NASDAQ:TSSI Q4 2025 Earnings Call Transcript

Generated on 11/25/2026

Operator | Conference Operator:

Greetings ladies and gentlemen and welcome to the TSS Incorporated 4th Quarter 2025 Earnings Results Conference Call. At this time all participants are placed on a listen only mode and a question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference please press star zero on your telephone keypad and please note this conference is being recorded. I will now turn the conference over to your host, Mr. James Carbonara of Hayden IR. Sir, you may begin.

James Carbonara | Host, Hayden IR:

Thank you, Operator, and good day, everyone. Thank you for joining us for TSS's conference call to discuss the company's fourth quarter and full year 2025 financial results. Joining me today on this call are Daryl Doohan, President and CEO of TSS, Danny Chisholm, the company CFO. As we begin the call, I would like to remind everyone to take note of the cautionary language regarding forward-looking statements contained in the press release we issued today. That same language applies to comments and statements made on today's conference call. This call will contain time-sensitive information as well as forward-looking statements, which are accurate only as of today, March 11, 2026. TSS expressly disclaims any obligation to update, amend, supplement, or otherwise review any information or forward-looking statements made on this conference call or the replay to reflect events or circumstances that may change or arise after the date indicated, except as otherwise required by applicable law. For a list of the risks and uncertainties that may affect the company's future performance, please refer to the company's periodic filings with the SEC. In addition, we will be referring to non-GAAP financial measures, a reconciliation to the difference between these measures and the most directly comparable financial measures calculated in accordance with U.S. GAAP is included in today's press release. With that, Darrell, I will turn the call over to you.

Daryl Doohan | President and CEO, TSS Incorporated:

Thank you, James. I appreciate it. Thanks, everyone, for joining us today. I'm pleased to report a very strong fourth quarter that caps the transformational 2025 for TSS. During the year, RAC integration volumes in our new Georgetown, Texas facility came online and grew late in the year, setting us up for an exciting 2026 as industry demand continues to grow. In the fourth quarter, we delivered year-over-year growth in both revenue and profitability with sequential improvement over our third quarter. Adjusted EBITDA for the full year reached approximately $18.6 million, ahead of our guidance range of 50% to 75% from a foundation of 15 million to 17 million, and up from 10.2 million last year. That represents rapid growth resulting from both higher AI volumes and continued operating discipline across our entire business. As we exited the year, the run rate of our business improved meaningfully from mid-year levels. Higher rack integration output better absorb fixed costs in our facility. This step up in Q4 gives us confidence that the structural investments we've made in capacity, systems, and talent can scale and increase demand for our AI infrastructure. The market environment and customer momentum. So the environment in which we operate is dynamic, but one thing is clear, AI demand is not slowing. Hyperscalers and large enterprises continue to invest in accelerated computing infrastructure. next-generation servers, and the associate power and cooling infrastructure. Recent results and outlooks from OEMs in the AI infrastructure market underscore this trend with strong growth in servers and networking driven by AI and traditional server demand and an expectation of continued revenue and EPS growth in the fiscal 26 or in the year 26 or fiscal 27. Customer adoption of AI is broadening beyond early adopters into

mainstream enterprise. Multiple independent studies now indicate that a substantial majority of medium and large enterprises are actively piloting or planning to implement AI in production workflows for inferencing with adoption rates commonly cited in the 70% to 80% range or higher across larger revenue tiers. As these initiatives move from experimentation into scale deployment, customers are seeking trusted partners who can deliver even more complex power dense technology at speed with high quality. And that is exactly where we, TSS, are positioned. We were pleased to extend and expand our relationship with our primary customer under a multi-year contract. We view this modification and extension as both validation of our execution and a key pillar of our growth strategy. The agreement was amended to address certain circumstances that were not expected in the original version, such as additional fixed costs associated with power infrastructure required on site, and a few other items. Our partner agreed this amendment provided an opportunity to reset the agreement's term, a very positive signal as to the strength and durability of the relationship. Fiscal 25 was truly a year of transformation for TSS. We scaled our new Georgetown facility, upgraded the IT systems, and refined processes to support much higher volumes of AI-related rack integration. We worked through the operational challenges of bringing a new facility online, and by Q4, we made substantial progress improving speed, quality, and time to market for our customers. 2026 will be about the next chapter of growth for TSS. We are constantly improving the operations of our facility. That job is never done. 2026 is about seizing market share and AI rack integration, extending our modular data center capabilities into the AI world, and strategically expanding our service offering to capture broader opportunity and AI data centers. The progress of the AI chip market plays directly to our capabilities. Racks are larger, heavier, more complicated, require more power, and more coolant. Our Georgetown facility is purpose-built to integrate racks of this nature. Paired with rapid delivery timelines, growing rack complexity should drive more market share for TSS. This market is extremely dynamic. Deal sizes can be enormous. The supply chain can be challenging. And the latest and primary example being the memory shortages are rapidly driving price increases for memory and delays in overall data center deployment timelines. This all makes forecasting rack integration volumes more difficult to predict with precision. We began 26 with an internal forecast based on near-term visible deals in our pipeline, driven by our customers' pipelines, and already we are seeing volume forecasts surpassing our plan. In fact, we've begun discussions about potentially expanding our capacity even further. That is how quickly this market is moving. So with that, let me turn the call over to Danny for a much more detailed discussion of our financial results. Danny?

Danny Chisholm | CFO, TSS Incorporated:

Thanks, Darrell. Appreciate it. This is another record quarter and full year for TSS as we continue to raise the bar of our financial and operational performance. We also have a few unique items affecting this quarter's results, so let's jump into the details. I'll focus my comments primarily on the full year with some specific highlights from Q4. If you look towards the bottom of the income statement, you'll see that we recorded an income tax benefit this period of $7.6 million, comprising about half of the net income for the full year. By the way, that's half of a net income figure that's up 153% over the prior year's net income, so still a strong double-digit growth in pre-tax income, even without that. So why the big income tax benefit? Several years ago, we established a full valuation allowance on our DTA or deferred tax asset due to our history of net operating losses in past years. With a significant improvement in pre-tax income over the last two years, punctuated by the amendment to our long-term AI RAC integration agreement that Daryl mentioned just a second ago, signed in December, management now has a high degree of confidence in utilizing the DTA in future periods. Accordingly, we removed the valuation allowance on almost all of the DTA, essentially coming in as a one-time gain this period. Future income statements will show an income tax expense more in line with what you typically expect. This will vary some, but currently we expect our 2026 effective tax rate to be approximately 21 to 22 percent. As part of reversing the valuation allowance on the DTA, You'll also see a $7.9 million DTA on our balance sheet representing the future reduction in cash taxes we expect to realize as we utilize our accumulated net operating losses to offset future taxable income. Excluding the large income tax benefit, this quarter was still quite strong. In fact, the $7.9 million adjusted EBITDA this quarter was 50% higher than the prior record adjusted EBITDA we posted in the first quarter of 2025. And full-year adjusted

EBITDA of $18.6 million is 83% higher than last year's $10.2 million, topping the high end of our prior guidance, as Daryl mentioned. Let's jump into the details of what drove the strong performance. Consolidated total revenue increased by 66% in 2025 to $245.7 million, up from just over $148 million last year. That increase was driven by significant year-over-year growth in our two largest service lines, procurement and systems integration, with facilities management revenues very near the prior year level for the full year. Full-year revenue from procurement services totaled $197.5 million, up 68% from the $117.5 million in 2024. With gross profit margins on procurement expanding 100 basis points from 6.7% in the prior year to 7.7% in the current year, gross profit growth from procurement grew at a faster pace than revenues, up 94%. Even when viewed on a non-GAAP gross basis, regardless of whether procurement deals were counted for as gross or net, total transaction values increased 65% to almost 200% $80 million, and gross profit margins increased from 4.6% to 5.4%. To be clear, those margins and gross value transactions are non-GAAP, but we find them useful internally as they allow us to analyze the underlying economics of the procurement business, ignoring the U.S. GAAP requirement to record only our agent fee on net deals. Revenue firm facilities management, comprised of typically annual maintenance contracts, and some discrete or one-time project work totaled $7.9 million, down 1% from $8 million last year. Our maintenance revenues in the segment were down 12% for the full year, driven primarily by year-over-year decreases in the first two quarters. Maintenance revenues in Q3 and Q4 were up 9% and 8%, respectively, over the prior year. In addition to the maintenance revenues, the facilities management segment also earns revenues from discrete or non-recurring project work. I mentioned last quarter that through the first three quarters of the year, discrete project work was a bit behind the prior year, and that we expected a reversal of that trend in the Q4. That's exactly what we experienced. Revenues from discrete projects in the fourth quarter were $2.5 million. up 263 percent from $700,000 in the fourth quarter of last year. Including those strong Q4 results, the full year discrete project revenues increased 12 percent from $3.6 million to $4 million. For the full year, revenue from the systems integration segment increased 78 percent year-over-year to $40.3 million. In the fourth quarter, revenues in this segment increased from $7.9 million last year to $14.2 million in the fourth quarter of this year. While a good portion of that increase relates to strong organic growth in rack integration volumes in the current year and more recent quarter, there are a couple items included in that uptick that I want to point out for more thorough understanding of the drivers of the lift. First, if you recall, I mentioned last quarter that in response to our customers' increasing needs, the Q3 results reflected incremental costs related primarily to depreciation of additional fixed assets we added beyond our initial plans and investments in securing and maintaining additional electrical power at the building, now at 15 megawatts, but that our revenue stream would not likely reflect the benefit of those incremental investments until Q4. In December 2025, we signed an amendment to our long-term AI rack integration agreement with our largest customer, taking into account these incremental investments we've made as well as updating pricing for current RAC configurations. As a result, Q4 results include approximately $1 million of additional revenue related to activities and expenses we incurred in Q2 to Q3 2025. The contract amendment also extended the agreement for an additional two years beyond the initial multi-year term, giving us enhanced visibility of expected revenue growth. Second, when we first began ramping our AI rack integration volumes in 2024, we received a reimbursement from one of our customers to enable our former integration facility in Round Rock, Texas, to integrate AI racks. We were recognizing related revenues over a 36-month estimated useful life of those assets, with roughly half of that recognized to date. With our integration operations now fully moved to our Georgetown facility, we determined it's no longer likely we'll use those assets to perform AI RAC integration activities in our Round Rock facility. As a result, we accelerated recognition of the remaining $800,000 of the reimbursement in the fourth quarter of 2025, pulling forward most of the revenue we expected to be recorded in 2026. This has no impact on cash flows as the cash was all received in 2024. Related directly to this, you'll also see on the income statement a charge of $658,000 for a loss on disposal of assets in 2025. Just like the reimbursement from our customer was being amortized into revenues over a 36-month period, the related fixed assets we added with those funds in 2024 to enable us to integrate AI RACs in our Round Rock facility were also being depreciated over that same 36-month period. Commensurate with the determination that we needed to accelerate recognition on the reimbursement, this loss on disposal represents the acceleration of depreciation we would have otherwise recognized mostly in 2026. As part of the amendment to our long-term RAC integration agreement signed in December, we extended the agreement for an additional two years beyond

the initial multi-year term, giving us enhanced revenue visibility even further into the future. Consolidated gross margin was 18.6% in the current quarter, up from 14.4% in the fourth quarter of last year, heavily influenced by the impact of signing the amendment to our long-term AI RAC integration agreement. For the full year, consolidated gross margins were 13.2% compared to 15.1% in 2024. In 2025, we first started allocating the operations-related depreciation of our Georgetown facility to cost of revenues, accounting for more than half of the difference in gross margin. With procurement revenues bearing a smaller gross margin than our other revenue streams, the outsized growth in our procurement business in 2025 drove much of the remaining year-over-year consolidated blended margin decrease. Breaking your gross margin down by segment. Based on recorded GAAP revenues, procurement gross margins improved to 7.7% in the current year, up 100 basis points from the prior year. When viewed using non-GAAP gross values of the transaction, which we see as more apples to apples comparison, gross margins improved to 80 basis points to 5.4% in the current year. Facilities management gross margins were down slightly at 60% compared to 62% in the prior year, reflecting a slight decrease in higher margin maintenance revenues seen in the first and second quarters of the year. As a result, gross profit from the FM business was $4.8 million compared to $4.9 million in 2024. Systems integration gross margins decreased from 42% in 2024 to 31% in the current year. As I mentioned a moment ago, we first started allocating operations-related depreciation to this segment in 2025, accounting for seven percentage points, or more than half of the overall decrease in SI margins. If you recall, I also mentioned last quarter that we spent more than we originally planned on capital expenditures in our new Georgetown facility and significantly increased the available power at the new building. both in response to changing needs from our customer. The higher cost per power included not only capital investments and equipment, but also higher period costs related to charges from the local power company. The revenues to which we were entitled under our long-term AI rack integration agreement we had in place did not yet reflect those additional investments and costs. The amendment to the agreement signed in December not only amended future pricing to incorporate those additional costs, and those incurred in the December quarter, it also allowed us to recapture roughly $1 million of costs incurred earlier in the year. Lastly, as mentioned earlier, the current quarter and full-year revenues for the systems integration segment reflect the accelerated recognition of approximately $800,000 of revenue. This represents revenue contemplated in our prior 2026 EBITDA guidance. Importantly, though, we are not lowering 2026 EBITDA guidance. The bar against 2025 EBITDA was just raised on impacts to 2025 results from the amended agreement. SG&A expenses of $20.7 million in 2025 increased 56% or $7.4 million over last year. Over a third or $2.7 million of the increase relates to non-cash stock compensation with the remainder related to higher headcount and related compensation costs, to strategically support the growing scale of the organization, combined with higher accruals for incentive compensation tied directly to the year's improvement in sales and earnings. Also included in the current year are incremental costs for the 2025 annual audit and SOX control work. Depreciation and amortization expenses not allocated to COGS were $1.1 million compared to $608,000 last year. That increase is related to amortization over ERP implementation costs and depreciation of other assets related to the overall growth of the business. To provide greater transparency and ability to forecast future results, we've now broken out separately in our income statement bank factoring fees, which were previously grouped with our interest expense. Bank factoring fees increased from $2.7 million in the prior year to $3.7 million in 2025, reflective of a higher level of billings on which those fees are charged. As a percentage of recorded revenues, those fees are 1.5% in the current year, down from 1.8% in the prior year. As a net result of the above factors, for the full year, operating income increased 10% from $5.8 million in the prior year to $6.3 million. The change driven primarily by $10 million increase in gross profit, net of the $7.4 million increase in SG&A expenses and other items discussed. Now that we've broken out separately the bank factoring fees, the $651,000 of the interest expense represents exclusively interest on our outstanding bank loan, net of amounts capitalized earlier this year, while we were building out our Georgetown integration facility through around May. Interest income this year increased from $562,000 last year to $1.7 million this year, primarily due to the higher average cash balance held this year. The net result of these items is a net income for the year of $15.1 million, up 153% from 2024's net income of $6 million. Our diluted EPS improved 133% from 24 cents per share to 56 cents per share. Adjusted EBITDA was $18.6 million, an increase of 83% compared to $10.2 million in the prior year. Excluding the $800,000 accelerated recognition of the customer's reimbursement, which we previously expected to recognize in 2026, adjusted EBITDA would have been

$17.8 million up 75% over the 2024 adjusted EBITDA. Now taking just a quick look at a couple of things from our balance sheet. We ended 2025 with $85.5 million of unrestricted cash and cash equivalents, a $62.3 million increase from year-end 2024. In August, we raised $55.3 million of net proceeds in a secondary offering to fund future strategic growth opportunities. Cash flow from operations increased significantly from $15.3 million in 2024 to over $30 million in 2025. This, together with $9.8 million of net borrowings and $6.8 million received from our landlord in Q4 for tenant improvements, funded $32.7 million of CapEx and the repurchase of $4.9 million of Treasury stock, as employees' net settled upon investing in restricted stock and option exercises. Net working capital also improved from $1.3 million at year-end 2024 to $46.1 million at the end of 2025. In the fourth quarter alone, net working capital improved by $11.7 million. As you can see, there was a lot going on throughout 2025 and the fourth quarter in particular. After normalizing for the non-recurring benefits and costs and the impact of the DTA evaluation allowance reversal, this remains our strongest EBITDA quarter ever, and net income and EPS showed a nice increase. This, combined with significant increases in demand publicly announced by our largest customer, sets a great foundation for continued growth in 2026 and beyond. With that, I'll turn the call back over to Daryl for some closing comments.

Daryl Doohan | President and CEO, TSS Incorporated:

Okay. Thanks, Danny, for the financial detail and update. Folks, we love these market dynamics. We're very highly optimistic about our business outlook for 26. Our Q4 results demonstrate that we can handle record systems integration volumes, and given the excitement of recently reported record demand projections, we are ready to deliver more. The added visibility provided by our long-term customer agreement gives us an additional optimism about the future of our business. We are forecasting continued growth and earnings in 26 with adjusted EBIT expected in the 20 to 22 million range. We believe this to be a conservative estimate reflecting supply chain volatility, the timing of deal closing, and a robust demand forecast from industry leaders. Over time, we see this potential to grow well beyond the guidance. Our strategic planning process is well underway with a clear mandate to evaluate multiple routes to market, including deepened partnerships, selective acquisitions, and potential JVs, joint ventures that can expand our capabilities, diversify our revenue base, and enhance our position in the AI infrastructure ecosystem. We're focused on both organic growth and strategic growth that is complementary to our existing business relationships. This is important to us. We expect to share more about this plan soon and how the capital we raise will support the long-term value creation. So to summarize, we're proud. We delivered solid results in the fourth quarter and for the full year. We exceeded our EBITDA guidance and exited 25 with strong momentum in a market where AI demand continues to accelerate. It has been a great year of transformation for the company, marked by improved operational excellence, deeper strategic alignment with key customers, and a sharper focus on speed, quality, and time to value as our key differentiators. I'd also like to recognize the good work performed by our factory team. They are in the trenches making all this happen. We are very excited and optimistic about the future. Customers' modernization journeys are occurring at historic rates, and the adoption of AI is expanding rapidly, and enterprises increasingly recognize the need for trusted partnerships to help them implement these complex, power-intensive infrastructure solutions. TSS is well-positioned to deliver. So thank you all for joining us on this journey. Operator, I'll turn it back to you for questions.

Operator | Conference Operator:

Thank you. Ladies and gentlemen, at this time we will be conducting our question and answer session. If you would like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue, and you may press star 2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions. Thank you. Our first question is coming from Matt Calitri with Needham and Company. Your line is live.

Matt Calitri | Analyst, Needham & Company:

Hey, guys. This is Matt Colicchio over at Needham. Thanks for taking the questions. Can you give any more color on the amended agreement with your largest customer? Was there any change in the minimum order volume attached to that, or is it more focused on recouping those fixed investments like you talked about? Anything there would be helpful.

Daryl Doohan | President and CEO, TSS Incorporated:

Hey, Matt. Daryl, thanks for the question. Really, it's a combination of adjustments. One is the term length, which is encouraging. That's always a good sign. Two is, you know, we're investing in infrastructure, power, water, so to speak, direct liquid cooling capabilities or thermal management, and the opportunity to scale volume. So from a foundation standpoint, the base structure of the, if you will, volume commitments is the same. The term is extended. The investments that we're making are being rewarded, so to speak, financially in the agreement. So we're getting more support that way, which is always a good thing. And what that ultimately means is that we're working more closely together on how do we scale and do more. We're very optimistic about our systems integration business and the RAC volume demand increase. And we're uniquely positioned because of these investments to have more power, to have more liquid capability. And frankly, the weight of the future technologies coming down the pike is going to get a lot heavier. And that speaks to some of the things that we've done here locally. So hopefully that answers your question.

Danny Chisholm | CFO, TSS Incorporated:

Yeah, Matt. Yeah. This is Danny. I'd add just a little bit to Daryl's point, right? A lot of that was recognition of the capital expenditures that we put in and needing to recapture that cost over time. The other piece of that is also that we are incurring or have been incurring throughout a good portion of this year some fixed power costs as well that weren't originally contemplated in the agreement. That has now been contemplated in the agreement so that we've got much better comfort that those costs are covered as we move forward. So not just recapture past costs, but being able to cover the recurring costs moving forward.

Matt Calitri | Analyst, Needham & Company:

Awesome. Very helpful. And great to see the growth in systems integration. We're clear these investments are coming through.

Daryl Doohan | President and CEO, TSS Incorporated:

Thanks, Matt. And one other thought, too. You know, our key customer has recently gone public and talked about their increase in pipeline and outlook. It's a massive increase year over year. And we're well positioned to do everything we can to get our fair share of that growth. And we want to get as much of that as we can.

Matt Calitri | Analyst, Needham & Company:

Absolutely. I guess, like, on that same thread, can you help us contextualize how the rack order volume this quarter compared with internal expectations? And then, like, how should we be thinking about the amount of catch-up volume you saw this quarter compared to what you think the steady state growth rate is there?

Daryl Doohan | President and CEO, TSS Incorporated:

Well, I'm going to grin when you say steady state. We wish it was steady state. It's a crazy state is what it is. Our Q4 rack volume almost exceeded what we did for Q1 through Q3. Our expectation for 26, calendar year 26, is that we will double the business that we did in 25. In fact, we've got a first half outlook. Our short-term forecasts are actually exceeding our plan. So we're very optimistic about where we're going to go with volume, okay, of the racks that go through the factory.

Matt Calitri | Analyst, Needham & Company:

Okay, awesome there. And I guess, like, is there any sort of rule of thumb for how we should be thinking about modeling, like, volume increases and how that translates to revenue?

Danny Chisholm | CFO, TSS Incorporated:

That's a great question. Given the fact that we've got the minimum commitments, until we get over that minimum, building more RACs does benefit. Once we get over that minimum commitment, the improvement in revenue contribution is roughly four times what it is below that. So there is incremental benefit as we build more RACs, but until we get over those minimums in any given period, the positive impact is muted a little bit. Frankly, I say it not even, that the positive side is muted more that we've got some really good downside protection in periods when there's less volume. We've not put out specific guidance around the division between those two, and frankly, from a competitive standpoint, probably don't want to go into too much detail on that.

Matt Calitri | Analyst, Needham & Company:

That makes sense.

Unidentified Participant:

I hope I'm not putting my foot in my mouth, but, you know, when we talk individually, we can share what we think about the opportunity, and then you can do your math and figure out how to go model it, and we'll help as much as we can.

Matt Calitri | Analyst, Needham & Company:

Awesome. Yeah, no, it makes tons of sense. Maybe just one more on On the procurement side, which also grew during the quarter despite the supply chain volatility you mentioned, I'm wondering what you're seeing in the U.S. federal business with the government shutdown and continuing resolution being resolved. Is there any sort of catch-up in deals getting done, or do you kind of expect to see everything slide based on those earlier delays?

Daryl Doohan | President and CEO, TSS Incorporated:

Well, we commented that in previous quarter that we thought that was going to be disruptive, and it was to a degree. I'm not that concerned right at the moment. The procurement business is a really good business for us. We're really proud to have that business, and yes, it's largely fed, a major percentage. We are involved in opportunities that we think can play out in this year, and the unique part of the procurement business is that it can happen literally overnight. So it might not be in the pipeline today, but it could be next week. So right now

we're optimistic about it. We're just being conservative in our outlook because of, yeah, it's such a great year. And, you know, we're rebuilding pipelines and we're trying to be a little bit more cautious for the reasons you talked about. But we'll see what happens. I mean, we're well positioned either way, but we're involved in some really good things. And I'm more optimistic about the procurement than...

Unidentified Participant:

we're probably showing on paper.

Matt Calitri | Analyst, Needham & Company:

Awesome. Thanks, guys, so much for your time. Thanks, Matt.

Operator | Conference Operator:

Thank you. Our next question is coming from Alex Furman with Lucid Capital. You're live.

Alex Furman | Analyst, Lucid Capital:

Thanks very much. Thanks for taking my question, guys, and congratulations on what was really a big breakout year last year. Daryl, I wanted to ask you about, you alluded to in your prepared remarks, the memory chip shortage that we've all been reading about and how a lot of data center projects has been delayed as a result of that. But it sounds like your integration business, year to date, has been going as good or better than you thought it would at the beginning of the year. Can you just talk more about why... you haven't been impacted to that by the memory chip shortage, and are there any bogeys that we should potentially be looking out for for the rest of the year?

Daryl Doohan | President and CEO, TSS Incorporated:

Sure, Alex. Thanks for the question. You know, on one hand, we're somewhat isolated from that because our key partner is masterful at managing a global supply chain. I mean, they're really, really good and effective with it. And while we pay attention to it And we have considered some of that variances in our model, especially in how we forecast the future, but it's one of the reasons why we've been more conservative. But given the announcements and the pipeline outlook that people have publicly stated, I'm not so concerned about that at the moment. could be different, but our business is somewhat insulated from that level of complexity.

Alex Furman | Analyst, Lucid Capital:

Okay, that's really helpful. Thanks, Daryl. And then one other thing I just wanted to ask about here is, I mean, it seems like definitely one of the biggest themes going on in your business is that these AI server racks are getting bigger, heavier, you know, they consume more power. I imagine that trend is going to continue, you know, throughout the year and into next year. How do your economics change as these server racks keep getting bigger? I mean, is it ultimately a similar markup to labor and things like that, or does the model start to change as these racks get two, three, four times the size?

Daryl Doohan | President and CEO, TSS Incorporated:

So, good question. We've modeled to a certain configuration size, which drags a certain amount of power requirement, which drags a certain amount of direct liquid capability and testing capability. And we're in the conversations now of anticipating where it's going to go next. So from an economic standpoint, it's all about getting the product out the door as fast as we can. And the model that we have, financial model, pays us well to go do that. The future is to be determined. You know, when you start talking about 300 kilowatts to 600 kilowatts to a megawatt a rack, you're talking about a different complexity, and we're working together on that, and I'm sure that if it involves an opportunity for us to make more money as it gets more complex, we'll have a good conversation with our partner. So right now, we're not at that point where we have to change things, but we're all open about how we do the best we can to get things done, if you will, and renegotiating is always an opportunity.

Alex Furman | Analyst, Lucid Capital:

Okay, that's really helpful. Thanks, Daryl.

Operator | Conference Operator:

Thank you. Our next question is coming from David Marsh with Singular Research. Your line is live.

David Marsh | Analyst, Singular Research:

Hey, guys. Thank you so much for taking the questions. Good morning, good morning. Congrats on the quarter. It's really a great result, great outcome, good job. I wanted to start with, if I could, with just a couple of housekeeping questions. I noticed on the balance sheet, it looks like restricted cash is gone. Is there something behind that? Am I reading that correctly?

Danny Chisholm | CFO, TSS Incorporated:

Yeah, you are. In fact, in the fourth quarter, we had the right under our credit agreement to ask the bank to apply those restricted funds as a paid annual principal. So you'll see also the 10K should get filed next week. You'll see on there on the statement of cash flows a pay down of almost $7 million of debt this year. So we had the bank apply that restricted cash as basically a $5 million pay down on the debt. So the restricted cash is gone and the debt is down.

David Marsh | Analyst, Singular Research:

Got it. Yeah, that was going to be my next balance sheet question was on the debt reduction. So that's great. Good job there. That's good progress. Just turning to the kind of more of the operational side, I mean, I guess, you know, one of the things that really jumped off the page to me was the increase on the facilities management, especially sequentially. Can you just give us a little bit more color there? And is that, you know, is that a sustainable run rate going forward? I mean, I know that's a core area of focus with the kind of recurring nature of that business.

Danny Chisholm | CFO, TSS Incorporated:

Yeah, so that business, to your point, has one piece that's very predictable and recurring, which is kind of the manual maintenance agreements. Those are highly predictable. There is another part that is discrete projects. So if you think about major rework of containers that were previously deployed, the batteries and those things for backup are pretty expensive. so a complete battery replacement or filter media replacement, those can be what I call discrete projects or kind of one-time projects. I think I had even mentioned in our Q3 call that Q1 through 3, we saw less of those in the first three quarters of the year, but we expected a spike in that in Q4. And that's exactly what drove the difference. We had about $2.5 million of those discrete projects in Q4 compared to about 700,000 this quarter last year. That is an unusually large amount for one particular quarter, but I would expect periodic spikes like that as we have more discrete projects.

David Marsh | Analyst, Singular Research:

Yeah, that's really helpful. I appreciate that.

Danny Chisholm | CFO, TSS Incorporated:

Unfortunately, those are a little less predictable.

David Marsh | Analyst, Singular Research:

Yeah, yeah, understood, understood. Just following up on that, you know, earlier question about the amendment, I think the previous caller asked about kind of guaranteed minimum volumes. I mean, I didn't, I may have missed your response to that part of that question, but is there a change to your guaranteed minimum volumes in the new agreement? No. Okay. Okay.

Danny Chisholm | CFO, TSS Incorporated:

No, we did update the pricing to take into account the current complexity of RACs. Again, right, most of what we get paid for is the work that we put into it and the power that we consume in doing that and then the cost of the fixed facility. But the actual minimum commitment didn't change. We just updated the pricing and the length of the agreement.

David Marsh | Analyst, Singular Research:

Got it. Appreciate that caller. All right. Thanks, guys. Appreciate you taking the questions.

Danny Chisholm | CFO, TSS Incorporated:

Thanks, David.

Operator | Conference Operator:

Thank you. As we have no further questions in queue at this time, I would like to turn it back over to Mr. Duan for any closing remarks.

Daryl Doohan | President and CEO, TSS Incorporated:

Okay. Thank you so much. Folks, thanks for joining us. As stated in previous calls, we're again pleased after reporting another quarter, a strong quarter and a great year. but we're not satisfied. So all I can say is at this point on your behalf, you can count on us to do our part to help customers modernize and transform using advanced technologies. We're in this to win, and we thank you for your time.

Operator | Conference Operator:

Thank you. Ladies and gentlemen, this concludes today's conference, and you may disconnect your lines at this time, and we thank you for your participation.