure out how do you go from not just prototype and into the first commercial article, but how do you scale it to volume, which is the kind of volume that the Department of War is going to look for.

We decided to not try and reinvent the wheel, not try and go through all the aches and pains of scaling up manufacturing on our own, but to acquire two companies that were trusted and well-proven, had been around for a long time, had adopted new innovative technologies to be able to have higher margins than industry average, and that could produce some of the most complex, challenging parts and components that were needed by the aerospace industry. That is one of the things that I think startups and many other companies get criticized for, is how are you really going to produce at scale? We decided to nip that in the bud, one fell swoop, and be able to provide this consolidated, vertically integrated package to our customers.

Brian Kinstlinger

Got it. My last question is, can you talk about how opportunities with your two drone partners, Red Cat and Draganfly are tracking? I'm sure that government shutdown isn't helping, but maybe from a high level, talk about the procurement and the opportunities.

Benjamin Wolff

I think both companies are doing some great things with opportunities with the Department of War and the various services. We've been obviously engaged with Red Cat longer than Draganfly. Draganfly is a relatively recent announcement. They have airframes that have different mission sets than what Red Cat has. We get very excited about the idea of having our software that allows collaboration among differing manufacturers' platforms to be able to communicate and provide the war fighter with more information in the field. That's an important capability that the Department of War continues to talk about.

We're just getting on our engagement with Draganfly. We just announced it a few weeks ago, so that's relatively early. But we expect to do the same thing with them that we've done with Red Cat, where we go out and jointly meet with customers, talk about what the basic air platform is capable of, why it's the best in class for a particular mission set, and then educate the Department of War customer on what is the art of the possible when you start adding in collaborative autonomy that our SwarmOS platform provides.

It is more than just having to get a design win. You get a design win with a customer like Red Cat or Draganfly, but then you have to go convince the Department of War that it's worth spending the extra money for the additional capability set. Fortunately for us, almost every time Pete Hegseth wants to talk about drones, he's talking about swarming and collaborative autonomy capabilities. I think we're front of the duck. We're in a good spot with this right now.

Brian Kinstlinger

Great. Thanks so much for taking my questions.

Benjamin Wolff

Thank you, Brian.

Operator

Our next question comes from Michael Latimore with Northland Capital Markets. You may proceed with your question.

Michael Latimore

Yes, great. Yes, good afternoon. Congrats on the transactions here.

Benjamin Wolff

Thank you, Michael.

Michael Latimore

Did you say that the couple of the main customers for your acquisitions were the Air Force and Navy, or are those the two main sort of end customers? I know you sell to the primes, but do they end up in those two categories?

Benjamin Wolff

We actually have direct contracts with the Air Force and with the Navy where they are funding the development of capabilities that they want to deploy. Those are direct contracts. That's not where we're acting as a sub to somebody else.

Michael Latimore

Okay, got it. Interesting. I got it (phon). Then as you think about the revenue composition here, are we going to see sort of one revenue line, or are you going to have hardware, software, services? Just trying to think about how that will look.

Benjamin Wolff

Yes, I expect we will. We're still sorting through that, Michael, but I expect that we will be able to clearly articulate what's component sales, what services, what software sales.

Michael Latimore

Got it. How quickly can you get SwarmOS embedded into the GuideTech development cycle and product lines there?

Benjamin Wolff

It can't happen fast enough, but since we just closed the deal today, I can tell you it's not today, but I expect if you look at what we did in terms of getting it onto the NVIDIA board and onto Qualcomm, it was a matter in those cases of a couple of weeks. One of the things that our engineering team started talking about today was exactly what the path is to make that happen. I have not gotten an update on that conversation, but it's something that I do not think is going to be terribly cumbersome or time consuming.

Michael Latimore

Got it. Then I think at the end there, you mentioned you're potentially expecting a Department of War contract award. I guess just what product category is that in or any more detail?

Benjamin Wolff

That will still relate to the SwarmOS capabilities. I don't want to say more about it than that because it's premature, but bottom line is we've got some good momentum with the Department of War following on the backside of some of the existing contracts that we have.

Michael Latimore

Got it. Okay. Just last one, it seems like GuideTech is able to produce key systems much more cost effectively. Can you just provide a little more detail on how they do that? Why are they so much more cost effective?

Benjamin Wolff

Yes. One of the things that they did when they first started the company, which I think was 10 or 12 years ago now, and the founders came out of Raytheon Missile Systems. They put a fair bit of capital into developing their own internal software systems that they use as tools to what I think of it as revolutionizing the way aerospace design and engineering occurs. They can go from concept to working prototype in less than six months. In the case of SwarmStrike, I believe that they had their first flight within four and a half months after the original concept was conceived of. That is in large part credited to their internal software tools that they have created.

When I look at the crown jewels of GuideTech, it is the people first and is the internal software systems that they've created as tools that allow them to conceive and validate designs far more quickly than I think occurs anywhere else in the industry. That is why they have been very successful at having customers across the defense prime space.

Michael Latimore

Yes, that makes sense, right? Congratulations.

Benjamin Wolff

Thank you, Michael.

Operator

Our next question comes from James Kisner with Water Tower. You may proceed with your question.

James Kisner

Hi, this is James. Do you hear me?

Benjamin Wolff

Yes, I can hear you. Thank you, James.

James Kisner

Great. Congrats on the transaction. I just wanted to double click a little bit on the vertical integration and the benefits of that and the why behind the transaction. I think you said that it helps your scaling, but are there other benefits here like time to market or integration technology or maybe even some margin stack that's eliminated that also are rationales for these transactions?

Benjamin Wolff

Here's the way I think about it. The ability to control your destiny on both the hardware and software side, to evolve them in tandem so that you can optimize both is something that you don't get the benefit of if you're just providing hardware or just providing software. You can think of a couple of great examples that I use as an analogy here. If you thought about Steve Jobs trying to come up with the iPhone and all he was going to do is produce the hardware, not the software, it wouldn't be the hit product that it became. If at first (phon) if he was only focused on software, not hardware, it may not have become the hit product it was.

Take it into something that's more current. Think of the Tesla cars. If Elon had said, I'm going to build the frame and the physical instantiation of the vehicle, but I'm going to farm out the AI and the software to somebody else, it would not have been an optimized car that attracted the millions of customers that they have today. What we see in our opportunity set going forward is in those cases where there are gaps of capability that we think the Department of War wants, we now are bringing together our software and the hardware and the avionics and the components all together, vertically integrated so that we can go faster in a way that demonstrates enhanced capabilities so that we can beat our near-peer competitors worldwide to the punch.

James Kisner

Very helpful. Just one other follow-up. The shutdown obviously just ended and you're kind of early in commercialization, but have you seen any change in the tenor of conversations in the last couple of days? Anything to report there? That's all I had.

Benjamin Wolff

I will tell you this. I've been pleasantly surprised that there isn't any slowness in getting people re-engaged now that they're back at work. We've been—frankly, I've been a little surprised. It's like the spigot turned on and they're—at least the people that we're dealing with in the narrow areas that we're focused on, I can't speak for the whole Department of War or the whole government, but I've been very pleasantly surprised at seeing almost instantaneous re-engagement picking up right where we had left off.

James Kisner

Awesome. Thank you. Congrats again.

Benjamin Wolff

Thank you very much.

Operator

Our next question comes from Brian Kinstlinger once again with Alliance Global Partners. You may proceed, Brian.

Brian Kinstlinger

Just a quick modeling question. Is there any seasonality that you see in the two acquiring businesses you're acquiring? I know often there's some seasonality in defense, at least with awards, but I'm not sure if there is on the revenue generation from your business.

Benjamin Wolff

We have not seen seasonality that I'm aware of. I think that as you get towards the new budget cycle that can always impact things when you're talking about the U.S. government as a customer. But I do not believe that either of these businesses have seen significant issues as a result of that. The slowdown resulting from the shutdown of the government definitely impacted the ability to, for example, when you're asking a government customer to approve a first design or a first product and they're no longer in the seat to approve it that created a delay, and you saw that across the sector. But just in terms of normal seasonality, I don't see anything there, Brian.

Brian Kinstlinger

Okay. Thank you.

Operator

As a reminder, if you would like to ask a question, you may press star, one on your telephone keypad. If you would like to remove your question from the queue, you may press star, two on your telephone keypad. We will pause for a brief moment to poll for any questions.

I will now turn the floor back over to Brian Siegel for any questions from our webcast audience.

Brian Siegel

Thanks, Juan.

I got a couple here. The first one is earlier this year you described a roughly 12 to 18 month sales cycle and suggested you'd have more visibility in the back half of the year. I'm wondering whether the acquisitions, along with the creation of Palladyne Defense, have improved that visibility. Are you seeing any signs that these moves could shorten the sales cycle?

Benjamin Wolff

The 12 to 18 month sales cycle was primarily focused on the commercial side of our IQ sales. I don't see any change there. Certainly, these two acquisitions don't really impact that. I do think what these acquisitions do is they give us more avenues to monetize our SwarmOS swarming software, a lot more customers that we can now tap into, relationships that we can build and expand on. It's too early for me to say whether I think the sales cycle for that product on the defense side will be shorter. But I do know it increases significantly our shots on goal.

Brian Siegel

Great. Thank you. One other question is, will you need to expand sales staff as you grow, let's say, over the next six to 12 months?

Benjamin Wolff

We expect to do that. That's something that we budgeted for already. That was true, notwithstanding whether we did these acquisitions or not. One of the great things about these acquisitions, though, is that they have their own business development efforts. We will supplement that and fortify that. As I mentioned before in my prepared comments, Doug Dynes comes over to us. He will be leading our

defense business with a primary focus on generating revenues for the defense side of the house. He has incredible relationships. We'll be building a team to support him.

Bottom line is, as with—when I've been asked that question in the past, as we understand more about what gets a customer to say yes, then we will put more resources into getting more customers to say yes. But we're not going to just start throwing a bunch of money at marketing and sales until we know what works, until we've cracked that code.

Brian Siegel

Great. One last question. It's about the Commercial business. When will the next version of IQ become available? Is it being tested currently at customer or potential customer facilities?

Benjamin Wolff

We are testing the V2 of IQ in our own facilities now. As soon as we believe we've got it debugged and completely ready to go then we will start placing it with customers. We're not quite there yet. A lot of that, as I mentioned in my prior comments in past quarters or in our press releases, was focused on improving the user interface. User interface is never as easy as just putting a wrapper on the piece of candy. It actually requires integration with the way the software works.

But we've never had an issue with the functionality of V1. What we had was an issue with the ease of use and making it so that we truly can have folks that are not software engineers able to interact with it and train robots the way very expensive computer programmers and software engineers typically do. Remember, our whole focus with IQ is to democratize the ability to program and manage industrial robots and to allow people that may only have a high school education to be able to do the kind of job that historically has taken people that are \$225,000 or \$250,000 a year, graduate students that are able to do.

I think that we're close, and we're going through all the testing internally right now, internally, to make sure that it will be satisfactory for our customers when we release it out into the wild.

Brian Siegel

Okay, great. Thank you. That's all the questions from the webcast. Juan, you can close out the call.

Operator

Thank you. Ladies and gentlemen, this now concludes our question-and-answer session and does conclude today's teleconference as well. We thank you for your participation. Please disconnect your lines and have a wonderful day.