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CSPI.OQ - Q4 2020 CSP Inc Earnings Call

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Victor J. Dellovo *CSP Inc. - CEO, President & Director*

CONFERENCE CALL PARTICIPANTS

Joseph Nerges

Brett Davidson

Michael Polyviou *EVC Group Inc. - Managing Member*

PRESENTATION

Operator

Good day, everyone, and welcome to the CSP Inc. Fiscal '2020 fourth Quarter Conference Call. (Operator Instructions) Please note, this call is being recorded.

And now it is my pleasure to turn the conference over to Mr. Michael Polyviou. Please go ahead, sir.

Michael Polyviou - *EVC Group Inc. - Managing Member*

Thank you, Leo, and hello, everyone, and thank you for joining us to review CSPI's fiscal fourth quarter and full year ended September 30, 2020. With me on the call today is Victor Dellovo, CSPI's Chief Executive Officer; and Gary Levine, CSPI's Chief Financial Officer. After Victor and Gary conclude their opening remarks, we'll then open the call for questions.

Statements made by CSPI's management on today's call regarding the company's business that are not historical facts may be forward-looking statement as the term is identified in federal securities laws. The words may, will, expect, believe, anticipate, project, plan, intend, estimate and continue as well as similar expressions are intended to identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results. The company cautions you that these statements reflect current expectations about the company's future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond the company's control that may influence the accuracy of the statements and the projections upon which the segment and statements are based.

Factors that may affect the company's results include, but are not limited to, the risks and uncertainties discussed in the Risk Factors section of the annual report on Form 10-K and the quarterly report on Form 10-Q filed with the Securities and Exchange Commission.

Forward-looking statements are based on the information available at the time those statements are made and management's good faith belief as at the time with respect to the future events.

All forward-looking statements are qualified in their entirety by this cautionary statement, and CSPI undertakes no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise after the date thereof.

With that, I'll turn the call over to Victor Dellovo, Chief Executive Officer. Victor, please go ahead.

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Thanks, Michael, and good morning, everyone. We hope you and your families have not been impacted by our ongoing COVID-19 pandemic. Despite the impact of the COVID-19 on your operations and our customers' operations, since March, we have remained focused on executing our key objectives to ensure CSPI is positioned for long-term success.

I would like to devote most of my prepared remarks to reviewing our progress on reaching these objectives and the adjustments we have made in our new fiscal year.

One objective since the pandemic hit and begun impacting our ability to aggressively pursue our marketing plans has been to maintain a full workforce. We have used government programs to help achieve this objective as we consider it an essential element to CSPI maximizing its long-term marketing opportunities.

We've adjusted our operations and continue to do so as the situations merit to ensure our employees are working in a safe environment. For those working remotely, we have given them the tools to continue to operate at 100% efficiency.

The broader objective of transforming CSPI to cybersecurity, wireless and managed service company is progressing and yielding encouraging results as we continue to expand our managed service customers in the launch of our UCaaS and ARIA offerings, we are delivering on gross margin improvements.

Total revenue for the fiscal fourth quarter was \$16.1 million and for the full year, we reported \$62.3 million. These are not the levels that we had expected when we entered the fiscal 2020 as the year-over-year declines in both periods continue to impact by COVID-19 pandemic.

Further, the focus on higher-margin products and services allowed us to report robust gross margin improvements of 8% and 5% in Q4 and full year, respectively. In fact, this is the fourth quarter we have reported year-over-year gross margin improvement, demonstrating our effectiveness despite the lower revenue figures.

Further, I want to emphasize, as we continue to transition this process to cybersecurity, wireless and managed service markets company and continue to work for even greater gross margins in 2021.

The pandemic continues to expose the weakness and limitation of the network infrastructures as remote workers environments are leading to increased instances of threat and ransomware. In fact, according to some published reports, spearfishing attacks reached a near sevenfold increase since the pandemic began. I believe the new and positive prospective calls we are having with our customers demonstrates the seriousness of this issue and is creating opportunities for CSPI. We are hopeful that the companies are setting aside budgets in 2021 to resolve it.

While COVID-19 have brought some of these security issues to the forefront, the underlying weakness and vulnerabilities were already there and that is why we elected to devote resources in entering this market segment. Because we have a highly experienced team, in less than 2 years, we were able to develop our offering internally. I believe the numerous industry awards and accolades validate to strength and breadth of our offering in support of our view that ARIA and unified communications as a service are positive positioned to address today's critical network issues.

For the quarter, our Technology Solutions, or TS, revenue was \$12.5 million and for the full year, it was \$55.9 million. We received orders from larger customers, and we would expect the pace to pick up once COVID-19-related impacts lessen, so small and medium-sized customers have the budget to proceed with new purchases.

As you know, this is a transactional business, and we still need to be out in front of our customers. Our managed service practice continues to expand as we sign new cloud-based customers and UCaaS customers, including in the educational area, which is seeking to enhance the system during this current climate. By continuing to address our customers' needs, especially during these challenging times, we are demonstrating our value to them daily.

Bottom line, the professionalism, commitment and dedication of our team is why we continue to grow our customer base.

Separately, the cruise ship industry remains one of the industries greatly impacted by the pandemic. And when we spoke last in August, the Cruise International Association had announced that its ocean-going cruise line members had voluntarily extended the suspension of the cruise line operations from the U.S. ports till mid-September 2020. However, given the severity of the impact, and not surprisingly, they pushed it back to March 2021.

Further, Europe is experiencing a sharp rise in cases and new measures are being imposed by several European countries. Threatened, thus, the already limited restate the crews in the Mediterranean and other regions. Although the travel restrictions have hampered our ability to gain access to the ships, our teams have had regular scheduled communication with the operators.

We reassigned the team members to work on other projects that require assistance with the goal to keep them engaged and ready to proceed at a moment's notice. This preparedness on our part has proved to be pivotal during the fourth quarter as we gained access to 2 ships at dry dock to perform upgrades. While the procedures and safety protocols were rigorous, it was worth it to ensure the well-being of our personnel.

Yes, it's a small step, but also a positive signal because we're moving in the right direction and there's light at the end of the tunnel. Remember, the cruise line operators have already purchased the equipment, so these ships are giving us a backlog that will need to be dealt with.

Turning to our Microsoft practice. It continues to perform well, and we are receiving tremendous amounts of interest. So I believe the momentum will continue to generate strong results in 2021.

During the quarter, we continued to gain positive traction with our UCaaS offerings. We added new customers, and we are in the process of expanding sites with our current customers. As a reminder, the UCaaS market is expected to grow from \$15.8 billion in 2019 to \$24.8 billion by 2024. And despite our efforts being limited because of the pandemic, we are continuing to increase the number of vital product demonstrations on a weekly basis. In fact, the new business pipeline is higher today than compared to the fiscal third quarter.

Moving on to our high-performance product, or our HPP division. Revenue for the quarter was \$1.7 million below our internal projections as royalty revenue related to the E-2D program was pushed out. However, we do expect to recognize in the first half of fiscal 2021.

We remain excited about ARIA and our award-winning next-generation cybersecurity platform that helps organizations protect themselves from harmful hidden attacks with our human intervention.

We have a few installations, both in the U.S. and internationally, and we continue to be well positioned within a leading cable company that has created other OEM opportunities for ARIA. While the current pandemic is delaying physical deployment evaluation and decisions, we believe that there are indications that their posture could change in the next few months as budgets or new projects, once frozen because of COVID-19, could be freed up as early as January.

By raising our awareness at vital trade shows and throughout the marketing campaigns, we have a solid lead flow. This is going to be meaningful revenue contributor for the company.

To summarize, I believe we have successfully adapted our operations since March to sustain our business and growth prospects. We have a solid base of recurring revenue and diversified customer base, essential ingredients to manage through the current market.

Further, the interest in our products and services remain high. The pipeline continues to grow, and it is a leading indicator for future periods for exceptional performance.

With that, I will now ask Gary to provide a brief overview on the fiscal fourth quarter and full year financial results.

Gary W. Levine - CSP Inc. - VP of Finance, CFO, Treasurer & Secretary

Thanks, Victor. As Victor mentioned in his opening remarks, our fiscal fourth quarter and fiscal year revenue was \$14.3 million and \$61.8 million, respectively. Our results also reflect the pursuit of higher-margin business.

We reported gross profit of \$4.4 million and \$17.2 million in the fourth quarter and fiscal year, respectively, resulting in gross profit margin improvement in both periods. The Q4 gross margin was 31%, improved by approximately 8%; while the fiscal year gross margin was 27.8%, improved by 5%. Our engineering and development expenses for the fiscal fourth quarter was \$717,000 compared to \$691,000 in the year ago period. For the full year, this was approximately \$2.8 million, which is flat with the year ago expense level.

Our SG&A expenses in Q4 was \$4.2 million, approximately \$400,000 decrease from the \$4.6 million in last year's fiscal Q4 due to the decrease in variable compensation costs.

We reported a net income of \$36,000 in the fourth quarter compared to a net loss of \$334,000 in the year ago fourth quarter. The company's income tax benefit for the fourth quarter was \$725,000. The tax benefit was due to a partial valuation allowance against the U.S. deferred tax assets that are more likely to be partially realized, offset by current year federal research and development credits and the benefit resulting from the carryback of the federal net operating losses.

For the fiscal year, we reported a net loss of \$1.1 million compared to a net loss of \$371,000. The measures we implemented earlier, including the suspension of our quarterly dividend, stopping our stock buyback program and PPP loan proceeds, have preserved our cash. We ended the fiscal year with cash and short-term investments of \$19.3 million, nearly identical to our cash at the end of Q3. The pandemic has been an immense impact throughout our economy and the effects will continue into 2021. Therefore, we will maintain similar cash preservation posture for the foreseeable future, allowing us the resources to execute our business plan and to be positioned to benefit from the investments we made over the past couple of years and leverage our business development efforts.

With that, I will turn it over to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Joseph Nerges of Segren Investments.

Joseph Nerges

One quick thing. You did say that there -- I guess, that there were no revenues from the E-2D program in the fourth quarter. Is that correct?

Gary W. Levine - CSP Inc. - VP of Finance, CFO, Treasurer & Secretary

There were some, Joe. We had some royalties in the fourth quarter.

Joseph Nerges

Okay. And then you said you're expecting some in the first half of the year, too? Is that the first half of fiscal '21?

Gary W. Levine - CSP Inc. - VP of Finance, CFO. Treasurer & Secretary

Yes, some rolled over. What we expected was some that has rolled into the first quarter.

Joseph Nerges

Okay. So you didn't get as much revenue as you thought in the fourth quarter. Some of it rolled into the fourth -- first quarter of the next year.

Gary W. Levine - CSP Inc. - VP of Finance, CFO. Treasurer & Secretary

Right, it didn't go away. Right.

Joseph Nerges

Okay. I assume you did see -- or I don't know whether you're aware that the -- evidently the Taiwanese were receiving royalties on the foreign purchases. That's -- is that correct? That's basically...

Gary W. Levine - CSP Inc. - VP of Finance, CFO. Treasurer & Secretary

Correct.

Joseph Nerges

Where were the revenues were coming from? And the Taiwanese, I see they contracted for 4 planes in the fourth quarter -- in their -- in your fiscal fourth quarter. So that's coming down the road little by little, one plane a year, whatever, but it's still added revenue sometime in the future.

Gary W. Levine - CSP Inc. - VP of Finance, CFO. Treasurer & Secretary

Correct. Correct.

Joseph Nerges

You did see that or you didn't? I assume you did.

Gary W. Levine - CSP Inc. - VP of Finance, CFO. Treasurer & Secretary

Well, the problem we have is we don't see...

Joseph Nerges

No, as far as the contract being awarded.

Gary W. Levine - CSP Inc. - VP of Finance, CFO. Treasurer & Secretary

Right. Right. Yes, we saw that.

Joseph Nerges

Okay. I realize you don't know what you're going to get it, but at least, it's out there. We know that. Let me go back to the press release a week ago, when you -- your -- the free 3-month offer that was on the SolarWinds' platform. That is strictly for SolarWinds' customers and organizations. In other words, we're not offering the 3-month free for other customers. Is that correct?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Right. That was just targeted to SolarWinds right at this point.

Joseph Nerges

Okay. I know it's really early because you just offered it last week, but have you gotten any kind of feedback or response on that offer? I mean potential people or customers?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Not yet, Joe, not yet. And plus with the holidays and stuff, everything is...

Joseph Nerges

Yes, I realize. It's not the best week in the world...

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Really, really slow week...

Joseph Nerges

Best week in the world to try to get people to get back to you on. And that's a fairly large base of people, right? We're talking about 18,000 that you had mentioned in the press release, something in 18,000 to 30,000 I've seen as figures on that. Sort of quite a few...

Victor.

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Right. That's right.

Joseph Nerges

Are we -- do we have some sort of a, how can I say it better, hit list of who we can contact on that? Do we know who -- several organizations that have that currently?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

We don't, but we're talking to marketing companies to see if we can get that list of who has SolarWinds or we can just start calling and ask if they currently have it. That's -- sometimes it's just for obvious reasons...

Joseph Nerges

Usually, it's out there on a database someplace. People make e-mails targeting certain customer bases. So I just was curious. That is strictly for the -- the 3-month offer is strictly for the SolarWinds' platform though?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Yes. If someone else has an opportunity for something else, and we can help them and it makes sense financially, I leave it open to some -- because right now in these trying times, the budgets are just being allocated if we have to give them a little bit, 90 days or so to get things rolling for a 3-year contract, it will make sense in the long term.

Joseph Nerges

One of the interesting things in the press release, at least from my standpoint, that was the dimension that I guess Gary also mentioned, that we often -- and we're talking about the ARIA platform, often replace legacy security information systems and other security tools, in other words, the ADR platform or the ARIA platform. In some cases, customers or potential customers don't need all of what they have currently.

We can literally -- is that correct? Or maybe we can -- by implementing ARIA, we can sometimes eliminate some of their older stuff, older security tools?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Well, yes, sometimes -- depending on what they have, we could take sometimes 3 different manufacturers and cut it down to 1. So you have 1 management platform and 1 tool, managing everything.

Joseph Nerges

And I'm guessing in some cases, the cost of even maintaining the existing legacy systems can be substantial in the fact that we can literally replace some of the older stuff. So implementing ARIA might not be -- we could be pretty competitive by eliminating some of the older stuff.

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Correct.

Joseph Nerges

So that would -- I mean, your return on investment on with ARIA is extraordinary, and I'm a little bit dumbfounded as why we're not getting a little bit more -- I realize that you have the whole pandemic thing and it's difficult. But the traction that we should be getting in that should be substantial going forward. And more and more people, I assume, are aware of it now that it's been out there for, what, 6, 8 months now, 1 year at least, talking to customers about it?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Yes. We're doing the trade shows. And right now, it's name recognition. We got to get our name out there and get more and more evals and getting more and more wins and...

Joseph Nerges

Well, you mentioned at the beginning about the platform continues to generate enthusiasm. So I'm assuming people are interested. It's a matter of whether or not they're spending the time or have the opportunity to let us in to help with the implementation?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Exactly.

Joseph Nerges

Okay. We did mention that R&D for the year -- about \$2.8 million for the year, approximately, right? Any resolution -- have you guys submitted the PPI loan to the government, the paperwork for the PPI loan?

Gary W. Levine - CSP Inc. - VP of Finance, CFO, Treasurer & Secretary

The one that we received? Yes, we did and we...

Joseph Nerges

Yes, the -- was it \$2.1 million?

Gary W. Levine - CSP Inc. - VP of Finance, CFO, Treasurer & Secretary

\$2.2 million.

Joseph Nerges

And I'm assuming you got no response from the government as of yet.

Gary W. Levine - CSP Inc. - VP of Finance, CFO, Treasurer & Secretary

Yes, we have. We received response just before Christmas, and it's been forgiven.

Joseph Nerges

Okay. That might have been interesting to at least mention because I think that we don't want to have it hanging out there. But it has been forgiven. We got that information. All right, great. Okay. Well, I...

Victor J. Dellovo - CSP Inc. - CEO, President & Director

In Q1, we'll share more information in Q1 because...

Joseph Nerges

Okay, because it fell into Q1 the...

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Correct.

Gary W. Levine - CSP Inc. - VP of Finance, CFO, Treasurer & Secretary

Correct.

Joseph Nerges

The forgiveness that did. Great. Well, at least that's -- going forward, that's a very positive thing.

Operator

(Operator Instructions) We'll move next to Brett Davidson.

Brett Davidson

I've got a couple of questions. I'm kind of split, like Joe is here, a little bit between the financials and the press release. The headline on the press release talked about record new business pipeline. I was wondering if you could just give a little color on what exactly that means?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Well, just the amount of events we're doing. We're talking to customers and potential quotes that we put out to the various prospects. It's built a pipeline 3, 4x from where it was a few months back.

Brett Davidson

And is that like spread across the board? Or is it focused more in one area than another?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

No. Everything we're focused on, as I mentioned in the past, was based on recurring revenue models, whether it's UcaaS, MSP, cloud-based or ARIA. So it's -- if you look at those 4 funnels, those -- that's where the increase across the board kind of came from. And it varies percentage-wise, but it's all been it's all been favorable across those recurring revenue funnels that we try to build up.

We always have the product and services behind it, which is still a big piece of the business, which in a lot of cases, we're trying to position everything. We'll sell the product, we'll put -- service it, we'll install it, maintain it. And then we'll try to get them as an MSP client and so we can manage it for them on a monthly basis.

So that's kind of the model that we're looking at. And that can go across the board for UCaaS or it could go for cloud, anything with Azure or whether it's ARIA.

Brett Davidson

And is any area represented by a larger dollar amount than other areas? Or again, it's kind of like evenly split?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

No. The cloud base and the MSP is a little heavier right at this point, just because we've been doing it a little longer. UCaaS is increasing. And ARIA, as you know, we're positioning it right now, as both, they can buy it and manage it themselves, as I mentioned in the past, or we can fully manage it for them. Of course, at a cost.

Brett Davidson

And this one might swing to Gary a little bit here. The operating lease asset and liabilities, I'm assuming that relates to -- some of it, either to managed service or the UCAAS. Maybe you could give some color on how that is split up and what it represents?

Gary W. Levine - CSP Inc. - VP of Finance, CFO, Treasurer & Secretary

Well, there's a new pronouncement relative to putting leases up on financials so that there's obviously certain aspects with some of the longer-term contracts that we have as well as just the standard leasing that we have to disclose now within the financial statements, Brett.

Brett Davidson

Got it. So it's not necessarily something new. It's just change in reporting.

Gary W. Levine - CSP Inc. - VP of Finance, CFO, Treasurer & Secretary

Right. It's the reporting -- the requirements under the accounting rules.

Brett Davidson

Got it. And is that split kind of evenly between some of these different lease activities that are going on? Or is it dominated by certain areas?

Gary W. Levine - CSP Inc. - VP of Finance, CFO, Treasurer & Secretary

Some of the long-term commitments we've got on financing some of these sales, but also just through standard leasing obligations that you have that has to be recognized within the financial statements. And that's why you've got a long-term aspect to it in there.

Brett Davidson

Got it. Now switching back to that press release, I generated some questions from that. So what exactly does the use of the ARIA advanced detection response entail? Is that all software? Or is it combination software and hardware?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Both, correct. So if you want to install it and you don't want it to automatically fix it, then it can be software only. But if you want to put taps in and put the appliance in line, then you can set rules to where as you see things happening inside either the network in or out through the firewalls, then it could automatically -- based on the rules you set, it could automatically fix them and then you could look at the logs the next day. I had talked about it on the last conference call that you look at the logs, and you can either reverse back if you don't want it or you can let it go through, and it would automatically fix it based on the rules you had set.

Brett Davidson

And is that based on like a signature of the activity that's going on? Or is it more like IP-based?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

It's IP-based. It's taking it all from all the data that's coming. And so we actually sell it per IP, we license it per IP. So if someone has 600 IPs, then we would have to sell 600 licenses. And then it depends if it's redundant. And then if -- then the second aspect of it is, if you want us to manage it and monitor it 24/7 or you'll do it internally.

Brett Davidson

All right. And inside the press release, it indicated that ARIA ADR stops the activity associated with the Sunburst attack. And my first thought was, well, okay, how do you guys know that?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

That's why we have our engineers internally that would test it. It's the way we -- it's -- how it exactly does that, that's what the engineers figure out, but the way we look at all the data and the changes, the team is, like I said, very confident that it stops all the ransomware and everything else going through.

Brett Davidson

Have you -- I mean, has this been tested and proven out? Or is this theoretically it stops all the activity?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

No. It's tested in labs, and we work with other companies that -- some of the big players, too, in conjunction with their firewalls, you name the big players, and we have tons of lab gear and software and everything that goes across. We -- kind of -- we're an integrated partner. So we get a lot of feeds from these manufacturers, and we have to test a lot of this stuff. No, we're not just saying it.

Brett Davidson

Got it. So this is proof of concept. You guys have actually gone out and been able to demonstrate that. So more or less, it's just the traffic related. If you're knocking these people off the network, we're getting them from using whatever it is that they're using to get in and out.

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Yes. One of the biggest things that we do, and like I said, I had mentioned it prior, is we're looking at east to west traffic inside the network, right? Everybody looks north to south, the in and the out, the firewall coming from outside in. We're looking across the traffic. And a lot -- so the way it analyzes it when you have something that could be inside your network that shouldn't be there, that's why things get -- they put these little probes inside there and then they start festering inside, and they could be there for months and month and months gathering data. So the way we analyze that is the east to west traffic, and I think that's why we're different than a lot of players out there.

Brett Davidson

And that's where the AI component comes in?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Correct.

Brett Davidson

So -- yes. I guess, I know Joe had asked if there's anybody that's taking advantage of this. And have you guys received like any kind of feedback as to how this release has been received or still too early?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Still too early.

Operator

(Operator Instructions) We'll move next to James Stewart.

Unidentified Shareholder

My question is really directed towards Victor at the moment. I want to congratulate you first on execution you've done on moving forward on new products, but also on the phenomenally high margins that you're getting. My question is, our company, an investment firm, has a screener for all the companies in the U.S., and CSPI was always in the top 10 as far as being undervalued. And I know you're working with -- in one of the prime areas, your ARIA products are proven and award winning. And I'm sure that the cybersecurity firms that you are working with it's not going unnoticed that you have such high margin and a product that works. Are there any discussions at all on further joint ventures or possible acquisition? Because obviously, the acquisition of CSPI would be accretive to any company that bought you. I just wondered if you could discuss any of those things you might be looking at in the future?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Well, everything is always on the table, right? Whether if someone comes to us to purchase us so if there's other things that I could see there would be accretive immediately. We do talk to other companies constantly. And if something happened to make sense, we would bring to potential shareholders to vote on or whatever would be needed. But right now, we're just focused on building the products, trying to generate sales and go from there. But everything is on the table, both ways.

Unidentified Shareholder

Well, again, I congratulate you. I think you've done both your entire team has done a phenomenal job.

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Thank you very much. Appreciate it.

Gary W. Levine - CSP Inc. - VP of Finance, CFO, Treasurer & Secretary

Thanks, James.

Operator

We'll move next to Jonathan Hoenig.

Unidentified Shareholder

Congratulations also on these really encouraging results. I'm a long time holder of the stock. And I'm just kind of curious, given the strong transformation, is there any way you can explain -- I mean, for years, CSPI outperformed a lot of the small-cap indices, the MicroCap index. And now the Russell is at all-time highs, the MicroCap index has rebounded. So I'm wondering if there's just any explanation you might have of why the stock, given the strong fundamental transformation, the stock is so -- such an underperformer as of late.

Gary W. Levine - CSP Inc. - VP of Finance, CFO, Treasurer & Secretary

Well, that's kind of a difficult thing. There's such low volume in it. And I think it's the thing that we're really trying to do is more to get out there to get CSPI known. And I think once we start getting more success with the High-Performance group as well as the TS new product, I think the story will start to resonate more. Obviously, we've got the strong margins and are pursuing those things, and I think we'll do more of IR once the story starts to germinate. Do you have any further comments, Victor?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

No, you summed it up. I think -- I believe it's on the value, too, where there's a lot of aspects of CSPI that we've been working on for years that are actually showing great profits. You'll see it in the margins. One thing about the story from years past was the margins were always very low. On the TS group, we have fixed that to where we get the recurring revenue model. We have products and services that all tie together. The messaging is unified now on both sides of the house, bringing the security products into play also. And now just getting that ARIA piece of it which, like I said, it hasn't been long. And the pandemic kind of, I think, put the brakes on it a little bit as fast as we would like to get more and more success with that. But I think the messaging the strategy all makes sense. It's unified, and it all ties together. And with that being said -- go ahead.

Unidentified Shareholder

I'll say one quick follow-up before -- I know my time is very limited. And it's great to hear, Victor, that you think the stock is undervalued. I think from a markets perspective, any regular and frequent insider purchases, however, small, 1,000 shares, 2,000 shares, I know as an investor, sends a real signal to the market that you guys are bullish on the future. And I will see my mic, and thank you once again.

Operator

And we have time for 2 more questions. We'll take that first question from Douglas Johnson.

Unidentified Shareholder

Question on the balance sheet, the notes payable of \$2.5 million, is that all PPP?

Gary W. Levine - CSP Inc. - VP of Finance, CFO, Treasurer & Secretary

Yes.

Operator

And we'll take our final question from Terry (inaudible).

Unidentified Shareholder

I was kind of curious on the ARIA software what do you believe the total addressable market size potential for that particular product would be, I think, in 2020, global cybersecurity was estimated to be about \$167 billion spend. What do you think the ARIA market is?

Victor J. Dellovo - CSP Inc. - CEO, President & Director

It's in the billions. I would -- \$20 billion to \$30 billion of that could fit -- because we hit a lot of silos of that overall market. So conservatively, \$20 billion, \$30 billion.

Operator

And that concludes our question-and-answer session. I'd be happy to return the call over to Mr. Victor Dellovo for any concluding remarks.

Victor J. Dellovo - CSP Inc. - CEO, President & Director

Thank you. As always, I want to thank our shareholders for your continued interest and support. We are excited about our long-term growth prospects, and I believe the foundational progress we made this year will drive our revenue and profitability in the coming years. Gary and I look forward to sharing our fiscal first quarter results in February. Until then, stay safe and happy new year.

Operator

Thank you. This does conclude the CSP Inc. Q4 2020 Earnings Conference Call. You may now disconnect your lines, and everyone, have a good day.

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