NASDAQ:OSS Q3 2026 Earnings Call Transcript

Generated on 11/25/2026

Kelly | Conference Call Operator:

Today, and welcome to the One Stop Systems third quarter 2026 conference call and webcast. At this time, all participants are in the 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, product programs, 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 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 protection 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. As a note, OSS wants to remind everyone that its third quarter results reflect the opportunistic sales of the company's previously 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 the company will discuss today will reflect the performance of the remaining core OSS business. 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 Chief Executive Officer:

Thank you, Kelly. Good morning, everyone, and thank you for joining today's call. I'm excited to report another strong quarter for OSS. Revenue from our continuing operations increased approximately 36% year-over-year to $12.6 million, bringing revenue for the first nine months of 2026 to $30 million, an increase of approximately 48%. Our third quarter performance exceeded our expectations, and as a result, we are increasing our full-year revenue growth outlook to approximately 40%. I am particularly encouraged by what is driving these results. Our growth is increasingly supported by a broader set of applications and customers rather than being driven solely by the timing of one large order. We are seeing broader participation from commercial and defense customers, larger and more strategic engagements, and a growing number of programs progressing from engineering and qualification into production. In the third quarter, commercial markets were particularly strong. including healthcare, commercial aerospace, and specialized data center applications, while our position across multiple defense markets continues to expand. Before reviewing those opportunities, I want to spend a few minutes on the bigger picture and how OSS has evolved since I joined the company in 2023, why we believe the market is moving in our direction, and why we are increasingly confident in our ability and our opportunity to build a substantially larger, more profitable business. When I joined OSS in 2023, I found an exceptional engineering organization with differentiated technologies and skill sets, a strong legacy of innovation, and products well-suited for some of the most demanding computing environments in the world. What we needed was a more mature commercial engine and an operating model capable of turning that technical advantage into sustained profitable growth. Our first priority three years ago was to build a proper foundation. We strengthened our leadership, Business Development, Program Management, and Manufacturing Capabilities. We sharpened our focus on defense and commercial

applications where the performance advantages of our technology matter most. And we built a more disciplined multi-year pipeline around platforms on which we could become a long-term supplier rather than simply competing for individual product orders. That was a transformation in investment phase. In 2024, we began seeing early signs of conversion, exiting the year with a book-to-bill ratio of approximately 1.1. In 2025, that ratio moved to 1.2 as larger opportunities advanced. We also took an important strategic step by divesting Bresner at the end of 2025, simplifying the company and concentrating our people and resources on the higher growth opportunity in rugged enterprise-class computing at the edge. I'm proud to report that throughout 2026, we continue to see the benefits of our strategic actions. Our average order size has nearly tripled since 2023. As we noted last quarter, the number of meaningful multi-year programs we are supporting has grown from one three years ago to 14. Year-to-date, we have generated more than $43.6 million in bookings, producing a book-to-bill of 1.46, even as our sales have grown. As you can see, we have experienced meaningful change in our business over the past three years. We have moved from building a pipeline to converting it, from competing for individual transactions to becoming part of a customer's platform, and from investing to establish the business to building the scale that can support attractive, sustained profitability in 2026 and beyond. To appreciate why we believe our growth can continue, it's important to understand what is happening in our markets. For years, much of the investment in AI and high-performance computing has centered on the data centers. But increasingly, information has to be processed where it is generated. For example, on an aircraft, a naval vessel, a combat vehicle, an autonomous machine, or medical imaging system. In these environments, customers need to combine data from multiple sensors and run complex AI applications in real time. They cannot always send that information to a distant data center and wait for a response. And they must do it within demanding limits on size, weight, power, cooling, reliability, and latency. Those challenges become more difficult as sensors proliferate, AI models become more capable, and intelligence moves directly onto operating platforms. This is where OSS is differentiated. We take the latest enterprise class processing, acceleration, interconnect, and storage technologies and engineer them into rugged systems that deliver data center class performance in an environment where traditional equipment cannot operate. Our high bandwidth, low latency architectures, and thermal management expertise help customers process more information, make decisions faster, and integrate more capability into a constrained space. Our capabilities are not limited to one industry. The same fundamental computing architecture can support defense sensor processing, autonomous industrial equipment, advanced medical imaging, or commercial aerospace applications. That gives us the opportunity to leverage our engineering investment across multiple markets while addressing a wider and growing customer base. We believe this is a durable shift in computing architecture. As customers seek to deploy more AI, autonomy, sensor fusion, and real-time analytics outside traditional data centers, the need for the kind of rugged enterprise-class compute that OSS provides should continue to expand for years to come. We believe we are in the right markets with the right products and capabilities and an especially important time in their adoption. At the same time, the architecture of the data center itself is beginning to evolve. As demand for AI computing power accelerates, constraints around energy availability, cooling, physical infrastructure, and deployment timelines are driving companies to explore entirely new approaches to building and operating data centers. We are seeing well-funded next-generation companies develop innovative computing infrastructure, including autonomous, distributed systems, and even concepts for data centers operating offshore, underwater, and in space. While many of these applications remain in the early stage of development, they share several important requirements, high-performance computing, efficient power utilization, advanced thermal management, compact systems architectures, and reliability in challenging operating environments. These are precisely the types of engineering and technology challenges OSS has spent decades solving. We believe the strongest evidence our strategy is working is growing our ability to convert opportunities into bookings, production deployments, and repeat business. The key component of our strategy is to engage with customers early. In many cases, we begin with engineering work or customer-funded development, then move through prototypes, testing, and qualification, initial production, larger-scale deployments, and ultimately long-term sustainment and technology refresh. The initial orders can be modest, but they are often the first step towards a much more valuable position within the customer's platform. Our medical imaging relationship is a good example. Work that began in development and qualification is now contributing meaningful production revenue as our liquid-cooled computing technology supports a breast cancer

screening application. In commercial aerospace, higher production deliveries for in-flight entertainment systems contributed to third-quarter growth. and in specialized data centers, we began deliveries to a new customer developing autonomous energy nodes, extending OSS technology into another application where efficient, high-performance computing is critical. We are also advancing in autonomous industrial applications. Earlier this year, a commercial robotics program moved from prototype development into an initial $2.2 million production order. Based on the customer's anticipated deployment plans, We believe that relationship could represent $10 million to $15 million in cumulative orders over five years. That potential is not guaranteed, but the progression from design to production illustrates precisely our strategy is intended to work. On the defense side, our longstanding position on the Navy's PA Poseidon Program demonstrates the value of being designed into a multi-mission critical platform through successive production and sustainment cycles. More recently, we secured an initial $8.4 million award on an intelligence-related compute platform that we believe has approximately $44 million of potential revenue over the next four years. We continue to advance additional opportunities across sensors, autonomy, and situational awareness, including opportunities in demanding, classified, and tactical environments. Not every development effort will lead to a full-scale production program, and the timing of defense procurement in particular can be difficult to predict. but the breadth of these engagements matters. We are building an expanding base of opportunities at different stages of maturity rather than relying on any single program to carry our growth. This is also why we continue to invest in our technology roadmap and pursue customer-funded development programs. Much of the revenue we are recognizing today can be traced to engineering and qualification work begun two, three, or four years ago. Looking ahead, we believe that several programs beginning to contribute in 2026 have the opportunity to become larger production contributors in 2027 and beyond. The work we are performing today is designed to create the next generation of production, sustainment, and technology refresh revenue. Another important development in our strategy is the expansion of our technology into a broader enterprise AI market. This week, we announced that our flagship Gen 5 4UP Max expansion system was qualified for use with a Tier 1 global enterprise computing platform provider. This represents an important milestone for OSS, expanding our access to a much larger ecosystem of enterprise, commercial, and data center customers. As businesses move from experimenting with AI to deploying it more broadly, they are increasingly looking for ways to add substantial computing power without replacing their existing technology infrastructure. Our Gen 5 4UP Max addresses this challenge by enabling customers to integrate up to eight high-performance AI accelerators into their existing server environments, with the flexibility to scale capacity as their computing requirements increase. The solution combines high-density AI acceleration with advanced power and cooling, system management, and security capabilities, supporting demanding applications ranging from AI model training and fine-tuning to inference. By qualifying our technology within an established global computing ecosystem, we believe we can significantly broaden our market reach and create new opportunities to leverage our existing product and engineering expertise. Although it is still early, we are excited about the commercial possibilities this relationship creates and view it as another example of how OSS can extend its technology leadership into adjacent high-growth markets. As our program base grows, we believe that business becomes more scalable and more predictable. customers are making longer-term decisions around our technology. We gain better visibility into their deployment plans. We are also able to leverage common engineering platforms, more efficiently absorb manufacturing costs, and support increased volume without growing our cost structure at the same rate. There will still be variability in the timing of individual bookings and deliveries. Our third quarter is a reminder that even when customer demand remains strong, a few large orders can move from one quarter to the next. We believe year-to-date and trailing period bookings, program progression, and the expanding base of production customers are more useful measures of our underlying trajectory than any one quarter in isolation. The financial results are beginning to reflect at operating leverage. Third quarter gross margin was 42.6%. Reported adjusted EBITDA was approximately $300,000. Adjusted EBITDA in the quarter was impacted by approximately $500,000 of bad debt expense, related to a former customer that filed bankruptcy and approximately $400,000 of legal expense related to the previously disclosed legal settlement with a former customer. Excluding these two items, adjusted EBITDA would have been approximately $1.2 million, or nearly 10% of quarterly revenue. While the timing of customer programs and investments can affect profitability from quarter to quarter, we believe the underlying earnings potential of our business is becoming clearer as we scale. Our focus now is to build on that momentum. We believe the

growing diversity of our customer base, the increasing number of platforms moving into production, and our expanding role in mission-critical applications position OSS for sustained organic growth and improving profitability. We are focused on converting demand into higher-volume production, expanding program content, and driving operating efficiencies while continuing to invest in technology and capabilities required for the next phase of growth. We also continue to pursue a number of potentially transformative opportunities. These could significantly add to the size and scale of OSS if they advance into funded production. We are encouraged by our progress, but we recognize that the timing of these decisions is not entirely within our control, and we will remain disciplined in how we communicate milestones and expectations. We also selectively evaluate strategic acquisitions that could add complementary technology, broaden our customer relationships, and Michael Kalebaugh. A diversified customer base, long-duration program relationships, and the ability to generate increasing cash flow as we grow. We believe we are making measurable progress towards that goal. Our third quarter and year-to-date performance provide us with increased confidence in the balance of 2026. We are raising our full-year revenue growth outlook to approximately 40%. Our revenue expectation is up from 25% to 35%. and Michael Kalebaugh. We enter the final months of the year with stronger customer diversification, larger and more programmatic engagement, an expanding set of production opportunities, and a clearer understanding of how those opportunities can build on one another. The market dynamics supporting the move toward AI-enabled computing at the edge remain compelling, and our technical capabilities are increasingly aligned with what defense and commercial customers need. I believe the competitive position and long-term growth opportunity of OSS business is only getting stronger. We have spent the past several years preparing the company to capitalize on this moment, and we are now beginning to see that preparation translate into meaningful scale. I'm excited not only by the opportunities we expect to pursue in the coming months and quarters, but by what they can enable us to build over the years ahead. 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 DeMuth | Chief Financial Officer:

Thank you, Mike, and good morning to everyone on today's call. Third quarter results exceeded our expectations and reflect successful execution of the multi-year strategies that Mike discussed. Top line growth was approximately 36% in the quarter, driving quarterly revenue of $12.6 million. On the strength of these results, we now expect full-year revenue growth of approximately 40%, which compounds on the 31% growth we realized in 2025. This year-over-year growth is supported by robust demand from a broad set of customers. Bookings exceeded revenue this quarter and every quarter this year, and our year-to-date book-to-bill is 1.46. We are executing on this demand profitably and realizing operating leverage on our growth. Growth margin in the third quarter was 42.6%, and adjusted EBITDA increased by 34% year-over-year to 0.3 million. We believe positive momentum in our business is accelerating. Our balance sheet is strong, our backlog continues to grow, our pipeline is robust, we are executing for our customers, and we believe we are on track to achieve our expanded 2026 revenue guidance and to continue to execute on our long-term growth and profitability objectives. Now for a quick overview of Q3 2026 financial performance. For the third quarter, we reported total revenue from continuing operations of $12.6 million compared to $9.3 million last year. The 35.9% year-over-year increase in total revenue was primarily due to revenue generated from new customers in 2026 and from higher production volumes with certain existing customers. Key drivers of the revenue increase included initial deliveries to a new customer developing a network of autonomous energy nodes engineered to power compute payloads, higher production deliveries to a commercial aerospace customer of compute products supporting in-flight entertainment systems, and higher sales to a medical imaging OEM of servers supporting a breast cancer screening application. Gross margin from continuing operations in the third quarter was 42.6% compared to 45.6% in the prior year quarter. The year-over-year decrease in gross margin percentage was primarily driven by product mix, partially offset by more favorable manufacturing absorption. 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, and we expect full-year 2026 gross margins

of approximately 40% to 42%. Total 2-3 operating expenses from continuing operations increased 33.7% to $6.2 million. The $1.6 million year-over-year increase in operating expense was primarily driven by three items. First, $544K of bad debt expense primarily driven by provision for a receivable with a former customer that entered bankruptcy. Although we will pursue our claim, this provision covers the full amount of outstanding receivables with this customer. We do not have any open backlog, inventory on hand, or other future pipeline planned with this customer. 394,000 of legal expenses associated with a previously disclosed legal settlement with a former customer. The final settlement was executed in the third quarter. And finally, 470,000 of higher stock-based compensation expense due to a higher grant date fair value of RSU's expense in the current year period. These three items were partially offset by lower year-over-year R&D expenses. For the third quarter, the company reported a gap net loss from continuing operations of $0.6 million, or $0.02 per share, compared to a net loss from continuing operations of $0.4 million, or $0.02 per share, in the prior year. The company reported a non-gap net income from continuing operations of $0.3 million positive, or $0.01 per share, compared to a non-gap net income from continuing operations of $31,000, or $0.01 per share, in the prior year quarter. adjusted EBITDA from continuing operations, a non-GAF metric, with $0.3 million for the three months ended September 30, 2026, compared to adjusted EBITDA from continuing operations of $0.2 million in the prior year period. Adjusted EBITDA for the third quarter of 2026 included expenses of $544,000 for bad debt expense and $394,000 for legal fees associated with the previously disclosed legal settlements. 2026 third quarter adjusted EBITDA excluding these expenses would have been $1.2 million. Turning to the balance sheet and statement of cash flows. Our balance sheet remains strong with $18.9 million of total cash, cash equivalents, and short-term investments and no debt outstanding on September 30, 2026. Working capital was $37.9 million on September 30, 2026 compared to $45.3 million at December 31, 2025. For the nine-month ended September 30, 2026, we used $12.4 million in cash from continuing operations compared to net cash used in continuing operations of $5.9 million in the prior year period. The use of cash during the 2026 nine-month period was primarily driven by payment of the $6.25 million legal settlement, as well as by a $7.8 million investment in inventory to support expected sales growth, and to prudently navigate supply chain constraints affecting certain components, including memory. We close the third quarter with $12.7 million of accounts receivable and $2.1 million of accounts payable. As part of our ongoing capital management strategy, we have established the National Market Equity Offering Program, or ATM, which provides us with additional financial flexibility as we execute our long-term growth strategy. The ATM does not obligate us to issue shares. and any potential sales would be evaluated based on market conditions, capital requirements and opportunities to create long-term shareholder value. We believe this provides an additional tool to support organic growth investment and potentially strategic acquisitions while maintaining a disciplined approach to capital allocation. As Mike mentioned, based on higher than expected sales and bookings, we're increasing our revenue guidance for the full year. We now expect full year revenue of approximately $45 million, representing approximately 40% year-over-year growth. This is an increase from our prior guidance range of 25% to 30% growth. We expect full year gross margin of approximately 40% to 42%, and we expect positive adjusted EBITDA for the full year in the range of $0.5 million to $1 million. As we enter the fourth quarter, we remain focused on disciplined execution, including managing our supply chain to convert customer demands 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.

Kelly | Conference Call Operator:

Thank you, sir. Ladies and gentlemen, if you do have any questions at this time, please press star followed by 1 on your touch-tone 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 2. And if you're using your 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. And your first question will be from Eric Marteluz at Lake Street. Please go ahead, Eric.

Eric Martinuzzi | Analyst, Lake Street:

Congrats on the quarter and on the pretty robust outlook there. Good to see those numbers coming up. I had a question regarding the potentially transformative opportunities that you talked about, Mike. Are any of these included in the 2026 guidance, or are these longer term?

Mike Knowles | President and Chief Executive Officer:

They're not included in the 2026 guidance. They're more longer term.

Dan DeMuth | Chief Financial Officer:

Yeah, I can just add to that. All of our guidance for 2026 is in backlog.

Eric Martinuzzi | Analyst, Lake Street:

Okay. And then the, you know, can you take us a layer deeper here? Are these particular verticals? You know, is it military? Or is it across the board?

Mike Knowles | President and Chief Executive Officer:

Yeah, we're seeing now these opportunities across both defense and commercial. And so we've got more elements in the pipeline that we've built in over the course of three years that's giving us opportunities in both markets to potentially see kind of those transformational changes. opportunities. So, again, we monitor them. We work our captures through them and progress them as we can to hopefully mature them into something that ultimately comes to fruition.

Eric Martinuzzi | Analyst, Lake Street:

Gotcha. And then the last question for me is on components and kind of inventory. In 2026, obviously, you You made a big investment in inventory. How are we looking as far as 2027 for what you've got coming down the pipe? Do we have a potential component, a supply chain exposure issue for the coming year?

Dan DeMuth | Chief Financial Officer:

Yeah, I think, you know, all of that's kind of accounted for when we do our planning. But we are continuing to see long lead times for components, including memory as well as some switch chips and GPUs. and so we're navigating that by, you know, we've built some inventory this year that supports us going into Q4 and into the first part of 2027 and we'll continue to monitor that supply chain and make sure we have the inventory to support our customers' expectations for deliveries.

Mike Knowles | President and Chief Executive Officer:

Yeah, Eric, I'd add that, you know, entering 2026, a fair amount of the market was potentially cognizant of what was coming with memory, and the year played out as people started to realize that. I think we have a much more informed and smarter customer base and market going into 27. So we're already well into planning and working with customers as they map out their demands and needs so that we can ensure delivery and manage lead time most effectively for them using the many different methods that we use.

Eric Martinuzzi | Analyst, Lake Street:

Thanks for taking my questions.

Brian Dobson | Analyst, Clear Street:

Thank you.

Kelly | Conference Call Operator:

Next question comes from Scott Searle at Ross Capital. Please go ahead, Scott.

Scott Searle | Analyst, ROTH Capital Partners:

Hey, good morning. Thanks for taking the questions. Nice job on the quarter and great job in terms of building the backlog and the outlook. Maybe just to start out, In terms of the fourth quarter outlook, implied in the guidance, it looks like it's down gross margin quarter. I'm wondering if you could extrapolate that. I'm assuming that this is related to some of the component issues or otherwise are mixed. I wonder if you could give us some thoughts there. And, Dan, in terms of the outlook for adjusted EBITDA for the year of $500,000 to $1 million, I just want to clarify that that does not reflect an adjustment for the just-mentioned $544,000 of bad debt. and $400,000 of legal expenses just to make sure we're on a normalized apples-to-apples basis. And I'm wondering if you could give us some early thoughts in terms of the 2027 outlook. Very, very strong 26. It sounds like there are some big deals that could be closing in the current quarter. Your long-term guidance has been 20% to 30%. How is that shaping up in terms of the initial look at 2027?

Dan DeMuth | Chief Financial Officer:

Yeah, okay, Scott, I'll get started there. So first, with the second question, just to get that out of the way, yeah, the guide for EBITDA, the 500K to a million, that includes the negative impact of the items that we called out in Q3. So our guide would be about $1.4 million higher than the guide, if not for those items. on the Q4 margin. Yeah, so our drive through the year contemplates lower Q4 gross margins. The purchase driver there really is mixed. We do have some lower margin production work that we'll be shipping in the fourth quarter. We also expect a notable pickup in customer-funded development in Q4, which we expect to be at a lower margin. For business, our size with our diversity of programs and products, we're just going to see some variability in gross margins from quarter to quarter. but we always do guide those expectations, mid 30s to mid 40s gross margin and we feel good about our guide for full year 2026 in the 40 to 42%. On the last question relative to 2027, so as is our tradition, when we release our year end results, we'll provide a detailed guide for 2027 but I would just step back to the longer term guidance that we've talked about previously. You know, I think when Mike came on board, we started talking about our pipeline and our visibility to 20% to 30% offline growth. I'd say since then, we've executed that very well. 2025, we're slightly above that at 31%. 2026, we're now guiding to 40%, which is above that. All of that supported by what we're seeing in the market, which is really strong customer demand. We see that demand continuing, and so we feel good about our long-term guidance as we go into 2027.

Scott Searle | Analyst, ROTH Capital Partners:

Great, very helpful. And Mike, if I could follow up, in terms of some of the transformative opportunities, I wonder if you could frame them in terms of size, timing. I think you made some references as well to some of the vertical markets that they're in, but it sounds like some of them could be nearer term. And I think as part

of that, there were some enhanced vehicle opportunities, which seem like they're progressing in terms of some of the next-gen solutions. I wonder if you could just give us some of your high-level thoughts in terms of how that should start to roll into the P&L in 27 and beyond.

Mike Knowles | President and Chief Executive Officer:

Yeah, timing's always a tough one on these bigger opportunities, both in defense and commercial. So that's usually hard for us to pin down. We just continually monitor those, work to influence and cooperate with customers where we can to help progress those. But as we continue to build a company, we've got more swings at the plate, if you will, in both commercial and defense that would represent more of these transformative opportunities. So we feel strong about that, and – when we think about transformative opportunities in commercial or defense, we've got them in a couple different potential market areas than those now. But these would be programs that would tend to look more like $100 million or greater over a three-, four-year period. These are kind of like your larger normal programs of record in defense or a large deployment in commercial. and other applications. So as we discussed in prior calls and then investor conferences and other notes, right, that's kind of how we see transformation, these kind of transformational opportunities. Although, as we noted in this call, you know, one of the things I think we're Very optimistic about is just the broadening of customer diversity and these kind of mid-tier, multi-million dollar orders that we're seeing that are spreading out and giving us diversity, commercial defense, and sub-markets within each one of those. And when you're building out a platform strategy like we are, that gives us a lot of optimism for the future.

Scott Searle | Analyst, ROTH Capital Partners:

Great. And lastly, if I could, Mike, just to slip one more in, you know, within the last couple weeks, we had Starlink, Starshield, throttling communications performance that had some implications in terms of overall performance of drones and otherwise. I'm wondering what this is doing for your business in terms of autonomous mission solutions, right, where you guys start to play into the overall AI edge opportunity. This would seem to further that narrative in terms of unconnected devices really being able to perform when they are no longer receiving direct telemetry command and control applications. So I'm wondering if that's having any sort of an impact on your business or dialogue or that you'd just be driving things over the longer-term horizon. Thanks.

Mike Knowles | President and Chief Executive Officer:

Yeah, a little bit of both, right? So that's in part why we believe this is a strong and enduring market as we're seeing these things move, right? We perform a very – performed a very important function in not only autonomous AI and other areas by being on platform or on premises, but we also complement well if edge or cloud computing is involved in that strategy. So in the case you cited, something like that would be Thank you very much. You know, driving requirements and driving interest in our solutions is our ability to help provide available solutions that can help customers manage their emissions through those kinds of risks.

Scott Searle | Analyst, ROTH Capital Partners:

Great. Thanks so much.

Mike Knowles | President and Chief Executive Officer:

All right. Thank you very much, Scott. Appreciate it.

Kelly | Conference Call Operator:

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

Brian Dobson | Analyst, Clear Street:

Hi. It's for Brian Dobson. Please just help us understand, in light of the raised 4Q, sort of outlook, how concentrated 4Q will be in terms of customers, just, you know, the new customers you spoke about on the energy, that was an insight, entertainment, can you just give us a big picture sense on how we should be thinking about that?

Dan DeMuth | Chief Financial Officer:

Yeah, I think that as we go into Q4, we'll continue to see kind of what we've seen through this year. You'll have a couple of customers probably in the 10% or greater range. You know, those typically represent the large defense primes where we do just need some sort of chunkier revenue. But I think more broadly what we've seen throughout 2026 and we'll continue to see as we close out the year, is that that kind of mid-tier of customers, the maybe less than 10% but more than 2% of revenue, that's really building out. And so we're seeing this kind of build out of our customer concentration, particularly in that mid-tier range. and that's driven by really the dynamic that Mike talks about. We're seeing a lot of these, you know, kind of mid-size orders that are supporting better visibility and better diversity across platforms and customers.

Brian Dobson | Analyst, Clear Street:

That's very helpful.

Kelly | Conference Call Operator:

Thanks a lot. Thank you very much. This does conclude. Today's Q&A session as well as the conference call.

Mike Knowles | President and Chief Executive Officer:

I'm sorry, it looks like Brian Kinzinger jumped in. Let's take one last question for Brian.

Kelly | Conference Call Operator:

Certainly, sir. Please go ahead, Brian. Your line is open.

Brian Kinstlinger | Analyst, Alliance Global Partners:

Sorry, guys. I thought I hit star one much earlier. No worries. Thanks for taking my questions. I have a couple. First, with the strengthening demand in commercial and defense coupled with the supply chain challenges, can you comment on the pricing environment as have pricing power right now?

Mike Knowles | President and Chief Executive Officer:

Yeah, Brian, we've been able to maintain pricing and protecting our margins as we go through. The impact of the memory price increase and all has been felt industry-wide, so we're seeing that flow through in a number of areas. So, in general, we've been able to maintain our pricing leverage and our systems going forward.

Brian Kinstlinger | Analyst, Alliance Global Partners:

Great. and then specifically, can you talk about the Army 360 vision system opportunities? Where are they right now in the evaluation phase for those procurements? Have they been completely bid? Are they evaluating some of the technology? Just maybe an update would be great there.

Mike Knowles | President and Chief Executive Officer:

Yeah, thank you very much. I appreciate that question. So, yes, we're seeing a number of things, and I'll also add to it that we just recently attended the Army's big trade show, a yearly trade show in D.C. called AUSA, which is kind of further supporting where the Army's going. And we had a really great trade show and attention there. But, yes, the Army now actually is – we've expanded the number of systems and applications – for the original 360 SA system we delivered them a little over a year ago that continues to be remained in testing evaluation. And what we're seeing out of that is kind of continued extensions in its capabilities and applications. And so while the first incident we put out was to support a 360 situation awareness system, We have just on the tail end of completing an extension of that for an enhanced vision system that would support driving of vehicles in brownout conditions. and we're being kind of further asked to extend that system more broadly as a sensor distribution system that would allow for low latency, high performance computing distribution of multi-sensor data in single platforms or operations of platforms. And that's in support of many just ground missions and maybe even more notably counter UAS missions as the increase of that of that operational requirement has started to emerge more broadly across the Army. The timing and movement of the yeast to adoption and production is always, as we stated before, a little bit hard to pin down exact in timing, but I like the progress that we're making with high technology readiness level mature products that are meeting or exceeding the requirements and expectations, and we're being continually asked to further provide applications and capabilities in that system. So we'll continue to monitor it. We continue to work across the U.S. Army and their different acquisition organizations and platform organizations as they evaluate their requirements, their funding, their capabilities, and their timing.

Brian Kinstlinger | Analyst, Alliance Global Partners:

Great. One more question for me. Thanks. Thank you, Mike. Working capital... Not Just Inventory was quite a drain in the third quarter. Can you talk about how we should think about working capital for the next few quarters? Do we expect it will continue to be a drain as you're funding growth? You know, maybe, Dan, how should we think about that?

Dan DeMuth | Chief Financial Officer:

Yeah, I would say two or three, you know, largely what we saw on the working capital side. Inventory was basically flat from the prior quarter, but the real drain there was on the accounts receivable side. We did have about $5.6 million of milestone collection that we had hoped would close in Q3. We now expect those in October. So AR is largely where we saw the working capital drain in Q3. We did end the quarter with about $13 million of AR and only about $2 million of AP. So we We do think that we'll see some benefit on the working capital side as we go into Q4. We're always a little hesitant to provide specific guidance on working capital or cash flow, just because we do want the flexibility to respond to opportunities as they arise,

opportunities that may require us to build some inventory to support customer deliveries. But I think in the fourth quarter, we'll see some benefit from working capital. I expect full-year operating cash flow will still be slightly negative. And then as we go into the beginning of 2027, we'll really just be responding to demand.

Brian Kinstlinger | Analyst, Alliance Global Partners:

Great. Thanks for bringing me in, guys. Thanks. Thanks, Brian. Thanks.

Kelly | Conference Call Operator:

And this does conclude our question and answer session for today as well as our conference call. Ladies and gentlemen, thank you very much for taking the time to participate in today's conference. At this time, we do ask that you please disconnect your lines. Enjoy the rest of your day.