

# NASDAQ:CSPI Q2 2025 Earnings Call Transcript

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## **Jenny | Operator:**

Good morning everyone and welcome to the CSPI's Fiscal 2025 Second Quarter Results Conference Call. At this time all participants are in a listen-only mode and the floor will be open for questions following the presentation. If anyone should require operator assistance during the conference please press star zero on your phone keypad. Please note that this conference is being recorded. I will now turn the conference over to your host Michael Polivu.

## **Michael Polivu | Director of Investor Relations:**

Thank you, Jenny. Hello, everyone, and thank you for joining us to review CSPI's fiscal 2025 second quarter financial results, as well as recent operating developments. The fiscal quarter ended March 31, 2025. Today with me on the call is Victor DeLobo, CSPI's Chief Executive Officer, and Gary Levine, CSPI's Chief Financial Officer. After Victor and Gary conclude their opening remarks, we'll then open the call for questions. During the Q&A session, we asked participants to limit themselves to one question and one follow-up question, and then re-queue if you have additional questions. Statements made by CSPI's management on today's call regarding the company's business that are not historical facts may be forward-looking statements as terms identified in federal securities laws. The words may, will, expect, believe, anticipate, project, plan, intend, estimate, and continue, as well as similar expressions are intended to identify forward-looking statements. Forward-looking statements should not be meant as a guarantee of future performance or results. The company cautions you that these statements reflect current expectations about the company's future performance or events and are subject to several uncertainties, risks, and other influences, many of which are beyond the company's control, that may influence the accuracy of the statements and the projections upon which the segment and statements are based. Factors that may affect the company's results include, but are not limited to, the risks and uncertainties discussed previously in the Risk Factor section of the Annual Report on Form 10-K and the Quarterly Report on Form 10-Q by the Securities and Exchange Commission. Forward-looking statements are based on information available at the time those statements are made and management's good faith belief as of the time with respect to future events. All forward-looking statements are qualified in their entirety by this cautionary statement and CSPI undertakes no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events, or otherwise after the date thereof. With that, I'll turn the call over to Victor DeLobo, Chief Executive Officer. Victor, please go ahead.

## **Victor DeLobo | Chief Executive Officer:**

Thanks, Michael, and good morning, everyone. Despite an unusual operating environment, our fiscal second quarter revenue was \$13.1 million, met our internal budget and expectations. The results reflected a slight increase in product sales and a decline in service revenue as compared to last year's period due to a single multi-million dollar deal that wasn't repeated this quarter. Excluding that deal, we achieved solid double-digit service revenue over the prior year period. However, a six-figure, 12-month customer support contract was signed during the second fiscal quarter relating to the multi-million dollar deal that occurred last year. ACT Protect continues to gain traction in the OT marketplace. Through the successful execution of our go-to-market strategy, we signed six new customers during the quarter. Some of these deals were small in nature but had the potential to follow on sales, and we believe that some of these could eventually become installations of seven-figure values over the upcoming quarters. By focusing on the initial project to implement

ADP Protect within the organization, improving our solution, we positioned ourselves for expanding revenue relationships within the corporation. As a result of this approach, our pipeline for AZT continues to expand, and we believe our total opportunities have increased some five-fold over the past couple quarters. We continue to build relationships with our AZT Protect resellers, especially with the largest Rockwell Automation distributor. During the quarter, we entered a new reseller partnership with Rexall USA, an industry leader in supplying industrial equipment throughout the United States. Rexel provides a variety of products to industrial customers across the US and is a premier Rockwell automation distributor. Rexel continues the unique capabilities of ARIA, recognizes the unique capabilities of ARIA AZT Protect to safeguard its customers against industrial cyber attacks. It is initially working with ARIA to deploy AZT at the facilities of a large building material manufacturer in need of protection from zero-day malware, ransomware, and sophisticated cyber attacks. At the end of April, we were featured in a Rockwell webinar, which just over 100 of its customers signed up, and we are generating new business leads that will be worked with our distributors to come to fruition in the later quarters. We continue to make prudent investments in marketing ADP Protect, which includes conference participation and attending regional events held by distributors to build off their existing customer relationships. All told, in less than two years of the July 2023 launch, we are where we plan to be at this juncture. Currently, we are always seeking to enhance our sales team as we scale up the business, ensuring we might have the right caliber people selling AZT Protect while building brand recognitions for AZT Protect brand in the OT market. I strongly believe based on the current pipeline, we are gaining traction with key prospects while endearing ourselves to the current customers to grow the revenue opportunities. We are particularly excited about our new customers signed in April with our distributor Oryx Industries in South Africa. The contract calls for AZT Protect to protect small portions of the equipment owned and operated by one of the largest cell tower providers in the country. This agreement enables AZT Protect to be broadly deployed across the entire system over the next 18 months. This customer could generate sales in the seven figures for our company over the same period and open up new cell tower protection markets for us. Our team is highly focused on this opportunity as well as several others with similar potential as we enter the second half of the fiscal year. Oryx, which we just pondered towards the end of the quarter, is a leading provider and trailblazer of cybersecurity solutions in South Africa, and we look forward to working with them to attract other businesses that are in critical need of our services as the country is seeing an increase in cyberattacks. Other parts of the business did well during the second quarter. The technology solution, or TS business, generated \$12 million in revenue and continues to be profitable. We are executing contracts with cruise lines and ocean freighter liner market, and we continue to generate increased demand for our cloud-based services for companies wanting to outsource their critical needs to value-tested platforms. Earlier this quarter, we were awarded a professional and cloud consumption service project to architect, implement, and manage a Microsoft Azure migration for a Florida-based healthcare provider, which operates clinics across the state. Our mandate is to deliver the next generation cloud solution following Microsoft Azure well-architected framework, ensuring seamless support for the client's enterprise workloads. We finished the quarter with more than \$29 million in cash and cash equivalents. While continuing to invest in our AZT product line, we repurchased \$384,000 worth of common shares during the quarter, and the Board of Directors authorized another \$0.03 per share quarterly cash dividend. In summary, we entered the second half of the fiscal year with some momentum. Specifically, the South African AZT program Protect contract and the Technology Solution contract to deliver critical Microsoft Azure Protect for the Florida-based healthcare providers. The second half of the fiscal year is off to a promising start. We may face challenging operating conditions, namely price increases on the products that TS purchases for resale, as well as customers may reduce spending through reduced headcount and project postponement as they realign their team. The flexibility of our organization and the prospects for AZT Protect Growth position us to maximize our opportunities, and that is our dedicated focus. Now I will ask Gary to provide a brief overview of the fiscal second quarter and six-month financial performance. Gary?

## **Gary Levine | Chief Financial Officer:**

Thanks, Victor. For the second quarter ended March 31st, 2024, we reported significant \$13.1 million as compared to \$13.7 for the prior year. Service revenue represented \$4.6 million of overall sales compared to \$5.2 million of overall sales during the year-ago period. Gross profit for the three months ended March 31, 2025 was \$4.2 million or 32% of sales. compared to gross profit of \$6.2 million or 45.3% of sales for the quarter ended March 31st, 2025, reflecting higher component costs in the product side of the business. And there was a single multi-million dollar sales contract at a high margin recognized in the fiscal 2024 second quarter. Our overall operating expenses were essentially flat with the prior period. We had a tax benefit of \$683,000 due to excess tax benefit of restricted stock awards that vested in the quarter and tax credits, which we expect to be utilized against our federal and state taxes. We had a loss for the quarter of \$108,000 or one cent per diluted share, the fiscal second quarter. For the six months, our revenue was \$28.5 million versus \$29.1 million for the first six months of fiscal 2024. We had a net profit of 341,000 or four cents per diluted share of common. The company continues to maintain a robust balance sheet as of March 31st, 2025, and had cash and cash equivalents of over \$29 million. The higher cash balance relative to our liabilities enhances the company's resource to pay a quarterly cash dividend while reducing executing growth, which includes the continued rollout and market awareness of the AZT product offering. We spent \$380,000 during the quarter, purchasing 23,800 shares of Common. Lastly, as Victor mentioned, the Board of Directors approved a \$0.03 cash dividend for shareholders of record on May 28, 2025, payable on June 11, 2025. With that, I will turn it over to the operator for your questions.

## **Jenny | Operator:**

Thank you very much. We will now be conducting our question and answer session. If you would like to ask a question, please press star 1 on your phone keypad now. A confirmation tone will indicate that your line is in the queue. You may press star two if you would like to remove your question from the queue. For any participants using speaker equipment, it might be necessary to pick up your handset before you press the keys. Please wait a moment whilst we poll for any questions. Thank you. Our first question is coming from Joseph Nerges of Seagram Investments. Joseph, your line is live.

## **Joseph Nerges | Analyst, Seagram Investments:**

Thank you. Good morning, guys. Now, I've got two people I've got to call. Brett Davidson called me. He's got a dental appointment, emergency dental appointment. So I've got to ask questions for Brett, too. And I think you've covered much of what he wanted to know in your remarks, Victor. He was asking for some more color on the backlog for AZT. and I'm guessing that he was looking for something in the neighborhood of numbers on the backlog as well as the potential size of some of these contracts. Do you want to elaborate any more than what you said?

## **Victor DeLobo | Chief Executive Officer:**

No, no, no, no. Like I said, the pipeline is growing. We continue to talk to new customers, and the pipeline is growing. The total pipeline's in different stages. We cut it up to four different stages and we have different deals and they're all at different levels of the sales process. So I'd rather just not comment on that and tell Brett he can call me if he asks any other questions.

**Joseph Nerges | Analyst, Seagram Investments:**

Okay. And the other question he had was on the cruise ship business, and, of course, you mentioned that too. You know, is it continuing? Do we see more – and you said not only the cruise ships but also the freighters, right, that you were doing. And that's increasing, or is it pretty steady?

**Victor DeLobo | Chief Executive Officer:**

Yeah, it's been steady. You know, as we continue to modify the ships, we – we get another one or another two, it's on their schedule. So we actually never know what's coming. It's just depending when the ships are going to be, you know, on land, dry dock, as they call it. Yeah.

**Joseph Nerges | Analyst, Seagram Investments:**

Okay. Well, I'll go to my quick question here. This is on a cell tower contract. And I'm particularly interested in Gary Southwell's comment in the contract. He said, Other solutions were considered less effective and too complex to operate. I guess my question is, do we have something unique here where we can go after, or is this cell tower thing unique in itself? Is this company unique where we can go after more cell tower companies that have the same structure, if you want to call it, the same endpoint needs?

**Victor DeLobo | Chief Executive Officer:**

We were unique because the amount of space we take up on the cell tower, because it's not like they have a huge computer sitting there, right? The amount of space and the amount of CPU power was very attractive to them because, like I said, those cell towers, they have limited CPU and storage on each cell tower. So that was a big Plus, we work in Linux, where some of the other companies don't. And some of the versions of software were a little dated also. So that was one of the perfect customers. I think that's kind of why it might have moved as fast as it did, just because we had a lot of checkboxes right out of the bat on that particular one.

**Joseph Nerges | Analyst, Seagram Investments:**

So a follow-up to that would be, do the other cells, do we know if other cell companies have the same? Limitations on their towers, let's say storage?

**Victor DeLobo | Chief Executive Officer:**

We're reaching out to those different companies. You know, some of them are not calling back right at the second, but we will continue to reach out to various companies that we did some research on that is similar to the company in South Africa.

**Joseph Nerges | Analyst, Seagram Investments:**

And just one other quick thing from, I'm going back to your letter, the December letter where you We talked about the cloud-based projects. You had, I guess at the time, 14 at the end of the year. Do we still have a pretty sizable backlog of cloud-based projects?

**Victor DeLobo | Chief Executive Officer:**

Yeah, it's definitely more than 14. It's probably in the 20s right now. I don't know the exact number.

**Joseph Nerges | Analyst, Seagram Investments:**

Okay, well, I'll drop back and let somebody else ask a question. Thank you. Thanks, Joe.

**Jenny | Operator:**

Thank you very much. Just a reminder there, if you have any remaining questions, you can join the queue now by pressing star 1 on your phone keypad. Just wait a moment in case anyone else wants to ask a question. Okay, I'm not seeing anyone else in the queue for questions, so I will now hand back over to Victor for any closing comments.

**Victor DeLobo | Chief Executive Officer:**

Thank you, Jenny. I want to thank our shareholders for their continued interest and support. We have some momentum heading into the second half of fiscal year due to some recent contracts, and I believe the increased activity we are experiencing is encouraging. With each passing quarter, the AZD Protect name is becoming more widely known, and the relationship with Rockwell ensures this will continue. Our goal is to go out there with the maximum effort, close deals, and once installed, grow the base. We're fortunate to have the TS business that generates the profit to fund the ARIA business, and we look forward to updating you on our next progress during the fiscal third quarter call in August. Until then, stay safe. Thank you.

**Jenny | Operator:**

Thank you very much. That does conclude today's conference call. You may disconnect your phone lines at this time and have a wonderful day. We thank you for your participation.