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How a Penny-Stock Company Sold the Pentagon on Small Drones for Ukraine

Cyberlux CEO's trip to Kyiv helps short-circuit Defense Department's lumbering procurement system

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[s invasion of Ukraine](#) last year, the U.S. has approved [more than \\$32 billion](#) in security assistance for Kyiv, with most of that money going to weaponry and service companies.

They have provided an opening for lesser-known firms to compete, and at least one has succeeded.

Cyberlux, a penny-stock company traded on the over-the-counter market, recently made a foray into [drone production](#) and had pitched the Pentagon for Ukraine.

It was with the North Carolina lighting company decided to cut through [the U.S. military's red tape](#) and take its product directly to the Ukrainians.

Cyberlux Chief Executive Mark Schmidt raced to Kyiv under military escort with a modified movie-production drone he hoped could help Ukraine's military in its mission.

Months later, the Pentagon appears set to buy the Cyberlux K8 and deliver the machinery to Ukraine.

That's what's inside the body of DOD," said Mr. Schmidt of the company's path to the Pentagon, referring to the Department of Defense. "We're either going to do things in the future, or be ejected from the body."



How its K8 drone operated during its CEO's trip to Ukraine last year. SERHII KOROVAYNY FOR THE WALL STREET JOURNAL

What Cyberlux took from North Carolina to Kyiv provides a window into how a number of small defense companies are attempting to navigate—and in so doing, bypass—the Pentagon bureaucracy [to get their weapons to Ukraine](#). It also shows how [drones' increased usage in modern warfare](#) has created new business opportunities.

Ukraine and Ukraine employ [reconnaissance drones](#), allowing operators to survey battlefields and locate targets with little risk to operators. Ukraine has used American-made drones, which fly into objects and detonate on contact, while Russia [has deployed Iranian models](#). These types of drones are relatively small and inexpensive, often made with many consumer-technology components.

At the start of the war, Ukrainian forces [were using drones](#) produced by China's SZ DJI Technology Co.—effective, low-cost models that had come to dominate the U.S. market. Ukrainian and American officials grew concerned that the Chinese drones, which the U.S. government had already stopped using, [posed a security risk](#) to American forces and their allies.

ously said that it [had suspended activity](#) in both Russia and Ukraine in April and that the company doesn't collect data from flights.

is are for civilian use only," a DJI spokeswoman said. "We have never manufactured military-grade equipment."

viceman operates a drone in Bakhmut, Ukraine. DIMITAR DILKOFF/AGENCE FRANCE-PRESSE/GETTY IMAGES

ose main business for the past two decades has been in long-duration LED lights, is new to the drone market. In March last year, it bought Catalyst Maci n-area drone maker that specializes in quadcopters, also known as cinelifters, for racing leagues, as well as film and TV production.

the drone company said that it comprised "only a few people" and that "shipping is handled by one of the owner's wives."

ne of many small companies that have sought to pierce the Pentagon's bureaucracy. Fortem Technologies Inc., a Salt Lake City-area company that manu ; a small reconnaissance model designed to knock down enemy drones, [has sent two systems to Ukraine](#) but has been unable to secure Pentagon approv.

d for our bureaucratic system to look past what it knows best, which are programs of record," said Jon Gruen, Fortem's CEO, referring to the Pentagon's ology as part of a long-term budgeting cycle.

[ings](#) Inc., a Puerto Rico-based company, has placed roughly two dozen Teal Golden Eagle reconnaissance drones in Ukraine but has also been stymied at

ologies drone captures another drone by firing a net. FORTEM TECHNOLOGIES INC.

ans want them," Red Cat CEO Jeff Thompson said. "They're already using them. How do we get these tools into Ukraine? It's very frustrating for us and nies."

k a different angle, via a U.S. drone expert. The expert connected Cyberlux with senior officials in Kyiv, according to Mr. Schmidt, and in July, he traveled he border into Ukraine.

round outside the capital, Cyberlux demonstrated its drone to Ukrainian officials, including Gen. Valeriy Zaluzhny, the commander in chief of the count

: K8 zipped across a field toward a static armored personnel carrier, trailed by another drone fitted with a video camera that captured the explosion as tl

t with the vehicle and relayed the footage to a screen visible to the soldiers and officials present.

uzhny, the commander in chief of the Ukrainian armed forces, here at a February event in Kyiv, and Cyberlux's drone presentation last summer. UKRAINIAN PRESIDENTIAL PRESS OFFICE/ASSOCIATED PRESS

demonstrations, Ukrainian Deputy Defense Minister Denys Sharapov, in a letter reviewed by The Wall Street Journal, requested 1,000 K8 drones from the command.

requests to cover the priority needs of the defense forces of Ukraine to the Pentagon through official channels," a Ukrainian Defense Ministry spokesman commented specifically on the K8.

assigned Ukraine's Cyberlux request to the Naval Air Systems Command, which works with airborne-weapons systems, including drones, according to a spokesman.

, the naval command paired Cyberlux with [Huntington Ingalls Industries](#) Inc., a Virginia shipbuilder that already has extensive contracts with the Pentagon. Working with an established company allowed Cyberlux to bypass the months or years it might take for a small firm to break through military-procurement, which requires many layers of approvals and voluminous documentation.

1 Ingalls Industries spokesman declined to comment.

executives believed that their drone deal had reached its final stages, a stock regulator's public reprimand threatened to undo it by hurting the company's

drone presentation in Kyiv region, Ukraine, last summer. SERHII KOROVAYNY FOR THE WALL STREET JOURNAL

[OTC Markets Group](#) Inc. designated Cyberlux's stock as caveat emptor, a buyer-beware label caused by misleading or manipulative stock promotion, or fraud, or the suspension of trading for public-interest concern. Some brokerages restrict investors' abilities to trade caveat emptor securities.

stock price fell roughly 80% to less than a fraction of a penny following the December designation. An OTC Markets Group official declined to comment on the designation.

said the label resulted from a Cyberlux lawyer failing to disclose the extent of his company stock in financial filings. The lawyer declined to comment. "Very, and so things are kind of Wild West-ish," Mr. Schmidt said. "It'll be cleaned up and straightened out."

on [the first anniversary of Russia's invasion](#) of Ukraine, the Pentagon announced \$2 billion in security assistance for Ukraine. On the list of equipment, was

illery rounds, laser-guided rockets and mine-clearing equipment, were the Cyberlux K8 drones.

ock has yet to rebound.

Department declined to comment on Cyberlux's stock warning, or to provide the order's quantity or delivery timeline, and company executives say they ails. "We consult very closely with Ukraine to identify their most urgent needs," a Pentagon spokesman said.

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