NASDAQ:CSPI Q3 2026 Earnings Call Transcript

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Kelly | Conference Operator:

Good day, everyone. Welcome to CSPI's third quarter fiscal year 2026 conference call. At this time, all participants have been placed on the listen-only mode, and the floor will be open for questions and comments after the presentation. It is now my pleasure to turn the floor over to your host, Michael Poliview. The floor is yours.

Michael Poliview | Host:

Thank you, Kelly. Good morning, everyone, and thank you for joining us to review CSPI's financial results for the fiscal 2026 third quarter. which ended on June 30, 26, as well as recent operating developments. Today with me on the call is Victor Dellovo, 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 to please re-queue if you have additional questions. In advance, thank you for your cooperation with this process. Statements made by CSPI's management on today's call regarding a company's business that are not historical facts may be overlooked in statements as those identified in federal securities law. The words may, will, expect, believe, anticipate, project, plan, intend, estimate, and continue, as well as similar expressions are intended to identify overlooked statements. Overlooked 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 than the influence, the accuracy of the statement, 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 of Form 10Q, Files of 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 statement whether as a result of new information, future events or otherwise after the date they're out. With that, I'll turn the call over to Victor Dellovo Chief Executive Officer. Victor, please go ahead.

Victor Dellovo | Chief Executive Officer:

Thank you, Michael, and good morning, everyone. The technology solution business performed near our expectations during the fiscal third quarter, reflecting solid growth in our cloud and managed service business. However, our third quarter financial performance was impacted by what we believe are two relatively short-term factors. First, while the technology solution business continued to generate solid The second factor impacting our top-line performance is a continued ramp of our AZT Protect business in the longer sales cycles associated with larger enterprise opportunities. We made meaningful progress during the quarter. However, I believe we can and will do better. As we pursue larger accounts, we continue to add new land and expand customers while expanding relationships with existing customers as our customer base grows. We continue adapting to each customer's unique deployment timelines and procurement process for rolling out additional protected sites after the initial installation. We recognize that every customer has different priorities and often multiple competing projects that can delay expansion. Our ability to execute

within this environment continues to improve. We believe several initiatives will position us to expand both the number and size of AZD Protect opportunities over the next six months. First, we are nearing the end of the 18 to 24-month sales cycle for several large six-figure opportunities and remain optimistic about converting a number of those into contracts. Second, we continue to see growing opportunities for AZD Protects to become part of an OEM customer solution. During the quarter, we completed the integration of our AZT Protect into several OEM products and are beginning to see a growing pipeline from this market segment. While OEM sales cycles are lengthy, they create attractive long-term recurring revenue opportunities once integrated. A good example is our relationship with Acronis Software, where the integration has been completed and we understand marketing materials and SKUs are on track for a fall launch. Another example is the work in South Africa, where our OEM partner, a large telecommunication customer, is now working on a third purchase order with an AZT Protect embedded in the deployed solution. With the integration challenges and unpredictable timelines largely behind us, we are making meaningful progress in the South African telecommunication market. We are applying the lessons learned from this deployment to other OEM relationships currently under development and expect continued progress in this segment over the coming quarters. A third initiative implemented during the quarter was the continued evolution of our direct sales organization focused on Fortune 500 customers. Our experience with distributors, OEMs, and large direct customers has reinforced that our sales organization must effectively serve all three channels while addressing the unique requirements of each customer. We believe the changes made during the quarter better position our sales team to shorten the sales cycle, broaden the sales funnel, and improve execution as we enter into the new fiscal year in October. We remain committed to the land and expand strategy. Our approach is to secure the initial deployment at one customer site, validate the AZT Protect performs as expected within the customer's existing cybersecurity infrastructure, and then deployment across additional sites. This expansion phase has taken longer than anticipated, largely because of the evolving stakeholders' alignment and internal review process. But we believe our enhanced sales organization will help accelerate expansion by engaging higher decision makers within customers' organizations. Changes within the customer organization often require us to rebuild momentum, while some customers seek additional validation before approving broader deployment. In other cases, IT organizations initially believe their existing infrastructure adequately protects OT environments when expansion opportunities become larger enterprise projects. This creates an opportunity for us to educate customers on the unique security requirements of operational technology. The data we've collected from existing deployments combined with strong customer references has enabled us to build compelling business case, demonstrating why AZT Protect is a better solution for OT environments. While these dynamics are a natural part of selling into complex and evolving markets, we believe we are becoming increasingly effective at influencing the customer's decision. We made solid progress with AZT Protect during the third quarter by signing New customers and expanding deployments within existing accounts. In addition, we achieved 100% renewal rate on all customer sites reaching their one-year renewal period. We have also advanced into final stages of the selection process within several major corporations, demanding continues to be supported by the growing number of cyber attacks disrupting operations worldwide. as well as increased awareness of AI-driven threats and so-called friendly fire incidents generated by internal systems. Traditionally, cybersecurity solutions rely heavily on continuous patching, which is often impractical in OT environments. Friendly fire incidents where IT inadvertently sends faulty updates into production environments can be just as disruptive as an external attack. AZT Protect prevents these production disruptions while eliminating the need for ongoing OT application security patching. To date, no AZT Protect customer has experienced a breach. We have also developed an extensive catalog of AI-driven exploits emerging through 2026 that AZT Protect is designed to stop. One highly publicized example was the OpenAI ChatGPT related attack involving Hugging Face. Based on the publicly available information, we believe ACT would have prevented the attack and we have publicly shared those findings. We continue to believe ACT Protect has little effective competition in defending against these emerging AI attacks while eliminating the need for code level security patching in OT environments. We remain intensely focused on expanding our sales opportunities as we enter the new fiscal year. Turning to our technology solution business, it once again served as our primary revenue generator despite ongoing hardware shipment delays. Our offering continues to improve the efficiency and effectiveness of our customers' IT investment across networking, wireless, mobility, unified communication, data center infrastructure, and advanced

cybersecurity. A managed cloud and managed service practice continues to grow at a healthy pace. We continue to benefit from the ongoing migration to the cloud and the increasing demand for managed operational support after those migrations are complete. A key driver remains the growing complexity of cloud environments and the unique requirements of enterprise customers. During the quarter, we entered the professional sports market with the signing of a six-year, seven-figure managed service agreement with a nationally recognized sports team. We expect to issue a joint press release in the We also signed a three-year managed service agreement with a food distribution customer expecting to generate mid-six figures annual recurring revenue. Looking ahead, we believe our best-in-class service organization, exceptional high customer retention, and continued adoption of cloud-based service will drive further service growth and support continued gross margin expansion. During the quarter, service gross margin increased 1.3% compared to a prior year period. While we recognize there is still work to do before fully realizing the value of our award-winning product and customer service, we have made significant organizational improvements that position us well for the continued growth. With that, I'll turn the call over to Gary to discuss our financial results in more detail.

Gary Levine | Chief Financial Officer:

Thanks, Victor. For the third quarter ended June 30th, 2026, we generated $14.4 million in revenue compared to $15.4 million that the third quarter ended June 30th, 2025. Product revenue was $9.9 million compared to $10.2 million for the prior fiscal year third quarter. Service revenue for the quarter was $4.5 million compared to $5.3 million in the prior year, reflecting the vendor delays issue mentioned earlier. Gross profit for the quarter was $4.3 million compared to $4.5 million for the same prior year period. Gross margin for the third quarter grew by more than 100 basis points to 30.1% of sales compared to the year-ago fiscal third quarter. Gross margin was 28.8% for the sales in the prior year's third quarter. Gross margin realized from product revenue for the quarter was 20.7% compared to 15.7%. were the third quarter of fiscal 2025. While this margin realized for service was 51.2% as compared to 53.9% for the year ago quarter. Research and development expenses increased 5% to $832,000 compared to $791,000 the same prior year quarter. as we supported customization of the AZT protective deployments and OEM embedding developments. Sales in general, administrative expenses for the fiscal third quarter increased 3% to $5 million from $4.9 million a year ago fiscal third quarter. The company grew other income during the quarter by 58.7% due to the increase in physical transactions with customers. During the third quarter, we recorded several expenses, including an increase in variable compensation to the TS division and costs related to the buyout sale of the UK pension, which increased our operating loss for the quarter to $1.5 million from $1.2 million in the prior fiscal third quarter. With the other income earned on our net, our net loss was $846,000 or 9 cents per share of common for the third fiscal quarter compared to net loss of $264,000 or 3 cents per share of common in the prior year's third quarter. Our strong balance sheet continues to provide us with resources to finance customer purchases. And as of June 30th, 2026, we extended terms on over 20 transactions. We finished the quarter with cash and cash equivalents of $24.7 million. And the balance sheet continues to provide us with the necessary resources to execute our growth strategies for the managed service business and the AZT Protect product offering, as well as paying a dividend of 3 cents per share, and we purchased approximately 13,000 shares of common stock during the quarter. Turning to our results for the nine months of fiscal 2026, revenue was $42.4 million compared to $44.3 million in the same period the prior year. Gross profit for fiscal nine months ended June 30th, 2026 was $13.1 million or 31.9% of sales compared to $13.2 million and 29.9% of sales. The company generated $1.4 million on other income and realized the tax benefit of $654,000 during the first nine months of fiscal 2026. During the same period of fiscal 2025, the company generated $1.1 million in other income and realized a tax benefit of $1.5 million. The company's net loss for the nine months of fiscal 2026 was $491,000 or 5 cents per common share. as compared to a net income of $100,000 or one cent per diluted common share for the comparable period during fiscal 2025. Lastly, the Board of Directors approved a dividend of three cents per share of common to be paid on September 15th, 2026 to shareholders of record on August 28th, 2026. We will now take your questions.

Kelly | Conference Operator:

Certainly, the floor is now open for questions. If you have any questions or comments, please press star one on your phone at this time. We ask that while posing your question, you please pick up your handset if listening on a speakerphone to provide optimum sound quality. Please hold for just a few moments while we poll for questions. Your first question is coming from Joseph Nurgis with Segrin Investments. Please pose your question. Your line is live.

Joseph Nurgis | Analyst, Segrin Investments:

Yeah, good morning, guys. How are you today? Good, Joe. Good, Joe. Let me dive in on the OEM direction you're going. I'm assuming that Cronus would be the one OEM you're talking about currently, right? Mm-hmm.

Victor Dellovo | Chief Executive Officer:

Yeah, there's other ones that we're in the process of working with also.

Joseph Nurgis | Analyst, Segrin Investments:

Okay. And is there an OEM – Were you referring to an OEM in the Internet of Things, IoT? Were you dealing with an OEM in that respect, in that area?

Victor Dellovo | Chief Executive Officer:

Well, it's all in that area. There's a couple OEMs we're dealing with where they make boxes, and we're trying to get integrated on their platform. There's other OEMs in South Africa that they make other equipment, which... I can't mention right at this second but they make certain equipment which again we're trying to get embedded on their product so as soon as the product goes out the door you know we are we're there and then we just turn up the license and you know do a true up every month or every quarter.

Joseph Nurgis | Analyst, Segrin Investments:

Any additional OEMs in the U.S.?

Victor Dellovo | Chief Executive Officer:

Yes there's three other OEMs in the U.S. right now we're talking with at different stages.

Joseph Nurgis | Analyst, Segrin Investments:

Okay. And one other question on that is, you know, we announced the Kronos deal. It goes back, I looked at the history, back in September last year. And you mentioned it in the call about the length it's taking to embed these things. Do we envision that same length on these other deals? I mean, you know, I could see a year seems like a long time, almost a year. Are we hoping that we can shorten that process?

Victor Dellovo | Chief Executive Officer:

It's not us, Joe. It's never us. It's always them, to be honest with you. They're larger organizations that truly move at a slower pace just due to the fact, I guess, of pure size, sign-off, and various things. It's never us. We're always there quickly. We're always waiting, let's put it that way. And there's Nothing else I think that we could possibly do to speed these large, large multi-billion dollar companies to move faster. And because of our size, it's hard to move these guys. I can promise you we do stay on top of it constantly every week, maybe multiple times a week to try to move things along as fast as possible. You know, it's with the Cronus.

Joseph Nurgis | Analyst, Segrin Investments:

Some of it is out of our control.

Victor Dellovo | Chief Executive Officer:

95% of it's out of our control. Anything we can control, we have a plan, we have a timeline, and we try to meet it.

Joseph Nurgis | Analyst, Segrin Investments:

Just one other thing, and this goes to another point. The Hugging Face attack, you know, the press release on Monday. I don't think some people realize we do have a... How can I say it? We have a partnership that we have not announced that I know of with a very large partner that deals quite heavily with the federal government. This partner also, from my research, has an embedded cybersecurity lab in their thing. I'm just wondering, I'm sure the federal government is really high up on these things. These hacks, I'll call it cyber attacks by software, no less. And I'm just wondering, have we talked to this partner as far as getting a test with the government somehow?

Victor Dellovo | Chief Executive Officer:

Again, I know who you're talking about, which I can't mention, but we do talk to them. We have standard calls every two weeks. And again, because of their size, we have to move at their pace. And what they tell us is minimum of what goes on between them and the government directly. I have no idea, Joe, to be honest with you.

Joseph Nurgis | Analyst, Segrin Investments:

I know, but finally we have something that might appeal, let's put it that way, if nothing else, to somebody at the government level. That's all I'm saying, if we can finally get through the bureaucracy.

Victor Dellovo | Chief Executive Officer:

I think that's why we just put that out, just to let everyone know. Thank you for having me.

Joseph Nurgis | Analyst, Segrin Investments:

I'm going to extend one more question. Just recently, a lot of attacks in the last couple of weeks with the utilities, the water utilities, wastewater utilities. We've got two partners, UFT, and I see recently we signed another partner with Sitco. Have we gotten any feedback from those guys in the last couple of weeks with what's happening in that area as far as – Updating, some of the customers looking to do some updates.

Victor Dellovo | Chief Executive Officer:

Yeah, we have a standard call with UFT. Citgo is a newer company that we signed up, so that relationship is still working. But we have a good long-term relationship with UFT because not only are they a cloud customer of ours, that's how the relationship started probably back four or five years ago, because of Tesco, one of the companies they own, that concentrates on the water and waste and water plants. That's how they became a reseller for the product. Again, because of their size, they have a process. And the process is, A, get through legal, two, which takes forever. Second stage was get it into their lab, which took a while also. And then they wanted three customers of theirs to use the product for a period of time. Before they pushed it out or presented it to all their customers, they had confidence that AZT would work in different products, whether it was Siemens, Emerson, you name it, Honeywell, and different environments. When they put their name on it, because their goal is to sell it as a product and service directly from their sales team, that they had confidence that it would represent them correctly. And so that has taken probably we're in about nine months now. We will be announcing some new things that I won't tell you right now, but you'll see them in the next two or three weeks, some things that we'll be doing together.

Joseph Nurgis | Analyst, Segrin Investments:

All right. Thanks. I'll get back in the queue. Thank you, guys.

Victor Dellovo | Chief Executive Officer:

Thanks, Joe.

Kelly | Conference Operator:

Your next question is coming from Will Lauber with Visionary Wealth Advisors. Please push your question. Your line is live.

Will Lauber | Analyst, Visionary Wealth Advisors:

Yes. Victor, if you can kind of expand a little bit on it. I'm not quite sure I understand the Salesforce new strategy. I've noticed, I guess, from LinkedIn that a number of the salespeople that were there last year are no longer with you guys. And if you can kind of explain... Just development in the sales force and what the new strategy is in a little bit more detail.

Victor Dellovo | Chief Executive Officer:

Yeah, it's not a new strategy. Because of the sales cycle, due to individual financial issues, everyone has their own financial capacity of how long they can wait for a sale to close. We needed to kind of get into some sales people that were used to a longer sales cycle. That came from the marketplace and that's kind of what we just, you know, ended up, you know, replacing three out of the four salespeople already that left the

organization. Yeah, and, you know, one of them is already up and running. One started this week. One starts next week. Yeah, and, you know, we're still focused on the OEM. It's a specific business. We're working through all the resellers as we normally have, but we're also putting a heavy emphasis of us, as in Aria, talking to the customers directly to try to move this along as fast as possible. It's not always easy for the resellers to give us the contact info, but as time goes on, the trust builds so they know that we're going to treat that customer with white glove service.

Will Lauber | Analyst, Visionary Wealth Advisors:

Okay, so would it be safe to say that I guess the sales force is going to be more compensated on commission rather than salary, or how is that?

Victor Dellovo | Chief Executive Officer:

I'd rather not. If we want to have a sidebar on that, we can talk about that in this audience.

Will Lauber | Analyst, Visionary Wealth Advisors:

Okay. Okay, and then if I could just get a little bit, when you had mentioned the 18 to 24 month sales cycle, is that because the customers are in current contracts with other cybersecurity contracts and that's when it expires or is it something that with the big companies it just takes that long for them to kind of test it and go through everything or what's kind of the driver of that?

Victor Dellovo | Chief Executive Officer:

It's a combination of both, I would say. It could be one or the other. One is coming up for renewal, or sometimes the Windows 10, that's a big push where some of our competitive products are not supporting any longer, so that would drive them to look. A lot of it's political, to be honest with you. You've got the OT guys who love it, want to move fast, and then you've got IT folks who have to go because it's their budget. They bring it into a lab. They take their time. They've got to go through. There's no rhyme or reason. We do know now for sure that if it comes from IT... We have to engage with them immediately because if they have the purse strings, they are making the ultimate decision. Even if the OT guys love it, if they don't control the budget, they can influence the sale, but they won't make the ultimate decision on that. So some lessons learned over the last year or so on how these larger organizations and the political piece of it kind of rolls out. I just kind of gave an 18 to 24. We have closed some other business that took a lot shorter. Wastewater, we closed some businesses that took six weeks. But the large $700,000 million deals, I would say it could take 12 months to 24, somewhere in that range. If I can do anything to show on that, you can believe that I'm trying.

Will Lauber | Analyst, Visionary Wealth Advisors:

Okay. And with Acronis, I know that they held at least two joint webinars with you all. And I guess that was even before that the product was integrated into their system. Have you gotten any indication as to what kind of interest that they're seeing from their customers?

Victor Dellovo | Chief Executive Officer:

Yeah, we kind of had to put everything kind of on hold, to be honest with you, just because there was no way for their sales team to sell it, right? Getting products integrated into their system takes quite a bit of time. It's just a process they have because, you know, it touches multiple systems and, you know, it's a process. So not only did we have to do, they did significant testing with it. They also had to get it integrated so they'll be able to sell it, you know, not just in the U.S., but all over the world. So what that's going to look like, we're going to have to reengage with the sales team, the renewal team. You know, we're going to have to kickstart it up again. But the VPs of sales said until this is fully integrated and all the SKUs are available, you need to kind of slow your roll. And that's kind of where we're at right now. So, you know, promises of October. By October 1st, everything should be integrated, and then we'll go full steam ahead trying to, you know, educate the sales team, get the renewal team on board, and, you know, push it out.

Will Lauber | Analyst, Visionary Wealth Advisors:

Okay. All right. I'll go back on the queue. Thank you.

Kelly | Conference Operator:

Your next question is coming from Mike Price. Please close your question. Your line is live.

Mike Price | Analyst:

Good morning. I'm just... Can you give us an idea of what the completed product integration with Acronis software means when it's totally rolled out in terms of revenue? What are we going to see from that?

Victor Dellovo | Chief Executive Officer:

I have no idea yet.

Mike Price | Analyst:

Okay. And can you tell us how much of the, I haven't seen the 10Q, how much of the receivables are being financed? Both short and long term?

Gary Levine | Chief Financial Officer:

Probably, well, I've broken out on them. It's probably about 30 or 40% longer term.

Mike Price | Analyst:

And the dollar amount? I mean, last quarter, it was 7.7 and 8.6 over a year.

Gary Levine | Chief Financial Officer:

Yep. And let's see. Right now, it's... 8.3.

Mike Price | Analyst:

On the longer, over a year? Yeah. So effectively, the receivables that are financed are going to become cash. Is that correct? So you have cash and receivables that are being financed equivalent to about $40 million? $40 million.

Gary Levine | Chief Financial Officer:

Cash and, yeah, yeah. Oh, you mean if you add those together. Yeah, exactly.

Mike Price | Analyst:

Okay. I mean, just trying to get an idea of the company where you have cash and receivables that are being financed at $40 million, and we're looking at less than an $80 million market cap.

Gary Levine | Chief Financial Officer:

Okay.

Mike Price | Analyst:

Can you tell us how many shares were repurchased last quarter? 13,000. 13,000?

Gary Levine | Chief Financial Officer:

Yeah.

Mike Price | Analyst:

Okay. Is the intent still to buy shares, especially at this price?

Gary Levine | Chief Financial Officer:

Absolutely. Yes.

Mike Price | Analyst:

Okay, my final question is, you know, we appreciate the press releases about, you know, OpenAI's attack on Hugging Face could have been prevented, and going back a year and a half, what happened with CrowdStrike, and the fact that the old Microsoft operating systems, anybody using it can be protected. And these are great talking points, and you said it's hard to move the needle on billion-dollar or multi-billion-dollar companies. The market has to be aware of AZT and what it can do. And having 100% retention is really saying something for the product. Is there not somebody out there that CSPI can partner with that can move

the needle on these multi-billion dollar companies faster than what we've seen?

Victor Dellovo | Chief Executive Officer:

That's what we're trying to do, Mike. Yeah, we're trying to do that, Mike. You know, that's why we're working with the Rexel Datacoms of the world, you know, the CEDs, the Sonopars, you know, because of the relationship they have. That's why we're leveraging those resellers to try to, you know, get them to walk us in as one of their, you know, premier partners. And that's, That trust, you know, when talking to the salespeople, Mike, they're like, okay, well, I know Aria. I know you guys are set up. I know you checked all the boxes. But, you know, this is my best customer, right? I'm a little nervous that if I walk you in. So you have to build trust with that salesperson. And that doesn't take, you know, one drink on a Friday night. You know, it takes time. You know, they only have four or five customers each. So it's getting them to walk us into the large enterprise hand in hand. That takes some time. And that's kind of why we're working with these folks is so we can use their reputation because they've been doing business with these companies. But it's still a process because they're like, okay, we get to the table and I don't want to share who we're talking to right now, but there's a lot of large organizations. Our pipeline has grown tremendously from quarter to quarter with real companies with real budgets. I think the team did a great job even turning the sales team over. They did a really good job. This gentleman, George, has been with us now for six months. He did a really good job picking it up and keeping the ball moving on some of these large opportunities. The South African stuff, I was on a call with them too. There's probably 15 really, really good opportunities that we've been working with for six, seven months now. When I started into this side of it, Mike, I had no idea it was going to take this long because the world of IT does not take this long. But the OT world, it just does. So we're trying to leverage every partner we have, every resource we have, to try to build that rapport with the end user. But there is a process that they go through. It goes in multiple labs. It has to be working for 90 days. And then it goes through a purchasing process, potentially. And when they look at AZT, they look at other products along with it, five or six or seven other products. There's one I mentioned in the script that we're down to two. There was 15 different options they were looking at. And then when I want to say this is 18 months in the making, it's 18 months and we're down to two. Hopefully at the end of the day, we're the ones that they choose. And it's a big, big opportunity.

Mike Price | Analyst:

Well, it just seems like ARIA and AZT should be household names. And the expectation is if it catches fire, it'll catch fire and we'll see exponential growth. and then, you know, everybody's happy. But it's like you said, it's just seems to be taking forever. So it's very frustrating from a from an investor standpoint. But I appreciate your I appreciate your diligence. Yep. Appreciate your diligence.

Victor Dellovo | Chief Executive Officer:

Thanks, Mike.

Kelly | Conference Operator:

Your next question is coming from Brett Davidson with Invest Letter. Please pose your question. Your line is live.

Brett Davidson | Analyst, Invest Letter:

Good morning. I just got a couple quick questions here. The router ban by the U.S. government, the foreign-made routers, is that impacting the delivery of product?

Victor Dellovo | Chief Executive Officer:

Not for us, no. These are just the name brands that are all U.S.-based. It's just with all the AI build-out, it's memory hard drives, processors, it's Everything's just taking a long time. It's on the average around 200 days right now compared to 30 to 60. We just keep closing the business and the funnel will just keep going. When it gets released, we'll just keep processing it. That's all we can do. We don't make the product, so I have no control of when we get it.

Brett Davidson | Analyst, Invest Letter:

Is this going to... Again, I realize you're talking about third parties, but What do you anticipate the resolution of this looking like? Are you going to get caught up over the next six months, or is this just going to dribble in? The delay is just going to be extended continuously, maybe not expanding, but it's going to be a constant struggle for the next six months, a year to get your hands on this material. Any insight at all?

Victor Dellovo | Chief Executive Officer:

I would say it's probably at least a year of this. I don't have a crystal ball, and they may have better, but they're not giving us any. As long as the big boys keep buying all the product out there, this is not going to go away anytime soon. I don't want to guarantee that, but that's the feeling right now. It's going to take some time for this to flush out.

Brett Davidson | Analyst, Invest Letter:

I'm sure you've seen the spend numbers, but I mean, I'm trying to remember which one it was, spent $800 billion this past quarter, $200 billion from Google. Those numbers aren't sustainable, so I'm thinking maybe in the next year, yeah, this is going to start to resolve itself.

Victor Dellovo | Chief Executive Officer:

Yeah, someday this will wash out, but I don't know exactly when. My goal is to keep building the recurring revenue business on the MSP, the cloud business, and AZT, those three things that I can kind of control. And that's what we're focused on. You know, the hardware software side of it is definitely, you know, it's a significant part of the business and it pays a lot of bills, right? But that's the part that I don't have any control of.

Brett Davidson | Analyst, Invest Letter:

And this impacted the gross margin hold back on you getting hold of inventory.

Victor Dellovo | Chief Executive Officer:

It held back the gross profit, right? Because we weren't able to recognize revenue, which that's kind of why a big piece of why I think we were off on the quarter is just our backlog increased by 63% or something like that.

Brett Davidson | Analyst, Invest Letter:

65%.

Victor Dellovo | Chief Executive Officer:

65%, yeah.

Brett Davidson | Analyst, Invest Letter:

All right. Well, thanks so much. Thanks. Thanks, Brett.

Kelly | Conference Operator:

Once again, if there are any questions or comments, please press star 1 on your phone at this time. Please hold a moment while we pull for any additional questions. You do have a follow-up question from Joseph Norges with Segrin Investments. Please pose your question. Your line is live.

Joseph Nurgis | Analyst, Segrin Investments:

Yeah, just one more question. Gary, you mentioned that we're out of that with the UK now with the with their pension system. Is that it?

Gary Levine | Chief Financial Officer:

We bought out the... No, we sold it to an insurance company.

Joseph Nurgis | Analyst, Segrin Investments:

Okay, and what did that hit us? How much did that cost us in the quarter? A couple hundred thousand?

Gary Levine | Chief Financial Officer:

Yeah, it was the actuarial and legal costs came through, and now it was a couple hundred thousand.

Joseph Nurgis | Analyst, Segrin Investments:

Okay, so we have no more problem with – we're finished with that long-term pension because obviously the German operation was sold a long time ago, and the U.S. operation doesn't have that same – we don't have that with our – No, we have the life insurance that funds that indirectly.

Gary Levine | Chief Financial Officer:

It's not part of the – But our pensions that we have in the company are funded through that. That's what the cash surrender value on the balance sheet is.

Joseph Nurgis | Analyst, Segrin Investments:

Okay. All right. Well, thank you very much. Appreciate it, guys.

Gary Levine | Chief Financial Officer:

Yep.

Joseph Nurgis | Analyst, Segrin Investments:

Thanks, Joe.

Kelly | Conference Operator:

There are no additional questions in queue at this time. I would now like to turn the floor back over to Victor Dellovo for closing remarks.

Victor Dellovo | Chief Executive Officer:

Thank you, everyone, for joining us today. will continue to work towards maximizing our opportunities for the remainder of fiscal 2026 and fiscal 2027, both on the service side of our business as well as with AZT Protect, and we look forward to reporting our progress with you. In the meantime, thank you to our shareholders for their support, to our team for their dedication and effort, and we wish everyone a good remainder of their day. Goodbye for now.

Kelly | Conference Operator:

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