

NASDAQ:CSPI Q3 2025 Earnings Call Transcript

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Tom | Operator:

Good day, ladies and gentlemen, and welcome to CSPI's fiscal 2025 Third Quarter Results Conference Call. At this time, all participants are on a listen-only mode, and the floor will be open for questions and comments after the presentation. It is now my pleasure to turn the call over to your host, Michael Polivio. Michael, the floor is yours.

Michael Polivio | Host:

Thank you, Tom. Hello, everyone. Thank you for joining us to review CSPI's financial results for the fiscal 2025 Third Quarter and the June 30, 2025, as well as recent operating developments. Today, with me on the call is Victor DeLoveau, 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 ask participants to limit themselves to one question and one follow-up question, 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 photo-looking statements as those 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 photo-looking statements. Photo-looking statements should not be meant as a guarantee of future performance or results. The company cautioned you that these statements reflect the current implications 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 in the risk factors section of the annual report, in Form 10K, in the quarterly report on Form 10Q, File, Excursion, and Exchange Commission. Photo-looking statements are based on the information available at the time those statements are made and management's good faith believes as of the time with respect to future events. All photo-looking statements are qualified in their entirety by this cautionary statement and a CSPI undertake no obligation to publicly revise or update any photo-looking statements whether as a result of new information. Future events are otherwise active to date, they're up. With that, I'll turn the call over to Victor DiLobbo, Chief Executive Officer. Victor, please go ahead.

Victor DeLoveau | Chief Executive Officer:

Thanks, Michael, and good morning, everyone. Our fiscal third quarter revenue was \$15.4 million, representing an 18% increase over last year's third quarter revenue. It also represents an 18% sequential increase over our prior quarter and illustrates the building momentum our business segments are generating in the market. A technology solution segment is currently driving our revenue growth as in the high performance product segment we continue to build awareness and more importantly significant deal pipeline for our highly differentiated ADT protect cybersecurity offering. Midway through the fiscal fourth quarter, the momentum is continuing and we believe that if current trends continue, we'll be able to grow both top and bottom line for the full fiscal year. Our managed cloud business provides customers with customized managed infrastructure solutions, moving their technology and data management to the cloud and continues to exceed our expectations. We have gained significant traction in niche markets including the container shipping industry. Recently one of our customers increased our involvement with their operation to provide cloud services to their headquarters after we built it, a hugely successful tracker record with their vessels.

T.S. has experienced strong momentum in the cloud initiatives driven by successful execution over 20 active projects and the span range from industries and use cases. The growth reflects the company's strategic focus on delivering secure, scalable and high performance cloud solutions tailored to clients needs from infrastructure modernization to advanced cybersecurity services. By leveraging its deep expertise and strong customer relationship, T.S. has been able to rapidly expand its cloud portfolio enabling organizations to accelerate digital transformation and achieve greater operational agility. The breadth and diversity of these active projects underscore T.S.'s ability to meet complex technical demands while positioning itself as a trusted partner in the evolving cloud market. Overall the T.S. business generated strong revenue growth and demand remained strong during the fourth quarter. In the high performance product or HPP segment, Aria AZT Protect continues to build momentum in the operational technology marketplace. During the fiscal third quarter, working through our Gold Star Rockwell automation resell, we deployed at new customers in steel, concrete and lumber industries. In most cases the customers deploying AZT Protect at an individual site and through successful implementation of our solution we pursue expansion within the organization, creating a potential for five to six figures long term relationships with these end user customers. We have settled on a land and expand sales approach with the feedback from our resellers. So what does that mean by land and expand in the steel industry? We recently signed the first customer, one of the US largest steel producer mill site. The customer loved our ability to lock down the environment and already have seen success in stopping an unintentional update that could have taken down the mills production. We have called this feature industrial control lockdown. As we built a track record at that site we have gained trust and traction with other plants within the company operation. Especially now that we have internal reference plant is willing to vouch for us, over time this could result in significant company wide relationship for us. This approach is broadening ideal pipeline for AZT which continues to offer operational technology marketplace a unique effective cybersecurity industrial control solution. This is the same process in which we secure the multi-million dollar opportunity within the global pharmaceutical company in fiscal 2024 which will continue to support AZT Protect for six figure annually for this customer as mentioned in the last quarter's press release. Q3 was the first quarter working with the three largest Rockwell resellers, each which does tens of billions of revenue in the US each year. We talked to each of their top executives in July and the feedback was overwhelmingly positive. Starting, they all feel we're right on track to meet their sales plans for the product which should see strong expansion within the next three to six months after laying out the groundwork in Q3 and Q4. One of these resellers is Rexel USA, industrial leader in supply 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. Here is the feedback quoted. We can now see how to properly position this product and unlike other industrial automation products we sell, the sales cycle is much shorter. It gives us a chance to have conversations at an executive management level with our customers and we are already engaged in opportunities to deploy in large multi-site US customers. They also asked for patience as they position ARIA AZT for expanding revenue opportunities within their large customer base. CED and Sonopi USA echoed similar statements saying they are both excited about the opportunity to grow business in FY26. Now that they have had initial success with selling the product, based on their expert opinion they estimate we are somewhere near the end of early adoption cycle and moving towards revenue acceleration. One of our major wins which was received late in Q2 and announced during the fiscal third quarter was the initial order was to protect energy management equipment at each tower at one of the largest cell towers in South Africa. This came from the South Africa distributor Oryx. Later in the quarter we announced a follow-up order to provide protection for security camera monitoring systems deployed at the same company's towers. This is important development as we currently have ARIA team members on the ground in South Africa to foster stronger relationships. Deployment of these AZT protect installation often requires a customized approach for the first deployment. Specifically involved our team integrated our solver to be used within the system in products supplied by other vendors. As a result the initial deployment process could take longer than we would like. However, once the initial integration is done the result is a sticky solution that can be deployed automatically across each vendor's customers as they deploy or upgrade their products. This ability to add AZT protect to the company's existing industrial IoT system is a new major driver behind our growing pipeline while facing a market segment with little current competition. What this means is that not only can we expand by protecting cell tower industrial IoT infrastructure in other regions of the world but also protect the same type of products

as they are deployed across a variety of industries and sectors. Oryx is extremely bullish on AZT protect in its unique value proposition for large growing industrial IoT market. Looking at the feedback from the three largest rock well resellers in the US combined with the exciting progress with our partner in Oryx we believe we have made tremendous progress and are confident in our ability to maximize our returns from AZT protect. We continue to make prudent investments in the marketing AZT protect which includes conference participation in attending region events held by distributors to build off their existing customer relationships. We finished the quarter with more than \$26 million in cash and cash equivalent while continuing to invest in our AZT product line. Additionally, we repurchased 19,000 common shares on the open market during the quarter and the board of directors authorized another three cents per share quarterly cash dividend. In summary, the TS business continues to generate consistent strong growth while we continue to build our presence with major customers for AZT protect in the HPP segment. Our fiscal fourth quarter at this point is going really well and we are positioned to finish the year ahead of fiscal 2025. CSPI was added to the Russell 3000 index effectively June 30th, 2025 as part of the 2025 Russell index reconstitution which enhances our visibility among institutional investors. Now I will ask Gary to provide a brief overview of the fiscal third quarter in nine months financial performance. Gary.

Gary Levine | Chief Financial Officer:

Thanks, Victor. For the third quarter ended June 30th, 2025, we reported revenue of \$15.4 million compared to \$13.1 million for the prior year. Product revenue grew 29% over last year's third quarter while service revenue of \$5.3 million was slightly higher than the third quarter of fiscal 2024. Gross profit for the three months ended June 30th, 2025 was \$4.5 million or 29% of sales compared to gross profit of \$4.6 million or 35% of sales for the quarter ended June 30th, 2024. Due to our sales mix and reflects higher component costs in the product side of the business. Our engineering and development expenses increased 7% comparing the current quarter to the prior year quarter due to increased consulting on the AZT product. The SG&A expenses for the quarter were up over the prior year by \$0.2 million largely due to increased sales and marketing expenses related to the AZT protect. We had a tax benefit of \$751,000 due to the quarterly loss and a refund of federal taxes for fiscal 2019 of \$296,000 in the quarter. For the nine months, our revenue of \$44.3 million was \$2.1 million over the \$42.2 million in revenue generated during the first nine months of fiscal 2024. The nine month income tax benefit was \$1.5 million allowing us to record a net profit of \$0.1 million or one cent per diluted share of common. The company continues to maintain a robust balance sheet as of June 30th, 2025. We had cash and cash equivalents of over \$26 million. A higher cash balance relative to our liability enhances the company's resources to pay a quarterly cash dividend while executing growth which includes the continued rollout and marketing awareness of the AZT product offering. We spent \$251,000 during the quarter purchasing 19,000 shares of common. Lastly, as Victor mentioned, the board of directors approved a three cent cash dividend for shareholders of record on August 29th, 2025 payable on September 15th, 2025. With that, I will turn it over to the operator for your questions.

Tom | Operator:

Thank you. The floor is now open for questions. If you would like to join the queue to ask a question at this time, please press star 1 on your telephone keypad to join the queue. We do ask if listening on speakerphone this morning that you pick up your handset while asking your question to provide optimal sound quality. Once again, please press star 1 on your telephone at this time if you wish to join the queue to ask a question. Please hold a moment while we poll for questions. And your first question this morning is coming from Brett Davidson. Brett, your line is live. Please go ahead.

Brett Davidson | Analyst:

Good morning. Good

Victor DeLoveau | Chief Executive Officer:

morning,

Brett Davidson | Analyst:

Brett. Pretty exciting release this morning. Awful lot to digest. Gary, you had just mentioned something about consulting expense. Can you guys expand on exactly what that is?

Victor DeLoveau | Chief Executive Officer:

Those were consultants that we additional engineers did some additional high level testing of the product with some of the improvements and enhancements we have made with the product.

Brett Davidson | Analyst:

Is that going to be a recurring thing or is that just a one time deal? It

Victor DeLoveau | Chief Executive Officer:

will probably be for another quarter.

Brett Davidson | Analyst:

Got it. You announced that there was some sort of lumber mill concrete facilities. Can you disclose just generally where the lumber mill is located? Is this a Pacific Northwest thing?

Victor DeLoveau | Chief Executive Officer:

Yes.

Brett Davidson | Analyst:

Good enough. And the concrete thing, what does that look like? I know these things are kind of a regional thing and I don't know that there's maybe some of these entities. There's some ownership overlap in regional or national. I think a lot of these concrete plants are local ownership, small concrete plants. So what does the concrete plant business look like?

Victor DeLoveau | Chief Executive Officer:

It's just basically doing the same thing, protecting the facilities in the machinery that's being worked on the IoT side. Some of these concretes are like 23 sites for one. We were able to get into one and then evangelize to try to get into all 23 sites. Some of these sites have 10 endpoints and some of them have hundreds of

endpoints. That's kind of where I gave you hopefully way more information to let you know what our approach to the market is now. Instead of trying to do an 18-month deal that might take 18 months for a million dollars, try to get it seeded and see if we can move things along a little quicker.

Brett Davidson | Analyst:

So are there any other concrete plants or group of plants that you're currently dealing with or this is just your entry is just dealing with this one? So

Victor DeLoveau | Chief Executive Officer:

the concrete plants, these customers are coming from the resellers. When we do a local event, that customer will show up to the regional event. We'll get to talk to them and tell them what we have to offer and then they allow us to come in, do a POC, POV and then that's where it goes. We're not dictating the customers, the resellers are dictating who they're bringing to the table. Now, once we have success with that industry, of course we're going to go out and try to market to that industry because we already have a credible reference.

Brett Davidson | Analyst:

Well, does that backfeed through the resellers' channels then where they start going back to concrete plants, who are customers and saying, hey, these other folks did this, you might want to look at it?

Victor DeLoveau | Chief Executive Officer:

We would hope so. Yeah, we would hope so. We're doing joint marketing events with these individuals based on success we've already happened. So we're talking at high levels at these organizations. So when we do a marketing event, we can do it at the 75 locations instead of just doing it at one location.

Brett Davidson | Analyst:

Well, thanks a lot for the added color. The release was great. Glad to hear that the current quarter is rocking. So all sounds good to me. Thanks again, guys.

Tom | Operator:

I have a good one.

Brett Davidson | Analyst:

Talk to you soon.

Tom | Operator:

Thank you. Your next question is coming from Joseph Nerges. Joseph, your line is live. Please go ahead.

Joseph Nerges | Analyst:

Good morning, guys. How are you today? Good morning, Joe. One quick question. We released this product in July of 23. I talked about AZG Protect. And now we're 25 months into it. We put quite a bit of R&D. I'm assuming a fair amount of that R&D is directed at AZG. Can you maybe elaborate where we are with that software today? What have we added? What features have we added that might make it a more compelling product today than it was in 23?

Victor DeLoveau | Chief Executive Officer:

OK. Well, the first release was XP the Server 2022. And it had one countermeasure to stop ransomware malware. Today's version, it's Windows and Linux. XP, there are 2025 releases. And it's one universal agent to both Microsoft and Linux. It also has ARM Core support now, which the old version did not. This has 14 countermeasures compared to the one to stop all forms of code-based attacks, including nation-state. It also has the USB lockdown. It also has host-based micro-segmentation to remove threats of lateral movements. It also integrates into ITSIMs. So that was there. And there's probably another 30 plus little additions that customers wanted. There's been a lot of changes from version one to this version. So that's where a lot of the R&D is. And a lot of this came from what customers' needs were.

Joseph Nerges | Analyst:

So we feel we're in a pretty

Victor DeLoveau | Chief Executive Officer:

good position right now

Joseph Nerges | Analyst:

with what we have. I'm assuming that there's not too much that we can't do. You kind of mentioned in the cell tower application that that's something quite different, right? A little bit where we were talking about the black box being, or the microcomputer that was on these towers was very small, CPU capacity, limited storage, and our software kind of worked. Are we tweaking our software at all to work with that environment? Are we doing any R&D to make that work?

Victor DeLoveau | Chief Executive Officer:

Yeah, we're actually doing, yeah, we have to make some changes. Because what we're doing is, I don't want to give too much information about what, we're going to be loading it at the facilities when the box is being burnt in at the core. So we had to make our software work as they built the gold image that rolls out these systems. Same thing with the cameras, same thing with theirs. So it's all Linux based on Linux, different versions of Linux. So yeah, there's been some work, and it hasn't been a lot for us to do, to be honest with you, but working with third parties that are in other countries has been the difficult part. Getting them to move as fast as we move here. But the work hasn't been overwhelming for our engineers, let's just put it that way.

Joseph Nerges | Analyst:

You kind of alluded in your presentation that what we're doing might be something that we can utilize in other areas, other customers, that maybe our competition can't. Am I correct? Is that what you kind of alluded to? Yeah,

Victor DeLoveau | Chief Executive Officer:

absolutely. Yeah, in that Linux space that we're at, the way we're doing things, no one else is doing it the way we're doing it right now. So that's why we have, the people we're working with, Oryx is very excited with the way we go to market and the way we're able to work with their end user customers. You're talking about putting this out to tens of thousands of cell towers over the next 12 to 18 months.

Joseph Nerges | Analyst:

And I'll just one more follow up. There's a third party here, there's obviously the cell tower, there's the visual security, but again we go back to the black box. Yeah, there's a

Victor DeLoveau | Chief Executive Officer:

third party that makes that box.

Joseph Nerges | Analyst:

Yeah, do we know whether or not those boxes are being utilized outside of the cell tower industry? Do we know that other customers? Yes,

Victor DeLoveau | Chief Executive Officer:

yes.

Joseph Nerges | Analyst:

Is there a possibility, is there a possibility of working with them?

Victor DeLoveau | Chief Executive Officer:

Correct.

Joseph Nerges | Analyst:

Yes, all right. Thanks a lot. I'll go back and listen to what other people ask. Thank you, guys.

Tom | Operator:

Thank you, Joe. Thank you, Joe. Thank you. And as a reminder, if you'd wish to join Q at this time to ask a question, you may press star one on your keypad to join the Q. Our next question is coming from Mike Price. Mike, your line is live. Please go ahead.

Mike Price | Analyst:

Good morning. Thanks for taking my questions. You mentioned the early success for Oryx and you talked about the resellers for Rockwell. What about some of the other resellers? I would have thought in particular UFT, protecting water facilities, would have been a big one, but you don't talk about that at all.

Victor DeLoveau | Chief Executive Officer:

Yeah, we could talk about that too. We've made some progress with them. Under some NDA stuff, I can't tell you much more, but we are making progress with that. There's a way we had to go to market with that company and there was a bunch of legal stuff that had to get situated. So we're kind of pushed through that and we're definitely making progress with them and we look forward to some real success in 2026 in our current year.

Mike Price | Analyst:

You once identified the OT market as being potentially \$50 billion and all along I thought that when this catches on, there's going to be exponential growth. Do you have any projections going out 12, 24, 36 months as far as AZT revenues? Here we plot along, it's an 8% increase in revenues for CSPI for the quarter, but you're talking about \$15 million and in the whole space it's a negligible amount. Do you have any projections that you can give us with what you're thinking longer term? Not that I'm willing to

Victor DeLoveau | Chief Executive Officer:

share, no. We have them internally. Okay. All right,

Mike Price | Analyst:

thank

Victor DeLoveau | Chief Executive Officer:

you.

Tom | Operator:

Thank you. There are no further questions in queue at this time. I would now like to turn the floor back to Victor DeLauvo for closing comments.

Victor DeLoveau | Chief Executive Officer:

Thank you. I want to thank our shareholders for their continued interest and support. We have a momentum heading into the end of the fiscal year due to some recent contract wins and the increased activity we are experiencing and encouraging. The resellers are helping raise AZT protect name and it's becoming more widely known and the relationship with Rockwell ensures this will continue. Our goal is to go out there with maximum effort, close deals and once installed, grow that base as we are demonstrating with the South African Seltower Company. We're fortunate to have a TS business that generates the profit to fund the area business and we look forward to updating you on our progress during the fiscal fourth quarter in four-year call in November. Until then, stay safe.

Tom | Operator:

Thank you. This does conclude today's call. You may disconnect your phone lines at this time and have a wonderful day. Thank you once again for your participation.