NASDAQ:OSS Q2 2026 Earnings Call Transcript

Generated on 8/9/2026

Sylvie | Conference Operator:

Good day and welcome to the One Stop Systems second quarter 2026 conference call and webcast. 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, bookings, 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 OSS that any of its plans and expectations will be achieved. Please be advised that these forward-looking statements are covered under the safe harbor provisions of the Private Securities Legislation 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 10-Q, current reports on Form 8-K, 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. We believe our second quarter performance builds upon the strong start we established in the first quarter and demonstrates the continued success of our multi-year strategic growth plan and growing demand for rugged enterprise class compute at the edge. In fact, our year-over-year growth rate in revenue for the second quarter accelerated from what we delivered in the first quarter and we achieved the strongest quarterly bookings result in our history. Before discussing our second quarter performance in greater detail, I want to remind everyone that our second quarter results reflect the opportunistic sale of our wholly owned subsidiary, Bresner, in December of 2025 for proceeds of $22.4 million. As a result, Bresner's historical financial results are now reported as discontinued operations, and the results we are discussing today reflect the performance of the remaining core OSS business. Today, OSS is a pure-play provider of ruggedized AI and high-performance compute platforms for edge applications. We entered 2026 as a more focused and scalable company, fully aligned around delivering market-leading enterprise-class compute solutions to defense and commercial customers. We believe our performance during the first half of 2026 is already demonstrating the benefits of this transition and reinforcing the earnings potential of our go-forward strategy. Looking at our operational performance in the second quarter, we delivered strong results with revenue increasing 62.3% year-over-year to $9.3 million, reflecting growth across both our defense and commercial businesses. Second quarter revenue growth was primarily driven by increased sales of liquid-cooled server products to a medical imaging OEM supporting a breast cancer screening application. Sales of short-depth server products engineered for military applications aboard Naval Vessels and Aircraft, and Sales of Compute Products Supporting Autonomous Construction and Mining Equipment. Importantly, each of these programs began with development, engineering, and qualification work performed over the past several years and has now advanced into larger-scale, multi-year production and deployment orders. We are also seeing meaningful progress in expanding our customer base with multiple new customers contributing to revenue in Q2 2026. We believe the combination of an expanding customer base and a growing number of large multi-year programs provides evidence that our strategic plan is working. These positive trends have also built longer duration relationships that we believe are providing greater visibility into our business with more predictable recurring revenue. For the second quarter of 2026, customer funded development was also an important contributor to our revenue growth. increasing 145% year-over-year to approximately $944,000. These engagements allow us to work closely with customers early in the development of next generation platforms, designing and qualifying purpose-built compute solutions for their specific applications. While the timing and ultimate production opportunity associated with each engagement can vary, we believe this work strengthens our customer relationships, expands our technical position within their platforms, and creates a pathway to potential future production revenue. During the quarter, our revenue mix included a higher level of customer-funded development, early prototype and low-rate initial production activity. These earlier stage programs generally carry lower initial gross margins due to smaller production volumes and higher levels of engineering and manufacturing activity. As these programs mature and transition into higher volume production, we believe they have the potential to generate both greater revenue contributions and improve gross margins over time. Progression from development to production that is contributing to our revenue growth is also evident in our strong bookings performance. During the quarter, we generated over $15 million in new bookings that we expect to deliver in 2026 and 2027. Year to date, we have secured more than $30 million in new bookings, resulting in a book-to-bill ratio of approximately 1.7. Bookings for both second quarter and year-to-date periods are record amounts for the company, and to put this performance into perspective, our bookings through the first six months of 2026 nearly equaled our total product revenue for the full year of 2025. Second quarter bookings were driven by several important program wins across both defense and commercial markets. First, we announced an $8.4 million initial contract from a leading defense and technology solutions company. We expect the first shipments to commence in 2026, and to contribute to revenue throughout the year. We believe this platform has the potential to contribute approximately $44 million in total revenue over the next four years. Second, we received an initial order valued at over $500,000 from a renewable energy technology company that focuses on generating clean energy for data center applications. Follow-on orders are expected to exceed $1 million year-over-year and anticipated to scale to $10 million opportunity over the next five years. Since announcing the initial order in April, we received an additional order of nearly $1 million as the customer prepares for the commercial launch of its renewable energy-powered data center solution. Third, we received a $1.4 million order for short-depth servers from a government systems integrator. This order from the second quarter was on top of a nearly $600,000 order in the first quarter. Our relationship with this customer is expanding and we expect continued demand into the future. Subsequent to quarter end in July, we announced a $2.2 million initial production order from a commercial robotics customer. This order followed an initial purchase order received in February and marked the successful transition of the program from prototype development into production deployment. Based on the customer's anticipated deployment plans, we believe this program could generate cumulative orders of approximately $10 million to $15 million over the next five years. Taken together, these program wins reflect a combination of expansion within existing customer platforms and the addition of new customers across defense and commercial markets. They also demonstrate a clear shift in the size, duration, and composition of our bookings. As I discussed in our first quarter call, our orders are becoming larger, more programmatic, and increasingly connected to multi-year deployments across a broader customer base. Since 2023, our average order size has nearly tripled. and during the past 12 months, we have added a growing number of programs with meaningful multi-year revenue potential. In fact, to date, OSS is supporting 14 programs with estimated multi-year revenue potential exceeding $42 million compared to just one program three years ago. Supporting the momentum we are seeing in revenue and bookings is a continued expansion and maturation of our pipeline of opportunities. We continue to take steps to build a more disciplined pipeline aligned with our defense and commercial go-to-market strategies, technology roadmap, and applications that we believe can scale into meaningful multi-year production programs. Within the defense market, we are pursuing a growing number of opportunities within the U.S. Department of Defense, research laboratories, and defense organizations that are evaluating future compute architectures for advanced AI, sensor processing, autonomy, and situational awareness applications. These engagements position OSS early in the development lifecycle and provide opportunities to work alongside customers as they define requirements, test new technologies, and prepare next generation platforms for deployment. We are also advancing a new classified program opportunity and pursuing additional programs across the U.S. Army, including applications that require high-performance compute and data processing in rugged and space-constrained environments. We believe this activity reflects growing awareness of OSS and increasing relevance of our enterprise-class compute capabilities across next-generation warfighting platforms. In parallel, we are seeing encouraging customer interest in commercial and defense applications designed to harness our PCIe Gen 6 architecture. PCIe Gen 6 represents an important advancement in data transfer performance and is expected to support increasingly demanding AI, machine learning, and sensor-intensive workloads. We are actively engaged with prospective customers on initial Gen 6 opportunities and expect the first customer programs to emerge in the near future. Underlying this pipeline growth are strong and durable market dynamics. AI and machine learning and sensor fusion workloads are increasingly moving beyond traditional data centers and into vehicles, aircraft, ships, and other edge environments. The combination of higher revenue, strong bookings, and stable gross margin provide OSS with greater capacity to invest in people, technology, and sales capabilities needed to support our continued growth. An important personnel addition during the quarter was Paul P.K. Averna, who joined OSS as Vice President of Business Development and Growth. P.K. brings more than 30 years of experience across defense, commercial technology, and mission critical applications. He will focus on expanding our market reach, deepening engagement with defense and commercial customers, and helping convert our growing pipeline into new development and production opportunities. PK will also assume the responsibility previously held by Robert Kalebaugh, our Vice President of Sales, who intends to retire following several years of dedicated service to OSS. We sincerely thank Robert for his leadership and significant contributions to the company. Robert will remain engaged with OSS on a part-time consulting basis, helping facilitate a seamless transition and supporting our continued growth initiatives. Given PK's extensive industry experience, familiarity with our team, and understanding of our markets, we believe he is a natural successor who will help us maintain our momentum and continue advancing our growth strategy. We are also continuing to invest in advancing our technology platform to support the next generation of AI-enabled systems operating at the edge. Research and development remains a critical component of our strategy, and we are increasingly working alongside customers through customer-funded development programs to design purpose-built compute architectures for emerging applications. These development programs position OSS early in the lifecycle of next-generation platforms, deepen our customer relationships, and create a potential pathway to future production programs. As we discussed earlier, a majority of our second quarter revenue and recent bookings can be traced back to internal research and development and customer-funded development efforts initiated two, three, or four years ago that have now progressed into deployment and production. That history reinforces why we intend to continue growing customer-funded development activity and investing in our technology roadmap during the second half of the year. The development work we undertake today is intended to create the next generation of test and pilot programs, production deployments, sustainment revenue, and future technology refresh opportunities. Following quarter end, we reached an agreement to resolve a commercial dispute involving a former customer relationship related to events dating back several years ago. While OSS disputed the claims, after evaluating the relevant business, financial, and other considerations, the company determined that resolving the matter for approximately $6.25 million was in the best interest of the company and its shareholders. The financial impact of this settlement is reflected in our second quarter fiscal 2026 results. Settlement does not constitute an admission of liability, is unrelated to our current operations and growth programs, and fully resolves the dispute. Importantly, we believe this resolution allows the management team to remain focused on executing our strategy and supporting the significant opportunities we see across our defense and commercial markets. I also want to briefly address a housekeeping matter, an upcoming renewal of our shelf registration statement, which is scheduled to expire later this month. Maintaining an effective shelf registration statement is a routine element of prudent corporate and financial planning and provides OSS with appropriate flexibility as we execute our strategic plan. The renewal itself should not be viewed as an indication that the company has decided to undertake a financing transaction. Overall, we continue to believe OSS is well-positioned for long-term sustained growth, and the first half of 2026 has exceeded our initial expectations. As a result, based on our current performance and business outlook, We are increasing our full-year 2026 revenue growth guidance. We now expect revenue growth in the range of 25% to 30%, up from our prior full-year guidance of 20% to 25%. Our higher revenue expectation is supported by our strong bookings, growing pipeline of platform opportunities, increasing in customer engagements, higher customer-funded development activities, and the continued transition of development programs into production deployments. We continue to expect full-year gross margins of approximately 40%, reflecting product mix and an increasing contribution from customer-funded development programs. At the same time, we expect to generate positive EBITDA and adjusted EBITDA, inclusive of planned strategic investments in personnel and research and development, to support continued growth and technology leadership. We encourage that 2026 has started stronger than we initially expected. with accelerating revenue growth, record quarterly and year-to-date bookings, and continued progress converting multiple development programs into larger multi-year production opportunities. With a strong balance sheet, expanding customer relationships, and a growing pipeline driven by the adoption of AI-enabled systems at the edge, we believe OSS is well positioned to build on this momentum through the second half of the year and beyond. Our strengthened financial position also provides the flexibility to continue investing in our people, technology, and go-to-market capabilities while selectively evaluating strategic acquisitions that could complement our technology platform, expand our customer base, and enhance our long-term growth opportunity. 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 turn the call over to Dan.

Dan | Chief Financial Officer:

Thank you, Mike, and good morning to everyone on today's call. The performance of the business exceeded our expectations in Q2, reflecting both strong customer demand and disciplined operational execution. Q2 results reflect a number of key accomplishments. First, we achieved accelerated top line growth of 62%. Second, we achieved record bookings of $15.1 million for the second quarter and $30 million year to date. Third, revenue and bookings have diversified across a growing number of programs, customers, and end markets, reflecting growing adoption for our rugged enterprise-class compute solution. And fourth, profitability, excluding the legal settlement charge Mike previously mentioned, is in line with our 2026 expectations, reflecting operational improvement and prudent expense management. Currently, variation in gross margin reflects a higher mix of customer-funded development and early prototype and first-time production awards. We believe this company has never been in a stronger position and with a strong cash position, a solid backlog and a robust pipeline, we believe we are on track to achieve our expanded 2026 revenue guidance and to execute on our growth and profitability objectives. Now for a quick overview of Q2 2026 financial performance. For the second quarter, we reported total revenue from continuing operations of $9.3 million compared to $5.8 million last year. The 62.3% year-over-year increase in total revenue was primarily due to higher sales to a medical imaging OEM of liquid-cooled server products to support a breast cancer screening application as the customer moved from initial prototypes in 2025 to production in 2026. sales with a new customer for short-depth server products engineered for military applications onboard naval vessels and aircraft, and sales with another new customer for compute products to support autonomous construction and mining equipment. Gross margin from continuing operations in the second quarter was 39.1%, compared to 41.3% in the prior year quarter. The 2.2 percentage point decrease from the prior year was primarily driven by product mix, including a higher level of customer-funded development, early prototype, and low-rate initial production activities, partially offset by more favorable manufacturing absorption due to higher production volume and higher usage of reserved inventory to fulfill customer orders. We continue to expect some level of variability in gross margins quarter-to-quarter based on absorption, product mix, and program lifecycle. On a sustaining basis, we continue to target margins in the mid-30s to mid-40s. We expect full-year 2026 gross margins of approximately 40%. Total Q2 operating expenses from continuing operations increased 129.8% to $11.3 million and included the $6.25 million legal settlement charge. Excluding this charge, total operating expenses from continuing operations increased 2.9% to $5.1 million driven primarily by higher general and administrative and marketing and selling expenses partially offset by lower R&D expenses. Not including the legal settlement charge, operating expenses were 54.3% of total revenue compared to 85.5% in Q2 of last year. The 31.2 percentage point year-over-year improvement reflects significant operating leverage on higher revenue levels. For the second quarter, the company reported a gap net loss from continuing operations of

$7.3 million, or $0.29 per share, compared to a net loss from continuing operations of $2.5 million, or $0.11 per share in the prior year. The company reported a non-gap net loss from continuing operations of $0.2 million, or $0.01 per share, compared to a non-gap net loss from continuing operations of $2 million, or $0.09 per share in the prior year quarter. Adjusted EBITDA loss from continuing operations, a non-GAAP metric, was $0.3 million compared to an adjusted EBITDA loss from continuing operations of $1.8 million in the prior year's second quarter. Turning to the balance sheet and statement of cash flow. Our balance sheet remains strong with $31.4 million of total cash, cash equivalents, and short-term investments, and no debt outstanding at June 30, 2026. Working capital was $38.1 million at June 30, 2026. compared to $45.3 million at December 31, 2025. For the six months ended June 30, 2026, we used $629,000 in cash from continuing operations compared to net cash used in continuing operations of $2.8 million in the prior year period. The use of cash during the 2026 six-month period was primarily driven by a $7.1 million investment in inventory in the second quarter to support expected sales growth as well as our efforts to prudently navigate supply chain constraints affecting certain components, including memory. As Mike mentioned, based on higher than expected sales and bookings, we're increasing our revenue guidance for the year from a prior range of 20% to 25% to a new range of 25% to 30%. We continue to expect full year gross margin of approximately 40% and Positive EBITDA for the full year, inclusive of planned strategic investments in personnel and research and development to support continued growth in technology leadership. As we enter the third quarter, 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. This completes our prepared remarks. Operator, please open the call for questions.

Sylvie | Conference Operator:

Thank you, sir. Ladies and gentlemen, if you do have any questions, 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 using a speakerphone, you will need to lift the handset first before pressing any keys. Please go ahead and press star 1 now if you have any questions. Thank you. First, we will hear from Brian Kinsinger at AGP. Please go ahead, Brian.

Brian Kinsinger | Analyst, AGP Investments:

Hi, guys. Thanks for taking my questions. Can you provide an update on two opportunities for the 360 vision solution at Army vehicles? Where in the procurement lifecycle are these programs, and when is a reasonable timeline for these competitions.

Mike Knowles | President and CEO:

Yeah. Morning, Brian. Thanks for the question. So as we indicated before, both those programs that are now are essentially into test and evaluation by the Army on representative vehicles. So they will continue through that testing phase. It's more or less an undefined testing phase. As they do that, they can identify new requirements. They can identify applications. They can extend the technology to other elements if they chose. While at the same time, all of the acquisition vehicle classes make a determination on their needs and requirements, timing, and funding. So both are progressing well. We're a company that has a solution that's tested, rugged, and is production ready. So we would be able to ready to move as soon as the Army was to make a definitive solution to move forward. I can't give an exact estimate onto the timeline of how soon or how late we would see something progress. But we do continue with our capture efforts in working with the Army in looking to fill their requirements and potential to accelerate these technologies into fielded programs.

Brian Kinsinger | Analyst, AGP Investments:

Great. Thank you. And my follow-up question is, you've had two consecutive quarters of $15 million of bookings, which is great to see. As you look at the next 6, 12, 18 months, how should we think about your goals for bookings and what's reasonable to assume Should we think about, given the size of your pipeline, equal or even stronger bookings going forward? Will it be lumpy? Just maybe speak to how you're viewing that.

Mike Knowles | President and CEO:

Yes, as we mentioned, I mean, we're encouraged by the strong bookings in the first half of this year, not to mention just the total volume, but the expanded customer set, the increased value of each, and the fact that we're expanding onto these platforms with not only initial positions and design, but converting those to production orders, and that'll lead to long-term sustainment. So that part of the engine and the strategy we're happy with coming into view and into fruition. So going forward, you know, we've been comfortable indicating that our pipeline, you know, indicates that we believe we can be on that 30% a year growth. Bookings can be very lumpy. You can see very strong periods of bookings, and then they can fade off based on timing. So, you know, we generally monitor that year-to-date slash trailing 12-month book-to-bill ratio, and that's been fairly consistent here over the last year or so in showing that kind of – 30% a year growth. The pipeline continues to be very manageable. We're starting to convert, as I said, more elements out of that. So we kind of retain on that view of what we think it can do. But as we've noted, we've had more customers coming into view. The orders have been increasing. So we're starting to fill in our growth with spread out about a very wide customer set, which in some respects gives us more optimism because of our reach rather than necessarily finding one or two really big, large orders, though we still pursue those and they are still present in the pipeline. I think we look forward to continued performance, but we expect that we will see some lumpiness quarter to quarter in the bookings.

Brian Kinsinger | Analyst, AGP Investments:

Got it. Thanks so much.

Sylvie | Conference Operator:

Next question will be from Eric Martinuzzi at Lake Street Capital. Please go ahead, Eric.

Eric Martinuzzi | Analyst, Lake Street Capital:

I wanted to focus on the customer-funded development that was around 10% of revenue this quarter. Is the expectation here that that will be at that kind of similar run rate? I know it's hard to predict these things, but it's become a meaningful amount of the top line.

Dan | Chief Financial Officer:

Yeah, Eric, we're definitely happy with the demand that we're seeing for customer-funded development. All of that is a good forward-looking indicator of future growth. As we go through the year, we have a number of opportunities that we're working. I do expect that it will continue to be strong throughout the year. I think that the levels that you're seeing in the first half should continue in the second half. And depending on some opportunities, we could see some variability around that. But I think it will be strong in the second half.

Eric Martinuzzi | Analyst, Lake Street Capital:

Okay. And then one of the things that you mentioned was also just the diversity of your customer base, which is a good thing. Nobody likes to be too concentrated in any particular vertical. What's really behind this? Was this a proactive effort on your part? A sales effort to proactively diversify the customer base or is this to say, you know, people move around the industry, they know where to come back to to get a reliable ruggedization partner.

Mike Knowles | President and CEO:

Yeah, I think it's a, Eric, I think it's a culmination of all the hard work the company's been putting in in the strategy and that early step we took when it joined the company to build out a pipeline of a five-year look at where opportunities would exist and where we could go and aligning the strategy with our sales force and team. and as we started to prosecute that pipeline and getting into different markets then you start to gain some recognition and then that increases your reach to people who understand what you're doing and we're able to then prosecute each of that to an expanding element and then now we're getting to a point where multiple customer sets have had systems delivered in production and seeing that performance others take note of that and so then we start getting that Flywheel Momentum moving off of Notaride and what we're delivering, and it starts to spread widely across the market. The other thing I'll note is that we really run that benefit of our product line is quite agnostic to market application. So we can, as customers hear about us as we reach into markets where we see this demand, AI, sensor fusion, and autonomy, We're very quickly able to adapt a product to the performance and compute and ruggedization that's needed, which allows us to diversify quickly across markets and customer sets. So this is really all built into the strategy and the plan, and I think we're seeing that. And we're actually, you know, have built more optimism because we're seeing that diversification across, you know, decent-sized programs and not having to necessarily weigh down one or two really large ones.

Eric Martinuzzi | Analyst, Lake Street Capital:

Last question for me is on the supply chain side. Given the upward revision to your revenue as well as the reiteration of the gross margins, it would seem like you're in pretty good shape for FY2026. Just curious to know if you've taken steps that have you confident that your, you know, the memory motherboards, the kinds of nuts and bolts things that have gone up in price for a lot of tech hardware manufacturers. if those are things that you feel in good shape for FY27.

Mike Knowles | President and CEO:

Yeah, I think as we're closing out this year into 2027, the strategies that have worked for us this year should continue to help us work into next year. The early bookings clearly helps with that also with customers and setting the expectations. So the methodologies and strategies that we've used this year have been helping. The memory market hasn't necessarily gotten any better in lead times. It's just how we've been able to, as I mentioned, use the strategies that we've had to help us be able to generate the revenue and the growth that we have. It's always still a little bit metering as we continue to see such strong bookings as to how fast and what we convert. But as you mentioned, we're already building in and focusing on the first half of 2027 and beyond. and laying those elements in so that we can be prepared to support our customers and our growth.

Dan | Chief Financial Officer:

Yeah, I'd just add, Eric, so as Mike mentioned, we are still seeing the long lead times quoted, but we are seeing some opportunities to bring in particularly memory ahead of those lead times. And that is part of what you saw in the Q2 inventory increase. where we were able to bring in some memory products ahead of quoted lead times and really de-risk some of the deliveries for the year. So we are kind of keeping our eye out for those opportunities to de-risk delivery profiles by bringing in memory ahead of lead time.

Eric Martinuzzi | Analyst, Lake Street Capital:

Got it. Thanks for taking my questions and congratulations on the strong bookings.

Mike Knowles | President and CEO:

Yeah, thanks, Eric. Appreciate it.

Sylvie | Conference Operator:

Next question is from Brian Dobson at Clear Street. Please go ahead, Brian.

Brian Dobson | Analyst, Clear Street:

Hey, thanks. Congrats on a good quarter in Outlook. So, you know, as you're thinking about defense spending over this year and over the next few years, what do you think has changed recently about how defense customers are thinking about rugged AI compute? And do you think that there's more opportunity in terms of level of compute per vehicle or aircraft, you know, so on and so forth?

Mike Knowles | President and CEO:

Yeah, Brian, thanks for calling. Appreciate you joining coverage on OSS. Yeah, so I think the intriguing thing, and which is part of why we feel the company is so well set in this market, is this inevitable transition as AI, ML, sensor processing, sensor fusion, and autonomy are becoming so exponentially adopted. We're seeing that across existing platforms to increase and enhance capability. We're seeing it emerge in new Platforms, Air, Land, Sea, and Space. And those elements really need the kind of architectures and compute that we deliver. So we're seeing that generated in a number of ways, though oftentimes the Department of Defense is slow in their movement. But you can see from our customer-funded development stuff that we have operating in labs and under test is you're seeing the communities across the services assessing and addressing architectures and solutions and what will work. and then those will slowly continue then to transition into ultimately production into existing and new and future platforms. And so we're helping that technology and that timing move forward. We're also seeing in some of the kind of existing standard operating open system architectures that have been around for close to a decade that we're starting to see the services now opening up to reevaluate the elements of those open systems architectures to move in some of the elements from commercial data center and high performance enterprise class compute open architectures, the things that that we excel in, starting to move those in, realizing that the only way they're going to be able to keep up with sensors, technologies, and capabilities is with those standards and technologies. So it's all opening and paving the way for them to start to align their spend, their future developments, and weapon system and platform roadmaps to include this technology. And a lot of that becomes further strengthened by, I think you can see in a lot of the reports of what's going on in the Gulf and the Straits and with Iran now, just the application of autonomous systems. The weapons system application and also I think you'll see this continue to feed back and strengthen again this movement towards the Compute that's going to be needed to support not only the compute those extremely low latency for that But there's going to be a need as our company has demonstrated we can move these technologies significantly faster than industry has been able to do with current systems and We have been able to do in months what has taken other people years to deliver these capabilities. And in a fast-moving operational tempo environment like the U.S. and its allies are seeing, you know, the ability to deliver these high-end computing systems to move more capabilities out to the field is going to be important. I think we'll see that continue to be back and grow in strength as the years come.

Brian Dobson | Analyst, Clear Street:

Yeah, great. And then just one follow-up question on the pipeline. Those numbers look good, but how do you see the composition of the pipeline evolving over the next year or two, and could that be a contributor to margin expansion?

Mike Knowles | President and CEO:

Yeah, I believe so, Brian. So, you know, the pipeline we established, you know, continues to grow with opportunities. Realistically, it still kind of moves in that 50-50 commercial defense space. We don't purposely drive it to that, but it's generally continued over the three years since we started that, three and a half years, to be in that range. You will see now, too, especially in the out years, we're starting to identify not only initial new opportunities, but the platform positions that we're winning now, we're able to start weaving in the longer-term production and expected... You know, very long-term sustainment on the back end of that. So, part of that growth in the pipeline is just those elements. So, we're seeing that start to weave all together, which is also now giving us a little bit of ability to be able to see more certainty in the future about platforms that we're on and what that will generate versus just, you know, winning new opportunities. So, we're encouraged by that.

Brian Dobson | Analyst, Clear Street:

Great. Thanks very much for the call.

Mike Knowles | President and CEO:

Yeah, thank you, Brian.

Sylvie | Conference Operator:

Next question will be from Austin Moeller at Canaccord Genuity. Please go ahead, Austin.

Austin Moeller | Analyst, Canaccord Genuity:

Hi, good morning. So if we look at the fiscal year 27 budget that's coming together after the CR, does the 50% projected increase in the shipbuilding budget, is that more beneficial to you just given the needs for network computing and C5ISR at the edge, or is there more opportunity on the Golden Dome and short-range air defense side?

Mike Knowles | President and CEO:

Yeah, Austin, thanks for the question and being on the call. You know, ironically, we're engaged in all those areas. So, you know, the opportunities exist are both for similar reasons we've continued to identify. They're both moving forward heavy with sensors and compute and applications and AI and ML, and they all need high-end compute, low latency, generally fit into a rugged environment. And so we're able to deliver those. On the Navy shipboard elements, we're actually engaged in a number of areas with customers as they're evaluating what the architectures of the future can be on both surface and subsurface vessels for the Navy. As they're looking, as you know, they make investment on the ships and subs as they go out. Those tend to be there for a number of years. So they really want to look to take advantage of putting in the best system they can that will sustainability to increase capability without huge updates every few years in technology. And that has really been the promise of what we're doing. So we're engaged in a lot of early discussions, activities, and assessments for customers in those fronts. Same thing as we are engaging with companies participating in Golden Dome. There's many, many layers into the Golden Dome concept and many people participating across each of those layers. and so we've been managing our way through that, identifying the key systems, where compute is the most important and the most critical to that solution, who the prime integrators are in those solutions and the weapon systems and sensor systems that'll go into there. So similarly, we're engaged there with how our compute and low latency can really help facilitate the performance needed to make that system wildly successful.

Austin Moeller | Analyst, Canaccord Genuity:

Okay, and there's a lot of new contract awards that are starting to come out of the fiscal year 26 budget in Q2 and Q3 here. So if we just think about your pipeline going forward, when might we start seeing some of the programs that you're involved in on the R&D evaluation stage? flip to LRF or serial production with higher margins? And do you anticipate doing advanced procurement of component inventory if that starts to inflect into serial production?

Mike Knowles | President and CEO:

Yeah, we don't have exact view into the timeline of when these early stage systems that we have with the Army under test would flow into a program of record, you know, low rate initial production followed by production. We continue to work with them and advise that. Those elements could come out any number of ways from Small Buys to a huge program of record. So that will continue to be kind of evaluated over time. So I don't have the ability really to give a timeframe or a period of timeframe on when that might come to fruition. I can say, though, that when and if it does, that generally the programs will be set up such that we would be able to be covered under the contract for our inventory and long lead purchase orders. to support that. The government is generally very supportive, especially once they've identified a program to oftentimes placing orders for long lead parts in advance of final contract line items for final end items. So that's part of what working early with a customer is about. So we wouldn't necessarily anticipate having to stock up inventory in advance of contract and funding from the government on something like that.

Austin Moeller | Analyst, Canaccord Genuity:

Awesome. Thanks for all the color. Yeah. Thanks, Austin. Thanks, Austin.

Sylvie | Conference Operator:

Thank you. And at this time, we have no further questions registered. So that will conclude our question and answer session, as well as our conference call for today. We would like to thank you all for attending and ask that you please disconnect your lines. Enjoy the rest of your day.