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Defense Innovation Unit: The Pentagon's Front Door for Unmanned Systems Technology Companies

On June 29, 2026, U.S. Secretary of Defense Pete Hegseth issued a memorandum overhauling how the Pentagon develops, buys, and fields unmanned systems. Most coverage focused on the specialized Direct Reporting Portfolio Manager for Unmanned Systems (DRPM-UxS) office it created. For technology companies with commercial products, the more consequential sentence sits deeper: the Defense Innovation Unit (DIU) is designated as the Pentagon's primary liaison with commercial companies for all unmanned and autonomous systems programs in the new portfolio.

If you build something that flies, swims, drives, or thinks autonomously – including a sensor, component, or software layer that goes into something that does – DIU is now the designated commercial entry point for a portfolio spanning nearly every unmanned program in the department. Understanding how DIU arrived here explains why that matters.

From Experiment to Institution

DIU launched in August 2015 as DIUx, the Defense Innovation Unit Experimental: a small Mountain View outpost built on the premise that the commercial sector was outpacing the defense industrial base in precisely the areas the military needed most. The early years were challenging. A 2016 reboot gave it a direct line to the Secretary of Defense. It dropped the "experimental" in 2018, was made permanent, and added offices in Boston, Chicago, Austin, and at the Pentagon.

The budget tells the story better than the organizational chart. DIU operated on roughly $43 million as recently as fiscal year 2022, with funding rising to $112 million

the following year. In April 2023, the Pentagon recruited Apple executive and Navy reservist Doug Beck as director and restored the direct reporting line. Congress then appropriated $983 million for FY2024 – close to a tenfold increase – funding a strategy Beck branded "DIU 3.0," a pivot from bridge-building toward closing the military's most critical capability gaps at scale.

Beck resigned in August 2025. Emil Michael, the Under Secretary of Defense for Research and Engineering, served as acting director until Owen West formally took the post on March 2, 2026. West inherited an organization with roughly $979 million in FY2026 funding and new standing as an official Pentagon Field Activity.

The DIU is now an institution: a billion-dollar budget, permanent status, and a portfolio-wide mandate.

The Contract Mechanism Matters More Than the Money

DIU's most important innovation was procedural, not financial.

In 2016 it pioneered the Commercial Solutions Opening (CSO) – a competitive solicitation process paired with Other Transaction Authority (OTA) under 10 U.S.C. § 4022. Other Transactions (OTs) sit outside the Federal Acquisition Regulation (FAR): there is no certified cost and pricing data, no government-compliant cost accounting system, and no FAR compliance infrastructure as a precondition to competing. DIU advertises prototype awards in as few as 60 to 90 days.

Two features distinguish this from other federal funding paths.

- **DIU does not fund research. It funds adaptation.** It looks for companies with working commercial products or near-commercial prototypes adaptable to a defense problem within 12 to 24 months.
- **The production follow-on is the real prize.** Under § 4022, a prototype OT can result in a follow-on production contract awarded directly, without further competition, which is often worth an order of magnitude more.

Contract Awards

DIU can award contracts to commercial companies and to companies already in the defense field, provided the proposal matches an active CSO problem statement and offers a commercial-based, dual-use solution. The technology must already have commercial utility or a commercial market baseline rather than being a clean-sheet military research and development project.

Section 4022(d) permits a prototype OT only if at least one of four conditions is met. The conditions are:

- **Non-traditional participation:** at least one non-traditional defense contractor or nonprofit research institution participates to a significant extent. A nontraditional defense contractor is an entity that is not currently performing, and has not performed for at least the one-year period preceding the solicitation, any U.S. Department of Defense contract or subcontract is subject to full cost accounting standards coverage;
- **Small business or non-traditional participants:** all significant participants other than the government are small businesses or non-traditional defense contractors;
- **Cost share:** at least one third of the total cost of the prototype project is paid from sources other than the federal government; or
- **Exceptional circumstances:** the agency's senior procurement executive determines in writing that exceptional circumstances justify an innovative business arrangement or structure that would not be feasible or appropriate under a contract, or that would expand the defense supply base.

In practice, most commercial companies entering the defense market qualify as non-traditional defense contractors, which satisfies the first condition and leaves no cost share to negotiate. Where a project instead proceeds on the cost-share condition, contributions may include both cash and allowable, verifiable in-kind non-federal resources.

Why the Pentagon's New Drone Office Concentrates the Stakes

The Pentagon memorandum consolidates what had been scattered across services, agencies, and task forces. The DRPM-UxS reports to Secretary Hegseth's deputy and serves as the single joint integrator for unmanned and autonomous system programs department-wide.

The portfolio covers Group 1 through 3 unmanned aircraft, unmanned surface and underwater vessels, unmanned ground systems, autonomy and swarming software, counter-unmanned systems, unmanned logistics, and the marketplaces through which these are procured – including approval authority over any new marketplace a service wants to stand up. The office absorbed the Defense Autonomous Warfare Group and the counter-drone task force JIATF-401, whose directors are dual-hatted beneath it, and holds milestone decision authority plus authority to direct service contracting activities.

A handful of larger programs are carved out – the U.S. Navy's medium unmanned surface vessel, the MQ-25 Stingray, the MQ-4C Triton, and the U.S. Air Force's Collaborative Combat Aircraft. Nearly everything else is consolidated.

Layer DIU's designation as primary commercial liaison on top of that Pentagon consolidation and the picture resolves: for a very large portfolio, the commercial on-ramp now runs through one organization, DIU.

DIU's adjacent role reinforces the point. It created the Blue Uncrewed Aerial Systems (UAS) Cleared List in 2020 to implement Section 848 of the FY2020 NDAA, which barred Department use of certain foreign-made drones. List management moved to the Defense Contract Management Agency in December 2025, under their Unmanned Systems-Experimental Command (US-X) in Palmdale, California – 39 certified systems and 165 components at handoff – but DIU still shapes the standards. Third-party pathways, including the Association for Uncrewed Vehicle Systems' Green UAS certification (an industry-led cybersecurity and supply-chain compliance vetting process) now feed into the Blue UAS standard.

What Commercial Companies Should Do Now

If you have a commercial product with a plausible defense application, address these with knowledgeable counsel before a solicitation appears rather than during a compressed response window.

- **Confirm nontraditional contractor status** and understand what could risk it.
- **Map your supply chain.** NDAA Section 848 restricts the Department of Defense from operating, procuring, or contracting with vendors that supply covered UAV systems containing components originating in a defined list of covered foreign nations, namely, China, Russia, Iran, and North Korea. Prohibited parts include the flight controller, radio transceiver, data transmission module, camera, gimbal, ground control system, and operating software.
    - Unmanned ground, surface, and underwater vehicles are not covered by Section 848, but companies building them should map their supply chains to the same standard, because the defense market is converging on it. Regardless of platform, all companies must still comply with the International Traffic in Arms Regulations, the Export Administration Regulations, and other export control requirements.
- **Examine your ownership structure.** Foreign investment, including passive limited partners in your cap table, raises Committee on Foreign Investment in the United States and foreign ownership, control, or influence questions.
- **Treat intellectual property and data rights as the central negotiated term.** Flexibility outside the FAR cuts both ways. Companies that accept government-favorable data rights in a modest prototype agreement frequently discover the negative effect at production scale, when the leverage has shifted.

In DIU, the Pentagon has spent a decade building a door for commercial technology. That door is now wider, better funded, and – for unmanned systems – far more concentrated than at any point in its history. The companies that benefit will be the ones that understand the terms before they walk through it.

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