NASDAQ:CSPI Q1 2026 Earnings Call Transcript

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Operator:

Greetings. Welcome to the CSPI's first quarter fiscal year 2026 conference call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. 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 conference over to your host, Michael Poliviu. You may begin.

Michael Poliviu | Host:

Great, thank you. Hello, everyone, and thank you for joining us to review CSPI's initial results for the fiscal 2026 first quarter, which ended on December 31, 2025, as well as recent operating developments. Today with me on the call is Victor DeLobo, CSPI's Chief Protective 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 forward-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 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 the 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 the 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 factor section of the annual report on Form 10-K and the quarterly report on Form 10Q, File Series and Exchange Commission. Forward-looker statements are based on the 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-looker statements are qualified in their entirety by this cautionary statement and CSPI undertakes no obligation to publicly revise or update any forward-looker 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 DiLello, Chief Executive Officer. Victor, please go ahead.

Victor DeLobo | Chief Executive Officer:

Thank you, Michael, and good morning, everyone. As expected, our first quarter product revenue compared to prior year period reflects tough year-over-year comparables, which obscures the progress we continue to make executing on CSPI core growth strategies in building long-term shareholder value. In the year-ago quarter, we recorded approximately $4.5 million in a one-time product deal that did not repeat in fiscal Q1, 2026, resulting in the decline in total revenue. As I've emphasized on prior calls, our strategic focus is on expanding service revenue and growing our MRR base. In the first quarter, service revenue, driven by ongoing momentum in the technology solution and managed service practice, grew 14.6%. This strength translated into a meaningful improvement in our overall gross margins, which reached 39.3%. The higher margin profile contributed to 171,000 increase in gross profit versus the prior year period. We also continue to gain traction in the market with a differentiated and award-winning AZT Protect cybersecurity solution, supported by both new customer wins and multi-site expansion with existing customers. Overall, our fiscal first quarter results reinforce our confidence that fiscal 2026 is shaping up to be a growth year for CSPI. Our technology solution business continues to lead our progress. Our offerings increase the efficiency and effectiveness of our customers' IT investments in networking, wireless mobility, unified communication, and collaboration, data centers, and advanced technology security. And while all RTS services are performing to plan, our managed cloud and managed service practices continue to excel. We are benefiting from the ever-expanding business and organizational migration to the cloud, and the increased trends for enterprise of all sizes to acquire operation support required once the migration is complete. The primary factor behind this market driver is the growing complexity of the cloud and the unique and specific needs of each enterprise. Microsoft, through its Azure offering, is considered to be the market leader in this space. And our MSP practice is a platinum partner with the company. During our last call with you in December, we mentioned the increased investments we were making in the managed service practice. We have already begun to generate returns from the investment through the signing of new customers. In Q1, we signed new MSP customers that will generate nearly six figures in monthly revenue commencing this quarter. This traction has continued into the second fiscal quarter as we look forward, look out over the remainder of the year. We believe our service segment momentum can continue. Meanwhile, based on our best in class services, Our customer's retention rate remains extremely high, contributing to expanding our gross margins in the service segment. We also achieved meaningful traction with our AZT Protect product suite in the first quarter, delivering year-over-year revenue growth while we are still progressing towards the full market opportunity for our cybersecurity solutions. The quarter reflected several encouraging developments. We secured multiple new sites, customers for AZT, and through our strategic partnership and distribution, continue to expand our pipeline of prospective deployments. Despite being in the market with the RA-AZT for just over a year, we now serve over 46 unique customers, some of whom have multi-site installations on the way and additional expansion opportunities. These customers span a broad range of verticals, including steel energy, manufacturing, water utilities, pharmaceuticals, food, and telecommunication. Importantly, many of the highest value multi-site opportunities, each with potential to develop into seven-figure relationships, remain ahead of us as customers advance through their respective procurement and deployment processes. We have already received approval

Operator:

I believe we may have lost Vic.

Michael Poliviu | Host:

Gary, are you there?

Operator:

Yeah, I'm here.

Michael Poliviu | Host:

Ladies and gentlemen, please stand by. We'll get Victor back on the phone. Yep.

Operator:

One moment, please. I still see his line connected. I will reconnect it again. One moment, please.

Operator:

Yep.

Michael Poliviu | Host:

Again, please stand by.

Operator:

We're trying to get Victor back on the phone here. Hello?

Michael Poliviu | Host:

Victor?

CSPI Marketing Voice:

Hello? How CSPI Technology Solutions Professional Services can transform your IT challenges into a business advantage. We offer five core areas of expertise, including network security, wireless mobility, unified communication, data center solutions, and advanced security.

CSPI Marketing Voice:

Your IT infrastructure is the backbone of your business.

Michael Poliviu | Host:

but managing and maintaining multiple missions... Gary, perhaps we can't get Victor back on the phone, so we continue. Victor comes.

CSPI Marketing Voice:

Can strain your resources and get in the way of executing your core business and IT strategy. CSPI Technology Solutions Managed Services Team can customize... We have Victor's line connected.

Victor DeLobo | Chief Executive Officer:

All right. Hey, Michael, where did we leave off? I didn't realize we dropped.

Michael Poliviu | Host:

Yeah, why don't we just pick up on – well, Victor, it's probably easier if we just pick up from the beginning. If not, we could pick up on the top of page two. Okay. Let's talk technology solutions business. Yeah.

Victor DeLobo | Chief Executive Officer:

Sounds good. Sorry about that, everyone. Our technology solution business continues to lead our progress. Our offerings increase the efficiency and effectiveness of our customers' IT investments in networking, wireless, mobility, unified communication, and collaboration, data centers, and advanced technology security. And while all our CS services are performing to plan, our managed cloud and managed service practices continue to excel. We are benefiting from the ever-expanding business and organizational migration to the cloud, and the increasing trend for enterprises of all sizes to acquire operation support required once the migration is complete. A primary factor behind the market driver is the growing complexity of cloud and unique and specific needs of each enterprise. Microsoft, through its Azure offering, is considered to be the market leader in this space. and our MSP practice is a platinum partner with the company. During our last call with you in December, we mentioned the increased investment we were making in the managed service practice, and we have already begun to generate returns from that investment through the signing of new customers. In Q1, we signed new MSP customers that will generate nearly six-figure in monthly revenue commencing this quarter. Distraction has continued into the second fiscal quarter, and we look over the remaining of the year, and we believe our service segment momentum can continue. Meanwhile, based on our best-in-class services, our customer retention rate remains extremely high, contributing to our expanding gross margin in the service segment. We also achieved meaningful traction with our AZT Protect product suite in the first quarter, delivering year-over-year revenue growth. While we are still progressing towards the full market opportunities, for our cybersecurity solution, the quarter reflects several encouraging developments. We secured multiple new site, initial site customers for AZT Protect, and through our strategic partnership and distribution, continue to expand our pipeline of prospective deployments. Despite having been in the market with AZT for just over a year, we are now serving 46 unique customers, some of who have multi-site installations on the way and additional expansion opportunities. These customers span a broad range of verticals, including steel, energy, manufacturing, water, utilities, pharmaceutical, food, and telecommunication. Importantly, many of the highest value multi-site opportunities each with the potential to develop into seven-figure relationships, remain ahead of us as customers advance through their respective procurement and deployment process. We have already received approval to proceed at several second and third sites, and our team is focused on rapid execution to demonstrate the substantial value AZT Protect delivers in preventing cyberattacks that otherwise can disrupt operations for hours days or even weeks. The case studies developed from our initial industry installations are helpful getting our target customers to understand how exposed they are to operational disasters and how AZT Protect uniquely acts to prevent such disaster. For some, they are learning of the risk as operational technology customers continue to lack effective cybersecurity protection at the level AZT Protect provides. Unfortunately for many, they don't realize their exposure until it's too late, and they are exposed. We continue to believe we have a strong competitive advantage in the space and believe that the market is starting to see us as a resource. The unique procurement process and development criteria for each customer previously mentioned has resulted in various timing delays, which we continue to work through. Our team is resilient and committed, and we aren't letting up. We continue to believe the effort will result in sizable AZT Protect sales for the fiscal year unfolds. In addition to expanding direct pipeline, we are advancing strategic OEM relationships, most notably with Acronis, as they work to embed AZT Protect into their platform. While these integrations require time to mature, they represent highly scalable opportunities with substantial long-term potential. We also conducted our first webinar this quarter with Acronis, which drew nearly 200 attendees and generated more than a dozen demo requests. Engagement levels were strong, reinforcing our view that this go-to-market motion will be an important contributor to our long-term growth trajectory. In summary, we are off to a solid start for the fiscal year, with particularly strong performance in our service business. We remain on track to deliver steady, profitable improvements throughout fiscal 2026. Supported by the infrastructure investments we have put in place to enable meaningful scale. As a result, we expect to generate substantial operating leverage as revenue grows. With that, I will turn the call over to Gary to discuss our recent financial results in more detail. Gary?

Gary Levine | Chief Financial Officer:

Thanks, Victor. Where the fiscal first quarter ended December 31st, 2025, we generated $12 million in revenue as compared to 15.7 million for the year ago fiscal first quarter. Product revenue for the fiscal first quarter of 2025 was 6.7 million compared to product revenue of $11 million for the fiscal first quarter of 2025. Last year's revenue total for the quarter included several one-time transactions with customers totaling approximately $4.5 million, and we didn't have any product orders of that magnitude in the first quarter of this year. Service revenue for the first fiscal quarter increased 14.6%, to $5.3 million from $4.7 million in the year-ago fiscal first quarter. Gross profit for the fiscal first quarter was $4.7 million versus $4.6 million during the fiscal first quarter of 2025. The solid service revenue growth and mix during the quarter drove the gross profit margin increase. Gross profit margins for the first quarter was 39.3% of sales, which was slightly more than 10% higher than the gross margin for the prior fiscal first quarter of 29.1%. Energy and development expenses increased 9.2%, or $858,000, compared to the same period of the prior year as we supported the customization of the AZT Protect deployments and OEM embedding developments. Sales in general and administrative expenses for the fiscal first quarter declined $143,000 to $4 million for the year-ago first fiscal quarter. The company had increased interest income that increased 23% over the prior year on our financing deals and interest on our cash. The company recorded a tax expense of $280,000, which represented a year-to-date effective tax rate of 75.5%. The differential between the company's effective tax rate year-to-date and the U.S. statutory tax rate of 21% is primarily due to state income taxes, changes in the valuation allowance maintained against certain state credits, and non-deductible executive compensation. Net income for the first quarter of fiscal year 2026 was $91,000 compared to $42,000 in the prior year period. Diluted earnings per common share was one cent compared to five cents in the prior year first quarter. As of December 31st, 2025, our balance sheet remains strong with cash and cash equivalents of $24.9 million. We would also like to point out that the decrease in cash from September 30th, 2025 was primarily related to several financing deals that we closed in Q1 26. And we are to collect approximately 3.3 million from financing payments scheduled during the next two quarters. As we noted in the press release this morning, we will be paying a dividend of 3 cents per share on March 12 to shareholders record of February 26. With that, I will turn it over to the operator for your questions.

Operator:

Certainly. At this time, we will be conducting a question and answer session. If you would like to ask a question, please press star 1 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 participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions. Your first question for today is from Joseph Nerges with Seagram Investment.

Joseph Nerges | Analyst, Seagram Investment:

Hello. Good morning, guys. How are you?

Operator:

Good. Good morning, Joe.

Joseph Nerges | Analyst, Seagram Investment:

How are you doing? Okay. A quick accounting question. We keep talking about service revenue. Do we have two categories for service revenue? When you talk service revenue, are we talking managed services or are we talking services beyond managed services? Is there two categories or just one category? for services revenue? You understand my question?

Gary Levine | Chief Financial Officer:

Multiple, Jeff. Yeah. It's, yeah, multiple items, Jeff.

Joseph Nerges | Analyst, Seagram Investment:

Okay.

Gary Levine | Chief Financial Officer:

It's not just one.

Joseph Nerges | Analyst, Seagram Investment:

All right. So then what are we talking about for managed services for the quarter? I think you said, did you say 5.3 million? Is that correct?

Gary Levine | Chief Financial Officer:

Correct.

Joseph Nerges | Analyst, Seagram Investment:

The managed services portion of our services revenue. for the first quarter?

Gary Levine | Chief Financial Officer:

Well, that's the total service revenues inclusive of, you know, the TS division as well as the AZT.

Joseph Nerges | Analyst, Seagram Investment:

Okay.

Gary Levine | Chief Financial Officer:

We don't break it out, Joe.

Joseph Nerges | Analyst, Seagram Investment:

Joe, we don't break it out. Okay. You're not breaking it out between TS and things. I'm just trying to understand how much revenue in managed services do we have?

Victor DeLobo | Chief Executive Officer:

A lot. Yeah, it's a good portion of it. I don't have that number right in front, but it's the majority.

Joseph Nerges | Analyst, Seagram Investment:

Okay, so the majority of the $5.3 million would be the managed services portion of it, okay? All right, let me get past the accounting here. Let's talk about the Acronis just for a second. I noted that from the Acronis website, they changed their, we're going to be rolled into Acronis CyberProtect. That's going to be their product, I understand. Is that correct?

Victor DeLobo | Chief Executive Officer:

It'll be into not just a CyberProtect. It'll be on their front GUI. So even when they potentially want to do a backup, if the customer chooses, they can run our product to look at all the data and all the applications, making sure there's no issues before they back up the data.

Joseph Nerges | Analyst, Seagram Investment:

Okay, so, you know, previously they had a product called Acronis Cyber Backup. Now they changed the name to Acronis Cyber Protect. That's, as I understand, what we'll be rolled into. And are we not selling a Kronos cyber backup? Haven't we sold that in our TS division? We have customers that are utilizing Kronos down there, haven't we?

Victor DeLobo | Chief Executive Officer:

Yeah, correct.

Joseph Nerges | Analyst, Seagram Investment:

So theoretically, we can increase our AZT sales force by incorporating our sales team in Florida who sell the Kronos backup service which would now include AZT. Do you understand my question?

Victor DeLobo | Chief Executive Officer:

It's not really, it's a statement, yes.

Joseph Nerges | Analyst, Seagram Investment:

We're expanding the capability of the backup service for the possibility of adding AZT to it. Correct. And since we have customers, I assume, because we've been representing them for a number of years in our TS division, we must have a number of customers out there just in our division that are utilizing the backup service solely. Okay, so in effect, our sales team in Florida can expand the backup service to include AZT for those customers that want to have that protection.

Victor DeLobo | Chief Executive Officer:

Yeah, if we're doing backup for a customer, you have to understand not all customers we do backup for. There are a few that we do.

Joseph Nerges | Analyst, Seagram Investment:

Well, okay. But whatever few we do can now utilize the ACT adding if they choose to spend the money, yes. Okay. I'll let somebody else jump in. I don't want to dominate the whole thing, but I'll come back and put another question after other people have a chance to ask questions.

Michael Poliviu | Host:

Okay. Thanks, Joe. Thanks, Joe.

Operator:

Your next question is from Mike Price, a shareholder.

Mike Price | Shareholder:

Good morning. Thanks for taking my calls, my questions. With AZT being embedded in the Acronis offering, there should be some predictability. Can you give us an idea of how that translates into revenue? I mean, at some point it would be nice to have this quantified.

Victor DeLobo | Chief Executive Officer:

Yeah. We haven't even fully integrated with building the API, so how that rolls out, Mike, if we ever get that out there that we have some outlook on that, I'll include it. But at this stage, it's way too early.

Mike Price | Shareholder:

And how far out do you think that might be until you give us some idea of a dollar amount?

Victor DeLobo | Chief Executive Officer:

I have no idea, Mike. I'm not going to guess at this stage. Right now I'm concentrating on getting the integration finished.

Mike Price | Shareholder:

Okay. And also it's been five months because of the blackout period that you've been able to repurchase shares. Is that in the plans with, you know, $100 million market cap and the stock within hailing distance of the 12-month low?

Victor DeLobo | Chief Executive Officer:

Yeah, it's always been part of that. Yeah, we've been, you know, unfortunately locked out for a while. It'll open up in the next 48 hours, and we'll do something this quarter. Yeah, we'll be doing something this quarter.

Mike Price | Shareholder:

Okay, and a statement along with that, it would sure show a lot of confidence if the insiders, other than Joe Nurgis, you know, were buying shares also. Just a statement. Okay, thank you. Thanks, Mike.

Operator:

Your next question for today is from Brett Davidson, a private investor.

Brett Davidson | Private Investor:

Good morning, gentlemen. Good morning, Lou. Just got a few quick things. Gary, I think you were talking about the repayments on the financing, the $3 million. The interest, yeah. Yeah, are we still – so we're going to collect $3 million. That number on the balance sheet could conceivably drop, but are we still acting in that financing role? Is it going to drop on the balance sheet, or it's just cycling through to another customer or whatever?

Victor DeLobo | Chief Executive Officer:

It could, Brett. It could, yeah. It just – every customer is a little different, but those are the ones that we've already paid out you know, paid for the product and now we'll be collecting. So sometimes we're taking three year deals for the customer and, you know, the payment structure for all deals are a little different. Okay.

Brett Davidson | Private Investor:

So we're still in that business.

Victor DeLobo | Chief Executive Officer:

Yeah. We're offering it to customers that are high quality customers and it keeps us sticky inside the organization. And it's a good use of our cash. Yeah, you got your claws on them.

Brett Davidson | Private Investor:

So the permission on the second and third sites, I'm just interested in kind of when that occurred. Are we talking about just in the first quarter, or is that continued, or excuse me, in the prior quarter, or is that continuing to the current quarter, some of those second, third sites?

Victor DeLobo | Chief Executive Officer:

The ones that have multi-site, there's two variations, right? The ones that we deal with corporate, and then if they have 50 locations like we did with one of our large pharmaceuticals, they bought it from the corporate level and we pushed it out to those 40 plus. In some cases, all the budgets are separated, so we have to go to, one of the ones I mentioned was that steel company, we have to go to all 20 some odd sites, and we already got the third site, you know, one came in last quarter, one came in this quarter. There's another one in the food industry that we got the second one. Another one in another industry came in actually yesterday for the third site. So yeah, they're, Unfortunately, it would be nice if we could just deal with corporate, take one purchase order and push it all out. In some cases, that's not the case. We have to go to every individual site. It gets easier after the first one because we don't have to do another POC. We just have to go get budget money from them. As I mentioned earlier in the script, that every customer's purchasing process is a little different. We have to abide on how things you know, how each one does that. And sometimes, unfortunately, they are very, very slow and things take way more time than I think it should, but we're at the mercy of the customer.

Brett Davidson | Private Investor:

Well, from the description there, it sounds like this is becoming a more regular occurrence. This is starting to happen with some kind of frequency.

Victor DeLobo | Chief Executive Officer:

Yeah, like last year at this time we had two customers, right? A year later, you know, I mentioned we have 40-something. So, you know, we are doing that where we see the product at one location. We try to get someone who can evangelize the difference between us and some of the competitors out there, why they should spend money with, you know, a small company like us and how we truly do protect the endpoint and lock it down. And if we can get someone who can evangelize internally, it makes it a lot easier for the second, third, and multiple locations that they have. So, yeah, it's getting easier, but it's not easy, right? Every customer is a little different, and getting to know the customers and how they do business is a lot of work. But, you know, we are getting references. Yeah. You know, we are getting references, and the references are helping, right? You know, we're working on a deal right now. They're like, who else do you do business with locally? And we mentioned, he's like, oh, I know that person. Let me call him. If they get thumbs up on ARIA AZT, you know, I don't even have to do the POC. So things like that are happening. You know, to me, it can always be faster, but things are happening in a positive direction.

Brett Davidson | Private Investor:

Yeah, you know, that's exactly what I'm getting at. Yeah, I fully get it that, you know, it's this really tough slog, but eventually, so once, I mean, if you get to the point where, you know, multiple of these relationships start to pay dividends and, you know, one guy's talking to another guy and, I mean, do you get any feel yet of the kind of momentum where this starts to look exponential instead of linear? Um, or still too early, still a little too early, right?

Victor DeLobo | Chief Executive Officer:

You know, we're gathering the data. It's getting a little easier to connect dots, but it's still, you know, like I said, it's only been truly a year, um, of really, really pushing this, this, this product and kind of figuring out the messaging and, uh, you know, every industry is a little different. So, you know, building those, you know, like I had mentioned on the script there that we're putting, you know, these one pages together that represent the industry to try to make it a little easier to understand how we can help them, you know, and why we're a little different than the competitors, where we fit in with those competitors, right? Sometimes we can go alongside of those competitors, you know, they can do the IT side of it while we do the OT side of it, right? And, you know, how we can join, you know, all the logs on the, you know, one interface, So those are the messages that we kind of put together over the last year to try to make it a little cleaner, clearer to the customer, everything to speed up the sales process.

Brett Davidson | Private Investor:

So it sounds like the beginning signs are there, but it just hasn't fully mushroomed yet. But, well, I commend you for the hard work and moving this forward, and I'll try and be patient.

Victor DeLobo | Chief Executive Officer:

Yeah. Yeah. We're moving as fast as. We can. I promise you that. You should know me. I'm not a patient person.

Brett Davidson | Private Investor:

All right. Well, thanks for taking my questions. Thanks, Brett.

Operator:

As a reminder, if you would like to ask a question, please press star 1. Your next question is a follow-up question from Joseph Nurgis. Your line is live.

Joseph Nerges | Analyst, Seagram Investment:

Okay, I'm back on again. Okay, just a little clarification. You elaborated on the expansion of our marketing and managed services, and I'm trying to get the numbers. I heard them once, and I think we heard them through repeat again, where you said that we're adding some new customers in managed services. Did you say that you thought there would be monthly revenues going forward of $100,000? I'm trying to get the numbers that you gave.

Victor DeLobo | Chief Executive Officer:

Joe, we had a really good – we closed some nice deals. So a little clarity. When you close an MSP deal, right, it takes various times to get them set up and actually start billing them. Over the last – we closed some – before the end of last year, we closed some nice deals. It took us a little time to get those up and running. And as of last quarter, we are starting to bill – net close to $100,000, a little less than $100,000 additional per month of net new revenue for the MSP. That's net new revenue.

Joseph Nerges | Analyst, Seagram Investment:

That's extremely good. That's what I thought you said. And that's a total of all the customers you've added.

Victor DeLobo | Chief Executive Officer:

Yeah, just the additional increase per month.

Joseph Nerges | Analyst, Seagram Investment:

All right. Well, great. Thank you. That clarification, I thought that's what you said, but I just wanted to make sure that the numbers were added up to what I was thinking of. Thanks a lot. Thanks again, guys.

Victor DeLobo | Chief Executive Officer:

Yeah, no problem, Joe.

Operator:

We have reached the end of the question and answer session, and I will now turn the call over to Victor for closing remarks.

Victor DeLobo | Chief Executive Officer:

Thank you, everyone, for joining us today. As I mentioned at the top of the Today's call, we made progress on all fronts during the first quarter and aggressively pursuing our opportunities for the remainder of fiscal 2026, both on the services side of the business as well as the AZT Protect. And we look forward to reporting on our progress with you in May. In the meantime, thank you to our shareholders for their support, to our team for the dedication and effort, and we wish everyone a good remainder of the day. Goodbye for now.

Operator:

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.