NYSE:GWH Q2 2026 Earnings Call Transcript

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Operator | Conference Operator:

Good afternoon and welcome to the ESS Tech Second Quarter 2026 Financial Results Conference Call. All lines have been placed on a listen-only mode, and the floor will be open for your questions following the presentation. During today's call, ESS may make statements relating to its future financial performance, anticipated growth strategies, and trends in its business. These may include statements regarding the company's sodium ion strategy and the early stage opportunities approaching $1 billion identified for its sodium ion solutions. The Timeline for Development and Market Rollout of the Bridge System The Letter of Intent with Juniper Energy and the Potential Deployment of 500 MWh or More of Energy Storage Systems The Letter of Intent with Alsem Energy The Timing of the Company's Projects The Company's Plan to Streamline its Wilsonville Operations and Reduce Expenses and Cash Burn Statements regarding the proposed business combination, including the timing, terms and potential benefits, the company's 2026 outlook and beyond, its cash position, the market opportunity, the potential and capabilities of the company's technology and platform, and its ability to execute on project new horizon, including the timing of manufacturing and delivery. These statements constitute forward-thinking statements within the meaning of federal security laws and are based on management's current expectations and beliefs concerning future developments. These forward-looking statements involve a number of risks, uncertainties, and assumptions, including but not limited to barriers the company faces in producing its energy storage products, its products being in the early stage of commercialization, Aspects of technology not having been fully field tested, the company's dependence on third-party suppliers, delays, disruptions, or quality control problems in manufacturing operations. Thank you for joining us. The non-binding nature of LOIs Risks related to the proposed business combination, including the non-binding nature of the letter of intent The party's ability to complete due diligence and to negotiate and execute definitive agreements and the realization of benefits The market opportunity for ESS's production, its ability to satisfy the continued listing standards of the New York Stock Exchange, and other risks and uncertainties described more fully in the company's filings with the U.S. Securities and Exchange Commission, including its annual report on Form 10-K filed on March 5, 2026. Its quarterly report on Form 10-Q for the quarter ended June 30, 2026 and its current reports. Actual results may differ materially from those expressed and are implied by forward-looking statements made on this call. Except as required by law, ESS undertakes no obligation to update or revise any forward-looking statements. In today's discussion, the company will reference adjusted EBITDA and non-GAAP financial measures. A reconciliation of adjusted EBITDA to the most directly comparable GAAP measure is provided in the presentation accompanying this call in our earnings release. A press release detailing these results was issued earlier today and is available in the Investor Relations section of the company's website at investors.essinc.com. A replay of this call and today's presentation will also be posted to that same site following the call. Hosting today's call are Drew Buckley, Chief Executive Officer, and Kate Suhadolnik, Chief Financial Officer. I would now like to turn the call over to Drew Buckley Please go ahead, sir

Drew Buckley | Chief Executive Officer:

Thank you, Operator, and good afternoon, everyone. Welcome to ESS Tech's second quarter 2026 earnings conference call. We appreciate you joining us today. I will start with a brief overview of the company and how we are positioned. From there, I will walk you through our second quarter highlights and the commercial progress behind them. And I will introduce Bridge, our new sodium ion battery energy storage system. I'll also give you an update on the proposed business combination we announced last week. Kate Suhadolnik, our Chief Financial Officer, will then take you through our financial results for the quarter, the reconciliation of gap net loss to adjusted EBITDA, and our cash and financing position. I will close with a summary of our priorities

and the milestones ahead, and then we will open your line for questions. Before we get to the quarter, I want to spend a moment on how we're positioning the company because it frames everything else you will hear today. ESS is an energy storage company specializing in sodium ion and iron flow battery technology. We design, produce, and integrate battery technology, and we build our products with earth-abundant materials. We now operate two complementary platforms. The first is Bridge, our new sodium ion battery system. It's a 1.2 megawatt hour AC modular block, purpose-built for short and medium duration applications, and we are targeting data centers, critical infrastructure, and utilities. The second is energy-based, our IronFlow platform. It delivers from 10 to over 20-hour long-duration storage for the 24-7 renewable power in applications where lithium ion is too costly, too unsafe, or too inefficient. Both platforms share the same core advantages. Neither one carries thermal runway risk. IronFlow stores energy using iron, salt, and water, and our sodium ion cells are non-flammable. Both are built on a domestic platform with US design, assembly, software, and controls. To support that, we have signed a letter of intent with Alsem Energy to add 8.5 gigawatt hours of US-made sodium ion cells to our portfolio. Underpinning all of it is our tier one opportunities, anchored by Salt River Project and Google, an existing Florida utility customer a major California utility opportunity in partnership with Juniper Energy, and by the US Air Force Research Laboratory through Concurrent Technologies Corporation. I will come back to those relationships in a few minutes. But now, let me explain why this matters. And I would point you to the three themes at the bottom of the slide. The first is CapEx acceleration. Hyperscalers are scaling data center investment at a pace this industry has not seen before and doing it on a compressed timeline. The second is power constraints. Generation additions are not keeping pace with AI driven load growth, which leaves developers competing for capacity that doesn't exist yet. The third is the storage imperative. Batteries are moving inside the data center and becoming core infrastructure. We believe sodium ion is essential to closing that gap and that safe non-lithium solutions are positioned to scale across grid level applications. The second quarter marked an inflection point for ESS. We accelerated our expansion into sodium ion batteries, and we did it while maintaining the disciplined execution and capital focus that have defined our reset. Let me start with the left side of this slide. The demand we are seeing for sodium ion is unlike anything in our company's history. During the quarter, we announced that we were accelerating development of our US-made sodium ion battery energy storage system, and we did that in direct response to strong early customer interest across data centers, critical infrastructure, and utility markets. We have now developed early stage opportunities approaching $1 billion, and we have aligned our resources behind an expanded focus on AI infrastructure and data center markets specifically. To supply that demand, we signed a letter of intent with Alsem Energy to add 8.5 gigawatt hours of US-made sodium ion cells to our portfolio. This agreement extends our non-lithium platform into the short and medium duration applications that have historically been served by lithium ion systems. Subsequent to quarter end, we began the market rollout of Bridge, our modular sodium ion battery. I'll discuss that product in a moment. Also subsequent to quarter end, We signed a letter of intent with Juniper Energy LLC for the deployment of 500 megawatt hours or more of sodium ion battery systems, establishing a framework for long-term partnership. The collaboration will begin with a planned 10 megawatt, 80 megawatt hour project for a major California utility targeted for commercial operation in 2027. We believe this represents a clear validation that the market interest we have been discussing is translating into tangible customer commitments. The two statistics at the top of the slide highlight why this opportunity is emerging now. U.S. data center power demand is expected to double by 2030, while industry estimates suggest 20 to 25 gigawatts of battery storage capacity could be deployed inside data centers by the end of the decade. This market was largely nonexistent just a few years ago, and it is still being built today. Now let me turn to the right side of the slide. We also streamlined our Wilsonville operations to reduce expenses in cash burn, and we reallocated that capital towards sodium ion related solutions that complement iron flow and carry greater near-term revenue potential. As of today, we have repaid 37 of the 40 million principal amount outstanding under our promissory note with Yorkville. Deleveraging has been a priority for us, and that progress is real. On August 6th, we announced a non-binding letter of intent for a proposed business combination with a private company in the energy sector. The contemplated transaction implies an expected combined enterprise value of approximately $515 million with an allocation to ESS at a premium to our market capitalization at the signing of definitive agreements. I'll come back to it in more detail in a few minutes. But next, I'll give you some more detail on the bridge modular system. Bridge is ESS's entry into short and medium duration storage, and it meaningfully expands our

addressable market beyond our established position in long duration energy storage. We began the market rollout subsequent to quarter end, and it is the system Juniper expects to deploy with the California utility. You can see the unit pictured on the right side of our slide here. Bridge is a 1.2 megawatt hour AC building block, and the four figures across the top of the slide capture the essentials. It is modular, meaning customers can stack four together to deliver 4.8 megawatt hours on a standard 20-foot pad, delivering similar energy density to a lithium system. It supports durations from roughly two hours to 16 hours, and it is engineered to a 20-year design life. Looking at the specifications on the left side of the slide, you'll see we've intentionally kept the system simple. It uses sodium ion cells, a standard 480 volt AC grid connection, and supports flexible cycle rates and duration. That flexibility allows the same hardware to serve both power and energy applications. It's designed to operate in temperatures from minus 40 to plus 50 degrees Celsius, fits into a stackable 10-foot container, and includes fully integrated battery management and energy management systems. I also wanted to give you a tech update on our progress toward our first fully functional sodium ion demonstration system. We have built module-level hardware in-house in our own lab under our own controls and testing a full cycle of charge and discharge is underway. That's the step where technology stops being designed and starts being a product, and we've taken it. There's integration and testing work ahead of us before we call the module done, but getting a real module cycling is a major milestone in the development toward the bridge product. We are targeting to have our first full-scale bridge operating in-house toward the end of 2026. Now let me turn to the center of the slide and why we believe the bridge has a right to win in the market. First is safety. The chemistry is non-flammable with no thermal runway and no toxic off-gassing. Second is simplicity. Because bridge does not require complex HVAC or liquid cooling, it's far easier to install and to maintain, and it performs reliably across a wide temperature range. Third is speed of deployment. Bridge ships as a plug-and-play AC block. It's forklift installable, and it connects at a standard 480-volt AC connection. Fourth, and this is the one I would underline, its wide operating temperature range is particularly well suited to the duty cycle of an AI data center. GPU clusters swing tens of megawatts in a matter of seconds, and that kind of microcycling degrades lithium chemistries quickly. This is a real pain point for data centers and a major underlying reason why we are seeing such strong demand. And fifth is supply. Our letter of intent with Alsem Energy adds 8.5 gigawatt hours of U.S. made cell supply to our portfolio, giving us the opportunity to supply a fully U.S. manufactured system free of fiat concerns and able to take advantage of U.S. tax credits for us and our customers. Early stage opportunities for this platform are approaching 1 billion. I want to be clear that these are early stage and unconverted at the time of recording, and we will remain very disciplined about how we characterize them. Moving on. This slide frames three commercial relationships that matter the most to us right now. Assigned framework, a broadening customer base, and secured supply. On the left is Juniper Energy. As I mentioned, this letter of intent establishes a framework for long-term partnership covering 500 megawatt hours or more of sodium ion batteries energy storage systems by 2032. It's anchored by a planned project for a major utility in California of 10 megawatts and 80 megawatt hours, which is expected to use the bridge modular sodium ion AC solution and is targeted for commercial operation in 2027. This is our first large sodium ion product, and it validates both the product and our route to market. In the center is our broader customer base. and this is where our opportunities are building. We are seeing strong interest from existing customer relationships as well as from new prospective customers and active discussions are underway on additional energy storage opportunities. Those conversations span data center, clinical infrastructure, and utility counterparties. And then on the right is Alsem Energy. As discussed, we see this as a key supply agreement to build a US manufactured battery free of tariffs, free of foreign entity restrictions, and able to take advantage of the tax credits for us and our customers. Now let's talk a little bit more about the LOI we announced last week. We signed a non-binding letter of intent for a proposed business combination with a private company. I'll be measured given where we are in the process, but I want you to understand why we're very excited about it. The proposed partner is highly complementary to what we do. It is commercially active in our sector with an established operating platform and proven commercial execution. That matters. This isn't two development stage companies coming together. It pairs the platform and market position we've built with revenue generating operations, and we believe it offers compelling strategic and financial benefits with the potential to be transformational. On terms, the transaction implies an expected combined enterprise value of approximately $515 million, With ESS stockholders receiving an allocation at a premium to our fully diluted market cap at the time of signing the definitive agreement. Subject

to final valuations, which can change before the definitive agreement is signed, our stockholders would own approximately 5% to 10% of the combined company at close. We expect to announce a definitive agreement by the end of September and are targeting a close before year end. But this is subject to significant additional work, including completion of the diligence process, negotiation, execution of a definitive transaction document, and required approvals. The non-binding letter of intent can be terminated at any time. Again, we believe this opportunity offers compelling strategic and financial benefits and has the potential to be a transformational part of the strategic reset we've been embarking on. And to be clear, we are not slowing down in the meantime. Everything Kate and I discussed today, including the Sodium Ion platform, the bridge rollout, the customer opportunities, all of that continues. With that, I'll turn it over to Kate to discuss the financials.

Kate Suhadolnik | Chief Financial Officer:

Thank you, Drew, and good afternoon, everyone. Our second quarter results reflect the transition Drew just described. As we wind down legacy contracts and invest in the bridge and energy-based platforms, it's important to view this quarter's reported results in that context. Revenue for the second quarter of 2026 was 73,000 compared with 2.4 million in the prior year period. That decrease reflects significantly fewer equipment deliveries as we wind down existing contracts while developing our next generation of products. Cost of revenue was essentially flat at 7.5 million in both periods, resulting in a gross loss of 7.4 million compared with 5.1 million a year ago. Operating expenses increased 19% to $7.7 million, compared with $6.5 million in the prior year period. The increase was driven primarily by a $1.2 million increase in general and administrative expense, primarily driven by legal expense associated with contingent liability accruals, and a $800,000 increase in research and development, partially offset by a $700,000 reduction in sales and marketing expense. Those last two items are worth highlighting. Sales and marketing expense declined 57% year over year on lower personnel costs, reduced outside services, and lower marketing and trade show spending. Research and development rose 55% driven by personnel related investment as we build out the team advancing the bridge platform and our expanded technology portfolio. Loss from operations was 15.1 million compared with 11.6 million in the prior year period. Net loss for the quarter was $15.6 million or $0.46 per share compared with $11.1 million or $0.90 per share in the prior year period. While our net loss increased in dollar terms, loss per share improved 49% because of our larger weighted average share count in the current year. Adjusted EBITDA was a loss of $7.9 million compared with a loss of $7.8 million a year ago. I'll walk through the reconciliation of that on the next slide. Before I do, I direct your attention to the three metrics at the bottom of the slide because they provide a better picture of the progress we're making year to date. For the first six months of 2026, operating expenses declined 12% year over year to $14.5 million, even as we increased investment in product development during the second quarter. Loss per share improved 58% to $1, and net cash used in operating activities declined 27% to $22.4 million. We define adjusted EBITDA as net loss before interest expense or income, stock-based compensation, depreciation, amortization, and asset abandonment, changes in the fair value of warrant liabilities, legal contingency, and other non-operating items. We believe excluding these items provides investors with a clearer view of the underlying operating performance of the business. Turning to the reconciliation, we begin with a gap net loss of $15.6 million for the second quarter. We then adjust for $600,000 of net interest expense, $700,000 of stock-based compensation, $5 million of depreciation, amortization, and asset abandonment, a $200,000 gain on the revaluation of warrant liabilities, $1.5 million of legal contingency accruals, and a nominal amount of other income. that results in an adjusted EBITDA loss of $7.9 million for the quarter compared with a $7.8 million loss in the prior year period. Turning to the balance sheet. We ended the second quarter of 2026 with $10.8 million in unrestricted cash and cash equivalents. That compares with $14.5 million of cash and $7.6 million of short-term investments or $22 million combined at December 31st, 2025. Including accounts receivable and inventory, total liquid assets were $11.0 million at quarter end compared with $22.2 million at year end. Thank you for joining us. That includes $13.6 million of net proceeds from our January Registered Direct Offering, $9.2 million from other financing arrangements, and $4.9 million raised through our At the Market program, partially offset by $14.8 million of repayments on financing obligations. As Drew mentioned,

we have repaid $37 million of the original $40 million principal outstanding under the Yorkville note to date. Thank you for joining us. Our Form 10-Q includes expanded disclosure regarding liquidity and the existence of substantial doubt about our ability to continue as a going concern, and we encourage investors to review that discussion in full. As we execute our strategy, we remain focused on disciplined spending, preserving liquidity, and maintaining the financial flexibility needed to support commercialization and long-term growth. With that, I'll turn the call back over to Drew for some closing remarks.

Drew Buckley | Chief Executive Officer:

Thanks, Kate. This slide summarizes the progress we made during the quarter and the priorities that will define the balance of the year. First is commercial momentum. We signed a letter of intent with Juniper Energy covering 500 megawatt hours or more of sodium ion storage anchored by a planned 10 megawatt, 80 megawatt hour utility project in California. We signed a letter of intent with Alsem Energy for 8.5 gigawatt hours of US-made sodium ion cells and active discussions with existing and prospective Tier 1 customers continue to build and remain robust. Second, our expanded product platform. The rollout of the bridge is underway, extending our reach across the full zero to 24 hour storage spectrum. At the same time, EnergyBase remains our flagship solution for long duration applications of 10 to 20 plus hours. Together, these platforms significantly expand our addressable market, and today we see early stage sodium ion opportunities approaching one billion. Third, on the balance sheet, first half operating expenses declined 12% year over year to 14.5 million. Operating cash burn declined 27% to 22.4 million. We have repaid 37 million of the original 40 million Yorkville note and ended the quarter with 10.8 million of unrestricted cash and streamlined our Wilsonville operations to further reduce expenses and cash burn. And fourth, the milestones ahead that we believe will change our story. Our first sodium ion module is fully built, and we have started charging and discharging testing and testing protocols this week. We expect to build our first full bridge product toward the end of 2026. And finally, the proposed combination, which would be a significant step for this company, pairing what we built with a complementary partner, and we're focused on working towards a definitive agreement in the weeks ahead. With that, I'll turn the call back to the operator to begin the question and answer session.

Operator | Conference Operator:

Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then one again. Your first question comes from the line of Alex Hatman with Sidoti & Company. Your line is open. You may go ahead.

Alex Hatman | Analyst, Sidoti & Company:

Thank you and good afternoon. Thanks for taking questions. My first question was on the LOI that you just shed more light on. I know on the slide you touched on some of the work streams between now and more definitive agreements in September. Could you talk a little bit more about what that process looks like, and is there any interim support for you guys, or are you more self-funding through that date?

Drew Buckley | Chief Executive Officer:

Yeah, sure. Thanks, Alex. Good question. So the timeline as it sits right now, the way we're looking at it is that we expect to reach a definitive agreement with the counterparty by the end of September and then close potentially on the final transaction toward the end of the year. So that's what we're working with right now. We're going through that entire process. And in terms of the funding side, we expect that in the near future, we'll be self-funded for the time being. As I said before, and as Kate kind of remarked on, we've reduced our expenses in cash burn, have paid back most of our promissory note with Yorkville. So we believe we're in a

good position to continue to execute on that, as well as continue to push forward on the sodium ion business. but expect to hear more information about the combination, you know, in a month's time, in a few weeks time, I would say.

Alex Hatman | Analyst, Sidoti & Company:

Great context. Thank you. And I guess in terms of, you know, pushing forward, you know, I know you guys have talked about a variety of opportunities approaching a billion dollars. Can you give us a feel for the pipeline composition, you know, the mix across data center, critical infrastructure, Utility, and maybe how far along some of those conversations are?

Drew Buckley | Chief Executive Officer:

Yeah, sure. I would say that it's a pretty good mix between utilities, AI infrastructure, and data center between those two buckets, utility and data centers. Look, it's early stage opportunities across this part, not yet to bookings and not contracted revenue. But I think what I'd say, Alex, is that the velocity is really high. The pipeline was developed in a matter of months since the awesome letter of intent. So we really haven't pushed hard on the marketing side of this or we haven't really pushed too hard into deeper into these customers. A lot of it is coming from initial conversations and a lot of excitement around sodium ion. And the big reason for that is, like we said before, There's just a real need in the market for a battery with a wider operating temperature range that can handle these spikes in power that data centers produce. So the kind of way it will work is if we take Juniper as an example, we've got our letter intent there. We've got our definitive supply agreement with Alsem. And then from there, it will move towards a full commercial agreement that we have with Juniper, which we expect to come in the coming months. And one other thing I'd say is the demand side of it isn't just coming from new customers. A lot of our existing customers in areas that we have relationships are interested in technology. And what that tells us is just, again, the demand and the velocity of demand is really high. There's a huge power imbalance problem in the United States that needs to be filled, and batteries are going to be a great way to do that. And we think sodium ion has a very clear place in that market.

Alex Hatman | Analyst, Sidoti & Company:

Good color, thank you. And last one from us. You know, so I guess as you're going out to, you know, the data center buyers, the utility center buyers that you mentioned, could you talk a little bit about procurement? You know, are they typically sourcing single supplier or multiple suppliers? And what gets ESS sort of onto that supplier list and onto the top of that list in a crowded field?

Drew Buckley | Chief Executive Officer:

Yeah, I think like any of these customers, what's most important to them is speed to power right now. So all of your AI data centers or utility customers, they care a lot about speed to power, especially in this space of battery storage systems. So critical for us is just showing that we have the ability to bring product to the market in the timeframe that they need it, and relying on some of the historical strengths that ESS has around understanding the momentum and pace between in-house all the way to commercial execution. What does that take in terms of certification? How do we make sure that we're interacting well with the customer's own grid and connecting to them? all of that know-how that we have from history and bringing product to the market is really going to help us in this field and that's why we designed the product around a 480 volt AC connection is that we really do think it's going to be plug and play drop the box in and and that'll be a lot easier for customers to take on so All of our design efforts and the way we're bringing this product to market is built around that speed to power and ease of power. So we shouldn't have too much in the way of

difficulties of bringing the product to the customer site. Again, learnings that we've gotten from the long history we have of bringing products into the customer site with Iron Flow.

Alex Hatman | Analyst, Sidoti & Company:

Very helpful. Thank you, Drew. Thank you, Kate. Thanks, Alex.

Operator | Conference Operator:

We will now move on to our text Q&A session. I hand the call to Jack Greenberg

Drew Buckley | Chief Executive Officer:

Jack, you might need to unmute. I had the same problem at the beginning of the call.

Jack Greenberg | Moderator:

Hey, can you guys hear me?

Alex Hatman | Analyst, Sidoti & Company:

Yeah, I hear you.

Jack Greenberg | Moderator:

Hey, everyone. Sorry about that. First webcast question. is where exactly is Bridge in its development today and what are the milestones between now and the first revenue that you'll see?

Drew Buckley | Chief Executive Officer:

Yeah, good question, Jack. Thanks. So look, the first module is complete. Initial charge and discharge testing is happening right now in our headquarters in Oregon. We're doing full charge and discharge cycling. The market rollout has begun and the first operational bridge we expect toward the end of 2026. So we're really excited about the pace that things are coming along. And I think the engineering team at ESS has worked quite hard to bring the product to life as quick as possible. We're excited to offer more information and testing KPIs and things like that over the coming quarters. But, you know, so far we're moving at the pace that we expect to be able to get the bridge out toward the end of the year and have our first system available for customers to see in the fourth quarter.

Jack Greenberg | Moderator:

Got it. So next webcast question is on the business combination LOI. Without getting ahead of the process, what attracted you to this partner and what does the combined platform look like?

Drew Buckley | Chief Executive Officer:

Sure. So the counterparty is an energy sector company built on an established platform with a track record of proven commercial execution. The logic here is that we want to combine ESS's technology manufacturing base and Non-Lithium Portfolio with an operating platform that already has commercial infrastructure and customer reach. The goal is scale and speed to market, not to consolidate any duplicate capability. And then on the process side, it's a non-binding letter of intent, diligence is underway and parties are working toward definitive agreements. And we hope to give more information as that's available in the coming weeks.

Jack Greenberg | Moderator:

And next webcast question is also on the LOI. The release cites an expected enterprise value of roughly $515 million with ESS-valued premium to market cap. How should investors think about that valuation and eventual ownership split?

Drew Buckley | Chief Executive Officer:

Yeah, sure. The value expected to be attributable to ESS in the contemplated structure represents a premium to ESS's market cap relation at the time the definitive agreement is signed. So we're looking to sign definitive agreements in September, and the structure represents a premium to our current market cap at the time we sign the agreement. That's the measurement point, not any single day's trading price. The final exchange ratio and resulting ownership percentages will be set in definitive documentation and disclosed in the proxy materials. And then just on the strategic value to ESS shareholders, it's not just the implied valuation, but it's combining an established platform and technology that has commercial execution and scale.

Jack Greenberg | Moderator:

And our next webcast question is, you've aligned resources towards AI infrastructure and data centers. How does the bridge product compete against other lithium incumbents?

Drew Buckley | Chief Executive Officer:

Sure. So non-lithium, non-flammable chemistry, as we were saying earlier, it avoids thermal runway risk. So for storage, for batteries that are cited or adjacent to data centers, you can think of the urban critical infrastructure setting that it increasingly becomes like a permitting and citing and risk underwriting question more than just cost. So can you get the batteries in and installed is just as important at times than if you have the lowest price. And that's where we think sodium ion is structurally advantaged, is that Sodium ion doesn't have the thermal runaway. There's not as much permitting issue around it. And then the other thing is the lack of HVAC and liquid cooling means that it's a pretty quiet system. And if anyone's read the news, they can see that some of these larger battery systems do create a lot of humming and noise. So I think it is an attractive product to be in an urban setting around homes. And I want to highlight what I said earlier. The bridge's wide operating temperature range is well suited for AI data centers. Again, the GPUs can demand large amounts of power in a matter of seconds, which creates heat and degrades lithium batteries faster. It's a new and very real pain point for AI customers and a major reason why we're seeing such demand. And finally, hyperscalers and developers are actively managing tariff exposure and supply chain concentration. that makes US-made cells and modules and our bridge product a criterion that the data centers have to solve in their own right. So that form factor is designed to be dropped in very quickly and with very repeatable deployment. It's not a replacement for lithium. It can be very complimentary and serve a different workload, which is growing and very large and a huge opportunity for us.

Jack Greenberg | Moderator:

And the final webcast question we will take is second quarter operating expenses rose 19%, even though first half expenses are down 12%. And cost of revenue was $7.5 million, again, $73,000 of revenue. How should we think about the cost structure from here? Kate, you want to take that?

Kate Suhadolnik | Chief Financial Officer:

Yeah, I'll take that one. Thanks, Jack. Maybe just to start by touching on the Q2 increase you noted. So the increase in our operating expenses in the second quarter, as I mentioned previously, was driven primarily by a $1.2 million rise in G&A expense, which is tied to legal expenses associated with contingent liability accruals. That $1.5 million legal contingency is added back in our adjusted EBITDA and is largely non-recurring in nature. So I wouldn't place too much emphasis on that as far as go forward is concerned. We did also see an $800,000 increase in R&D expense as we expanded our technology platform and worked to move our new product offerings along. And those were partially offset by a reduction in sales and marketing expenses, as I mentioned previously. I think year over year, the adjusted EBITDA loss was essentially flat despite that investment step up. So that I think is a good sign there. As far as current cost of revenue, I would say our current cost of revenue is dominated by fixed manufacturing overhead and really our underutilized capacity at our Wilsonville headquarters during a quarter with very minimal deliveries to customers. Thank you so much for joining us. The 4.3 million of asset abandonment in the first half reflects that footprint rationalization working through the P&L. But overall, I wouldn't say that our current cost of revenue is a read on our unit economics into the future.

Jack Greenberg | Moderator:

And that concludes our webcast Q&A. I'm now going to hand it over back to Drew Buckley.

Drew Buckley | Chief Executive Officer:

Thanks, Jack. Thanks, Caleb, for all your help. And thank you to everyone who joined us today. We really appreciate your continued interest and support of ESS. As a reminder, our investor relations team is available to schedule one-on-one calls and to answer any follow-up questions you may have. You can reach out to MZ Group at gwh at mzgroup.us. We look forward to updating you on our continued progress next quarter. Thank you again and have a great afternoon.

Operator | Conference Operator:

This concludes today's call. Thank you for attending. You may now disconnect.