NASDAQ:OSS Q4 2025 Earnings Call Transcript

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Operator | Conference Operator:

Thank you. ... ... Thank you. Thank you. Thank you. Thank you. Thank you.

Sylvie | Conference Operator:

Good day and welcome to the One Stop Systems, Inc. Fourth Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will have the opportunity to ask questions during the question and answer session. As a reminder, this call is being recorded. As part of the discussion today, the representatives from OSS will be making certain forward-looking statements regarding the company's future financial and operating results including those relating to revenue growth, as well as business plans, booking, the company's multi-year strategy, business objectives, and expectations. These statements are based on the company's current beliefs and expectations and should not be regarded as a representation by OSF that any of its plans or expectations will be achieved. Please be advised that these forward-looking statements are covered under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and that OSS desires to avail itself of the protections of the safe harbor for these statements. Please also be advised that actual results could differ materially from those stated or implied by the forward-looking statements due to certain risks and uncertainties, including those described in the company's most recent annual report on Form 10-K, subsequent quarterly reports on Form 10Q, current reports on Form 8K, and recent press releases. Please read these reports and other future filings that OSS will make with the SEC. OSS disclaims any duty to update or revise its forward-looking statements except as required by applicable law. It is now my pleasure to turn the conference over to OSS President and CEO, Mr. Mike Knowles. Please go ahead, sir.

Mike Knowles | President and CEO:

Thank you, Sylvie. Good morning, everyone, and thank you for joining today's call. 2025 was a defining year for one-stop systems and reflects a successful execution of a multi-year strategy to reposition the company around high-performance, ruggedized compute platforms that enable artificial intelligence, machine learning, and sensor processing at the edge. During the year, we saw that strategy translate into meaningful financial and operational progress. The strength of our performance throughout 2025 also created an opportunity to take an important strategic step for the company. In December, we completed the opportunistic sale of our wholly owned subsidiary, Bresner, and received proceeds of $22.4 million, subject to final closing working capital balances. OSS acquired Bresner on October 31, 2018, for approximately $5.6 million, and we believe this transaction unlocked significant value for OSS's shareholders. While Bresner had been an important part of our history, the progress we made across OSS's core business positioned us to evaluate this asset from a position of strength. When we received an attractive offer for the business, we viewed it as a compelling opportunity to unlock that value, simplify our operating structure, strengthen our balance sheet, and concentrate our resources on the higher margin, higher growth, rugged enterprise class compute opportunities that are driving the next phase of OSS's growth. As a reminder, following the transaction, Bresner's historical financial results are now reported as discontinued operations, and the results we are discussing today reflect the performance of the core OSS business. This transition effectively positions OSS today as a pure play provider of ruggedized AI compute platforms for edge applications. As a result, OSS enters 2026 as a more focused company centered entirely on delivering high-performance compute solutions for both defense and commercial markets. With that strategic foundation in place, we exited 2025 with a strong fourth quarter performance, including revenue growth of more than 70% year over year, record quarterly gross margins of 58.5%, and positive net income from continuing operations of $2 million. These results reflect growing demand for our technology across both defense and commercial markets. as well as the benefits of operational improvements and product focus we have implemented over the past several years. So with that context, I'd like to walk through several of the key developments that drove our performance in 2025 and discuss why we are excited about the opportunities ahead in 2026 and beyond. Turning to the operational progress we've made during the year, we continue to see strong momentum as customers increasingly adopt our rugged enterprise-class compute platforms. As a result of our strong fourth quarter performance, full year 2025 revenue came in above the high end of our previously communicated guidance range of $30 to $32 million. The quarter benefited from favorable customer demand and strong operational execution, which allowed us to complete several shipments earlier than originally anticipated, contributing to a stronger than expected finish to the year. Overall demand for high performance computing at the edge continues to expand. as AI, ML, autonomy, and sensor fusion become central to next-generation defense and commercial systems. OSS is uniquely positioned at the intersection of these trends, where customers require powerful compute solutions that can operate reliably in demanding environments outside of traditional data centers. One example of this is the continued development of our solutions on the P-8 Poseidon aircraft, a long-range, multi-mission maritime patrol aircraft used for anti-submarine warfare surveillance and reconnaissance operations. To date, OSS has secured more than $65 million in total contract revenue associated with the PA program, including over $23 million awarded since the beginning of 2025. These awards reflect the continued expansion of the platform and the growing role of our rugged storage solutions play in enabling the aircraft's critical mission systems. Most recently, we announced $10.5 million in new awards from the U.S. Navy and a leading U.S. defense prime. which represent the largest aggregate orders we have received to date tied to the P8 program. Importantly, these awards are expected to contribute to revenue in 2026 and continue into 2027, providing continued visibility into future program revenue. The P8 remains one of several multiyear programs that demonstrate the durability of OSS's platform strategy and the increasing demand for rugged high performance compute infrastructure supporting next generation defense systems. Another example of our expanding defense relationships is our growing partnership with Safran Federal Systems, one of the world's leading high-technology defense contractors. During the fourth quarter, we received a $1.2 million follow-on production order from Safran for rugged 4U short-depth servers supporting naval and aircraft military applications. This order followed an earlier award in 2025 and brought the current aggregate order value to approximately $1.9 million. Based on the early success of the program and expanding platform requirements, we now expect this relationship to generate more than $7 million in cumulative production orders over the next five years, highlighting the potential for continued growth as the program scales. More importantly, we believe there are additional opportunities to deploy our solutions within Saffron as the requirement for compute power grows across their defense system. The last defense program I want to highlight today involves next-generation enhanced vision and sensor processing systems for U.S. Army combat vehicles. In January 2026, we announced a new agreement with a leading U.S. defense prime contractor to design and develop ruggedized, integrated compute and visualization systems to deliver an enhanced vision system to augment vehicle driving and maneuverability. This program involves GPU-accelerated sensor processing systems designed to ingest and process real-time video and sensor data, enabling improved situational awareness and object recognition for vehicle crews operating and maneuvering in complex environments. Importantly, this engagement deepens our relationship not only with the U.S. Army's research and development labs, but also with a defense prime contractor that we believe further validates our capabilities. Our existing 360-degree situation awareness system remains under testing and evaluation with the U.S. Army, while this enhanced vision system represents a separate development initiative expected to undergo initial testing at the Army Ground Vehicle System Center late 2026. While both programs are in the early stages, we believe they represent two potentially transformative opportunities as the Army continues to modernize its vehicle fleet with AI-enabled sensor fusion and autonomous capabilities. We believe our work supporting both the U.S. Army's Innovation Lab and a leading defense prime to support next-generation vision and sensor processing systems showcases our best-in-class technologies and strong position on this emerging platform. These programs highlight the company's growing role at the intersection of several key trends shaping next-generation defense systems. Modern military platforms are rapidly integrating artificial intelligence, sensor fusion, and real-time data processing to accelerate decision-making on the battlefield. Enabling these capabilities requires powerful, rugged computing infrastructure designed to operate at the tactical edge, often in highly constrained, mission-critical environments. As global defense opportunities continue to emphasize situational awareness, autonomy, and data-driven operations, we believe OSS is well-positioned to support these evolving requirements. Our rugged and scalable enterprise class compute platforms are designed specifically for these demanding environments, and we believe the growing adoption of AI-enabled systems across defense platforms creates a significant opportunity for OSS in the years ahead. Beyond defense, we are also seeing increasing adoption of our rugged enterprise-class compute platforms across a growing number of commercial applications that require the types of powerful capabilities that we provide. In February 2026, we announced a new engagement with a commercial robotics customer manufacturing autonomous construction and mining equipment. For this application, OSS was selected to support advanced robotic systems designed to operate in complex real-world environments. Importantly, we were able to win this program by displacing an incumbent solution, highlighting the strength of our technology and the value customers place in our ability to deliver high-performance compute capabilities in demanding edge environments. Robotics platforms increasingly rely on powerful compute infrastructure to process large volumes of sensor data, enable real-time decision-making, and support autonomous operations. These systems require reliable high bandwidth and low latency compute solutions capable of operating outside of traditional data center environments. We believe this engagement highlights a broader trend we are seeing across the commercial market where emerging autonomous use cases are creating real and growing demand for rugged high performance compute infrastructure at the edge. Another example of our expanding commercial opportunities is our engagement with a Canadian based integrator of passenger cabin systems for the commercial aerospace industry. During the year, we announced an initial $1.5 million order to supply lighting control units and column integration controller units designed for deployment across commercial aircraft platforms. These systems are DO-160 qualified, meaning the stringent environmental and reliability standards required for aviation applications and are expected to support passenger cabin control systems across multiple aircraft deployments. We expect this program to generate approximately $6 million in revenue over the next three years with recurring production orders as the platform continues to scale. Programs like this demonstrate how OSS technologies are increasingly being adopted across regulated commercial platforms where reliability, performance, and long product life cycles are critical. Finally, we continue to expand our relationship with a leading medical imaging, OEM, where our compute platforms support advanced breast imaging systems designed to enable noninvasive cancer detection. During the year, we received a $2 million follow-on production order for our next-generation liquid-cooled compute systems, which have become the standard platform supporting this customer's breast scanning devices. This award represents the transition of the program from a successful development phase into volume production. Based on current production ramp, we expect this engagement to generate more than $25 million in cumulative revenue over the next five years, highlighting the potential for OSS technologies to support next-generation medical devices. Programs like this demonstrate how the same high-performance compute capabilities we've developed for demanding defense applications are increasingly enabling innovation across commercial sectors such as healthcare. New and expanding relationships support the strong demand we experienced throughout 2025 and set the stage for continued growth in 2026. Despite the year-long continuing resolution, delays in defense awards, and extended lead times for certain components, OSS generated a book-to-bill ratio of approximately 1.2x, reflecting continued growth in defense and commercial customer orders. This level of demand provides an important indicator of the momentum we are seeing across our pipeline and supports our expectations for continued revenue growth in 2026 and beyond. Importantly, as we expand our presence across multi-year platform programs, we believe we have greater visibility into future revenue opportunities than we have historically had as a company. Alongside the momentum, we continue to invest in advancing our technology platform to support the next generation of AI-enabled systems operating at the edge. As a result, research and development remains a critical component of our strategy, and we can continue to work closely with customers on customer-funded development programs that allow us to design and deploy new compute architectures tailored to emerging applications. These engagements not only strengthen our relationships with key customers, but also create opportunities for future production programs as those technologies move from development into deployment. Many of the programs we discussed earlier today began as development efforts where we worked alongside customers to design highly specialized compute solutions for demanding applications. As those systems mature and transition into production platforms, they can create multi-year revenue opportunities for USS. We expect higher levels of customer-funded development to occur in 2026, supported by new defense and commercial development efforts. At the same time, we can continue to advance our core technology roadmap. During the fourth quarter, we led the way in our market with the introduction of our next-generation PCIe Gen 6 product portfolio, which is designed to address the rapidly increasing demand for native processing requirements associated with artificial intelligence and machine learning. PCIe Gen 6 is a middle-aged and new-age group of educators who have a capability to promote and develop a role in enabling the next generation of AI accelerators and GPUs. high-speed support systems, and compute architectures required for AI applications at the edge. We believe these technology investments position OSS well to support the growing demand for high-performance compute infrastructures as AI-enabled systems continue to expand across both defense and commercial platforms. As we look ahead to 2026, we believe OSS is entering the year with strong momentum. Demand for high-performance compute at the edge continues to expand as AI, ML, autonomy, and sensor-driven applications become increasingly central to next-generation systems. These trends are creating growing demand for rugged high-performance compute infrastructure capable of operating in challenging environments outside of traditional data centers. Across our defense markets, we're seeing increased interest from government organizations and defense primes as military platforms continue to incorporate AI-enabled sensor processing, autonomy, and real-time decision-making capabilities. At the same time, we are beginning to see similar requirements emerge across commercial industries, such as robotics, aerospace, and healthcare. The platform programs and customer engagements we have discussed today give us confidence that OSS is well-positioned to benefit from these trends as we continue to expand our presence across both defense and commercial markets. As we plan for 2026, we are also closely managing several operational factors, including supply chain dynamics. In particular, we are seeing longer lead times for certain components, including memory, which may impact the timing of certain shipments throughout the year. For 2026, we expect continued revenue growth in the range of 20% to 25%, supported by our growing pipeline of platform opportunities, increasing customer engagements, higher customer-funded development activities, and a continued transition of development programs into production deployment. We expect gross margins of approximately 40%, reflecting product mix and an increasing contribution from customer-funded development programs, which is an important component of our strategy to advance new technologies alongside our customers. At the same time, we expect to generate positive EBITDA and adjusted EBITDA, while continuing to invest in key areas of business, including sales expansion and customer support resources, that support growing pipelines and deepening relations with strategic customers. In closing, 2025 represented an important milestone in the evolution of OSS. We delivered strong financial performance, executed on our strategic plan to sharpen our focus on the OSS platform, and continued to expand our presence across a growing number of defense and commercial platforms that rely on high-performance computing at the edge. With a strong balance sheet, expanding customer relationships, and a growing pipeline of opportunities driven by the adoption of AI-enabled systems, we believe OSS is well-positioned to continue building momentum and delivering long-term value for our shareholders. We also believe our strengthened balance sheet provides the flexibility to pursue selective strategic acquisitions that could complement our technology platform, expand our customer base, and enhance our capabilities over time. Finally, I want to thank our entire team for their dedication, innovation, and relentless focus on delivering results for our customers and shareholders. So with this overview, I'd like to now turn the call over to Dan.

Dan | Chief Financial Officer:

Thank you, Mike, and good morning to everyone on today's call. As a reminder, on December 30, 2025, the company closed a definitive agreement to sell our Bresner business. All operations, assets, liabilities associated with Bresner, including the gain recognized on the sale, have been classified as discontinued operations. Our Q4 results reflect a number of important financial milestones and records. First, we achieved robust top line growth of 70.2%, which drove revenue to the second highest quarter in our history. we achieved record gross margins of 58.5%. This reflects favorable mix in pricing, and it showcases the strong value that we provide to our customers. Third, higher sales, record gross margin, and disciplined expense management produced record quarterly net income from continuing operations. And finally, With the December sale of Bresner and the October registered direct offering of Common Stock, we ended the year with the strongest balance sheet in our history, which included only $6.8 million in total liabilities, no debt, and $33.4 million in cash, cash equivalents, and restricted cash. We believe the company is in a strong position, and with a solid backlog and a robust pipeline, we are on track to achieve our 2026 guidance and to execute on our growth and profitability objectives. Now for a quick overview of Q4 2025 financial performance. For the fourth quarter, we reported total revenue of $12 million compared to $7 million last year and $9.3 million for the 2025 third quarter. The 70.2% year-over-year increase in total revenue was primarily the result of higher revenue for the development and production of custom server products for defense customers, higher shipments of data storage projects for a defense prime customer, shipments of server products to a medical device customer, and shipments of compute and server products for an autonomous maritime application. Gross margin in the fourth quarter was a quarterly record of 58.5% compared to 9.4% in the prior year quarter. As a reminder, gross margin in the prior year quarter was impacted by a $1.2 million contract loss. Excluding this charge, gross margin for the 2024 fourth quarter was 26.8%. The 31.7 percentage point increase from the prior year was primarily due to a more profitable mix of products shipped this year. In 2025, gross margin benefited from both operational efficiency and a favorable product mix. We continue to expect variability in gross margins quarter to quarter based on absorption, product mix, and program lifecycle. On a sustaining basis, we continue to target OSS segment margins in the mid-30s to mid-40s. Total fourth quarter operating expenses increased 21.8% to $5.1 million. This increase was predominantly attributable to higher R&D expenditures, reflecting targeted investment in new product development. We expect R&D expenses for 2026 of approximately 10% to 12% of annual sales. For the fourth quarter, the company reported record GAAP net income from continuing operations of $2 million or $0.08 per diluted share compared to a net loss from continuing operations of $3.4 million or $0.16 per share in the prior year quarter. The company reported non-GAAP net income from continuing operations of $2.4 million or $0.09 per diluted share compared to non-GAAP net loss from continuing operations of $2.9 million or $0.14 per share in the prior year quarter. Adjusted EBITDA from continuing operations, a non-GAAP metric, was $2.5 million compared to an adjusted EBITDA loss from continuing operations of $2.8 million in the prior year fourth quarter. Turning to the balance sheet. As of December 31st, 2025, OSS had total cash and cash equivalents of $31.2 million, restricted cash of $2.2 million, and no debt outstanding. Working capital increased to $45.3 million at December 31, 2025, compared to $24 million last year, reflecting a significantly higher cash balance and 176% increase in our AR balance, reflecting revenue growth in 2025. As Mike mentioned, for the 2026 full year, we expect revenue growth in the range of 20% to 25%, gross margin of approximately 40%, and positive EBITDA and adjusted EBITDA. As in prior years, we expect some seasonality in our revenue, with second half revenue higher than first half. However, we expect this ramp to be less pronounced in 2026 as compared to 2025. For 2026, we expect approximately 40% of our full year revenue to be recognized in the first half of the year and 60% in the second half. We also expect negative EBITDA in the first half of the year to be offset by positive EBITDA in the second half of the year. As we enter 2026, we remain focused on disciplined execution, including managing our supply chain to convert customer demand into revenue, profit, and cash. We also remain focused on continuing to drive growth by investing in our technology, pursuing M&A opportunities, and securing new platforms that may provide sustained multi-year revenue streams. As always, we look forward to updating you on our success. This completes our prepared remarks. Operator, please open the call to questions.

Sylvie | Conference Operator:

Thank you, sir. Ladies and gentlemen, if you do have any questions at this time, please press star followed by one on your touchtone phone. You will then hear a prompt that your hand has been raised. And should you wish to decline from the polling process, please press star followed by two. And if you're using a speakerphone, we ask that you please lift your handset before pressing any keys. Please go ahead and press star 1 now if you have any questions. First, we will hear from Scott Searle at Roth Capital. Please go ahead, Scott.

Scott Searle | Analyst, Roth Capital:

Hey, good morning. Thanks for taking the questions. Hey, Mike. Hey, Dan. Congrats on the quarter, and congrats on getting the Bresnau deal done.

Mike Knowles | President and CEO:

Thank you very much, Scott.

Scott Searle | Analyst, Roth Capital:

Maybe for starters, looking at 2026, nice guide. I'm wondering if you could talk a little bit about the visibility that you've got into that number. Maybe... as well, kind of the unfactored opportunity pipeline that you've talked about. And you hinted at this as well a little bit just in terms of some of the timelines. Obviously, with the current military actions ongoing, you know, is that delaying the ability for decisions to get made in the near term? Obviously, you know, it's good in the longer term when you think about autonomy and edge AI being adopted in these types of conflicts, but wondering what that's doing to the near-term decision-making process.

Mike Knowles | President and CEO:

Yeah, just as a top level on that, Scott, I think, you know, our visibility in our pipeline is still as strong as we start 2026 as we were in 2025. We continue to expand opportunities, commercial defense, as I noted. Still strong pipeline supporting our growth objectives organically, so we feel good about that and where we're progressing and the momentum we've been building in that area. We're encouraged this year that there's actually a defense budget. As I noted in my remarks, we had the full year continuing resolution and the new administration coming on board, so contracting of awards last year in terms of timing was a little bit challenging at times. But this year, a budget in place, we've seen a little bit better movement in that respect. However, as in past with conflicts like we're seeing today and the quick movement and reestablishment of operational funds to support that, sometimes that will cause a little bit of delay in the contracting system as there are other higher priorities in certain areas. So we'll continue to monitor that as it goes throughout the year. But as of right now, we don't anticipate that'll be an impact on the full year. It just could be, again, impacted on timing from month to month or quarter to quarter.

Scott Searle | Analyst, Roth Capital:

Gotcha.

Dan | Chief Financial Officer:

And I might just add just a little bit on the timing. So I think as we put together our guide, we feel very strong about the demand environment. I think that some of the bookings that we've already released press on for Q1 support that. So really strong in the demand environment. What we've taken into account in our guidance is some of the supply chain and production lead times. We are seeing extended supply chain lead times. And so that does guide the conversion of those opportunities into revenue.

Scott Searle | Analyst, Roth Capital:

Gotcha. So Dan, just to clarify, you are already accounting for memory and other component issues within that 20 to 25% outlook. And then wondering as well, kind of how you're thinking about military government applications versus the commercial mix, you know, for the year?

Dan | Chief Financial Officer:

Yeah, I'll start on it. Yes, our guide, you know, we look at a range of risk and opportunities, but certainly that guide takes into account our expectations for longer lead times from the supply chain.

Mike Knowles | President and CEO:

Yeah, and as we're looking at the mix, I mean, I'll just reiterate, as we're seeing in that market, that the memory impact has been fairly noticeable. So we have projected that into guidance and continue to monitor that. We have a fairly diverse supply chain of partners we work with, and our designs are somewhat flexible. So we have levers to pull to help to address that moving forward. And then as for a defense commercial, we still remain – well aligned in our ratios, they can change quite a decent amount from quarter to quarter based on opportunities and timings and awards. As we've noted before, we've generally been around the 50-50 area. However, any given quarter or period, we could go 10%, 15%, 20% in either direction. No real impact on the strategy. Both markets need our componentry. Our hardware is generally agnostic to market. We use similar servers and defenses we use in commercial. So we're able to move and adjust quickly to where demand is in either market.

Scott Searle | Analyst, Roth Capital:

Gotcha. And if I could, two last ones. On the OPEX front, Dan, I'm wondering, can you calibrate us in terms of the first quarter? Looking at the fourth quarter, I would imagine that's somewhat normalized for seasonality. But just to give us an idea about it, how we go into the first quarter, and that progresses throughout the year. And then, Mike, now with the balance sheet, now with the opportunity set, with you guys getting to sustained positive EBITDA and the balance sheet, M&A starts to come into play, becomes more realistic. How active are you guys on that front? What is the pipeline looking like? And if you could put some parameters around how you're thinking about it in terms of size and timeline to accretion. Thanks.

Dan | Chief Financial Officer:

Yeah, I'll start on the operating expenses. Yeah, so we do expect somewhat lower operating expenses in 2026, most of that being driven by R&D. We made some one-time investments in R&D in 2025 that we don't expect to recur. So, you know, I think we mentioned our guidance for R&D expenditures in 2026 will be about 10-12% of revenue, so a bit of a step down from 2025. In terms of the time phasing of that throughout the year, I would expect R&D to be somewhat higher in the first half of the year compared to the second half of the year. So you can think of about 60% of our R&D expenditures in the first half of the year, about 40% in the second half of the year. And that's really driven by the timing of customer-funded R&D efforts, which we deploy our engineering resources towards and away from internal resources, internal investment.

Mike Knowles | President and CEO:

And Scott, on the M&A part of the question, so yeah, we have ramped up efforts on our strategy in that area. I've been working a funnel of opportunities since I joined the company, just for the point in time we knew when we would have the levers to be able to be engaged in that kind of activity. And as we've noted in the financial performance, we believe we have some of those levers now to do that. So we have increased our activity on that front. I would say we have a decent funnel of opportunities that we're evaluating across both the hardware adjacent capabilities and potential for software capabilities that we could add to the company that would allow us to provide more integrated solutions and gather larger footprints and capabilities on edge platforms. In terms of timeline, I would just say that we look at this like we want to do the right deal that aligns to the strategy of the company, moves it forward, and makes sense to what we're doing. And so we won't be rushed into doing a deal, but we're actively engaged and we find the right deal, the right value that advances the company along with our strategy and performance, then we will do so.

Scott Searle | Analyst, Roth Capital:

Great. Thanks so much. I'll get back in the queue.

Operator | Conference Operator:

All right. Thanks, Scott.

Operator | Conference Operator:

Next question will be from Eric Martinuzzi at Lake Street.

Sylvie | Conference Operator:

Please go ahead, Eric.

Eric Martinuzzi | Analyst, Lake Street Capital Markets:

Yeah, Mike, congrats as well on the quarter and the guide for the upcoming year. You talked a little bit about the R&D investment. I'm curious to know on the sales front, are we adding folks in our sales and distribution, sales or marketing, at least as far as the 2026? What's the plan for headcount there?

Mike Knowles | President and CEO:

Yeah, with the performance we've had, we're always evaluating our overall staff and sales and where we're going. So we're always making adjustments in capability, access, whether it's through hiring people onto staff or utilizing distributors or consultants in certain areas. So we continue active across all those fronts. And so as we continue to grow, we will always look at what's the best method or approach for us to continue to accelerate pipeline identification and conversion to bookings so we can stay on the growth rate organically that we've indicated our pipeline can support and potentially grow that. So we treat those as opportunistic based on people, markets, et cetera. But our intent is we keep focused on that all the time and are always looking to expand where we can move and continue to grow the company or accelerate its growth.

Eric Martinuzzi | Analyst, Lake Street Capital Markets:

So let me ask it a different way. So to support the sales growth of 20 to 25%, does that require additional hiring? If so, are we talking 10 to 15% increase in sales heads?

Mike Knowles | President and CEO:

Yeah, we think with the investments now in our sales team, Salesforce, we can support the growth rates that we've noted.

Eric Martinuzzi | Analyst, Lake Street Capital Markets:

Okay. All right. And you highlighted in the press release regarding the outlook that the higher customer-funded development sales as compared to 2025. I'm curious to know, is this coming from the same customers? Is this coming from additional customers? In other words, is there potential for new logos? What's the mix kind of between new logos and existing customers in that customer-funded development?

Dan | Chief Financial Officer:

Yeah, Eric, I think it'll be a combination. So, you know, even some of the awards that we've already announced, including on the ground combat vehicle opportunity with a defense prime, that does involve some customer-funded developments. We'll see that converting to revenue throughout the year. And then we also have some additional opportunities that are in the pipeline now that would represent new customers.

Operator | Conference Operator:

Okay. Thanks for taking my questions. Thanks, Eric.

Sylvie | Conference Operator:

Next question will be from Brian Kinslinger at Alliance Global Partners. Please go ahead, Brian.

Brian Kinslinger | Analyst, Alliance Global Partners:

Great. Thanks, guys. It's been a great transformation. My first question is, with the partnership with the Defense Prime you announced, I think it was January, to develop the enhanced vision system for Army vehicles, A, what's the addressable market opportunity for a product like this in a production environment? How many vehicles might this be integrated with? And then, is there already an RFP that the prime is bidding on with this technology, or is it just in development phase so that they can bid on RFPs in the future?

Mike Knowles | President and CEO:

Yeah, Brian, thanks for the question and joining in. So, it's an early stage development program that, as we mentioned, will complete this year and transition into testing. So there's not a formal RFP for deployment or production of this capability. It will roll through testing, evaluation. The system is somewhat agnostic to combat vehicle type. So there would be opportunities for multiple combat vehicle acquisition offices to evaluate the technology versus their requirements, their funding lines, and any deployment requirements or needs for that. And so we will, as the system moves through testing, of course, engage with those customer sets and follow that as it mows through. You know, the benefits could be in a wide range of scale for depending on how the Army might move that forward in terms of one or multiple combat vehicle classes. The exciting part for us is that the U.S. Army, generally, if they decide to form a program of record and deploy a system across vehicles, uh these are gonna buy things in tens and hundreds that usually can end up in uh in the thousands and uh those would represent the kind of the larger end you know more transformative type of program awards for the company great and then uh as it relates to the low end of revenue guidance i think i think uh one of the analysts asked about visibility how much of the low end of revenue guidance using the uh growth rate

Brian Kinslinger | Analyst, Alliance Global Partners:

comes from what's already in backlog or orders in contract? I'm not sure if you answered that. And then do you expect traditional revenue seasonality or even more pronounced with the long lead time? Just curious how you think about that.

Dan | Chief Financial Officer:

Yeah, I'll jump in on the seasonality. So we do expect, you know, we always kind of see this kind of increase as we go throughout the year. We do expect that in 2026, and you're correct, that's driven largely by supply chain lead times as well as some production lead times in converting some of the orders that we have in backlog as well as some of the orders that we secured in Q1 into revenue. Roughly, though, we expect about 40% of our revenue in the first half of the year, about 60% of our revenue in the second half of the year. So that's somewhat less pronounced than we saw in 2025. Great.

Operator | Conference Operator:

Thank you so much. Thank you, Brian.

Sylvie | Conference Operator:

Ladies and gentlemen, this does conclude our question and answer session for today, as well as the conference call. We would like to thank you for attending. And at this time, ask that you please disconnect your lines. Enjoy the rest of your day.

Operator | Conference Operator:

Thank you.