

ROC
Q3 2026 Earnings Call
Thursday, November 12, 2026

ROC CORPORATE PARTICIPANTS

Scott Swann - *Chief Executive Officer*

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Yi Fu Lee, *Analyst, StoneX*

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Rory Rumore
Thank you, Operator and good afternoon, everyone. We thank you for joining ROC's third quarter 2026 financial results call. Presenting on today's call are Scott Swann, ROC's CEO and Cody Barnes, ROC's CFO. Brendan Klare, ROC's Co-founder and Chairman of the Board of Directors, and David Ray, ROC's Head of Capital Markets and General Counsel will also be available during the question-and-answer portion of the call.

Before we begin, I remind everyone that this call may contain certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include remarks about management's future expectations, beliefs, estimates, plans, and prospects, including our expectations for the fourth quarter of 2026 and for revenue under our recently awarded federal contracts.

Such statements are subject to a variety of risks, uncertainties, and other factors that could cause actual results to differ materially from those indicated or implied by such statements. Such risks and other factors are described in the earnings release we issued today and under risk factors in our annual report on Form 10-K for the year ended December 31, 2025, as updated by our subsequent quarterly reports on Form 10-Q, which are available on our investor relations website and at www.sec.gov.

Forward-looking statements made on this call speak only as of today, November 12, 2026, and except as required by law, we undertake no duty to update them. Additionally, during today's call, we may discuss certain non-GAAP measures. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with US GAAP.

It's now my pleasure to turn the call over to ROC's CEO, Scott Swann.

Scott Swann
Thank you, Rory. Good afternoon, everyone and thank you for joining us for ROC's third quarter 2026 earnings call. The third quarter was a breakout quarter for ROC, marked by two significant federal contract wins, record quarterly revenue and our first profitable quarter since the IPO. Importantly, these were not small pilot awards, but multi-year, multi-million-dollar federal programs that established important strategic beachheads for our technology.

In September, ROC secured the largest contract award in our operating history, a US Department of Justice digital evidence contract with a potential value of up to $64.3 million over eight years, including option periods. This award established a strategic federal customer for ROC Evidence, a product we launched ahead of plan earlier this year and includes a one-year base period valued at approximately $7.4 million.

The ROC Evidence award followed our August announcement of our first federal beachhead customer win, a five-year ROC ABIS contract with a potential value of up to $5.1 million, including

approximately $2.5 million in committed contract value. This award contributed approximately $2.0 million in ROC ABIS product revenue during the third quarter.

At the time of our IPO in February, we committed to establishing strategic federal beachhead customers in each of our core Vision AI products, ROC ABIS, ROC Evidence, and ROC Watch. During the third quarter, as I just described, we delivered on two of those commitments.

These milestones represent progress against our growth strategy. By winning competitive federal procurements, we have demonstrated ROC's ability to challenge established providers, compete for mission-critical government programs, and establish strategic customer relationships with the potential to generate software licensing, services, and expansion opportunities over multiple years.

With strategic federal beachhead contracts in place for ROC Evidence and ROC ABIS, our next objective is to establish a comparable strategic customer for ROC Watch. We remain actively engaged with government and commercial customers, with multiple new deployments underway and opportunities to expand on existing programs.

Turning to our third quarter financial performance. Revenue reached a quarterly record of $8 million, increasing 50% year-over-year and 57% sequentially. In fact, revenue has increased sequentially in both the second and third quarters of 2026, reflecting growing product adoption and increased government contracting activity.

Earlier this year, we said we expected government procurement activities to increase as the year progressed, and our third quarter results reflect that improvement. Importantly, our high-margin product revenue returned to year-over-year growth, increasing 24% to $5.7 million and representing approximately 71% of total revenue.

This favorable shift towards software licensing reflects the financial potential of our product-driven growth strategy. The increase was primarily driven by ROC ABIS revenue, which generated $2.2 million, up 654% year-over-year. A significant portion of this amount was due to the strategic federal ABIS award, which we delivered in the quarter.

Additionally, ROC SDK revenue increased 52% to $2.6 million, driven by new customer adoption of our biometric offering, as well as increasing demand for our boat detection and age estimation intelligence. Our aggregate product performance is particularly encouraging because it demonstrates the financial potential of our software business as we expand into larger customer programs.

As mentioned, the third quarter's record total revenue benefited from increased government activity, with R&D contract revenue growing 175% to $2.2 million. R&D contract revenue is an important complement to our product strategy, providing ROC with a funded means to innovate, deploy, and evaluate the performance of our products.

Gross margin reached approximately 90% for the second consecutive quarter, supported by revenue mix weighted toward higher-margin software licensing. Importantly, our record third-quarter revenue and profitability were achieved before recognizing material revenue from the newly awarded Department of Justice ROC Evidence program. That contract was awarded late in the quarter, and we expect increased revenue contribution to begin in the fourth quarter.

This is an important distinction. We delivered record revenue and quarterly profitability while simultaneously securing two significant federal programs that strengthen our competitive position and create opportunities for future growth. These third-quarter results demonstrate that our growth investments and strategies since the IPO are working. We have observed strong product adoption and larger federal contracts supporting our software-driven operating model, which we have also shown is capable of producing attractive gross profit as our revenue scales.

I will now turn to a review of ROC's three core growth products that we believe are the engine of our long-term growth strategy. First, ROC ABIS is expected to represent one of our largest long-term market opportunities. Government agencies around the world operate complex biometric identification systems that are essential to law enforcement, border security, national identity, and intelligence operations.

ROC ABIS addresses these biometric requirements with our modular multimodal identification platform and intelligence solutions that combine accuracy, speed, and processing efficiency. While our American-built technology has been the central to ROC's mission and competitive differentiation since our founding, our advantages extend well beyond our US roots.

Our independently evaluated NIST results demonstrate what we believe to be industry-leading accuracy and search performance, while the computational efficiency of our technology can help reduce the infrastructure requirements and total cost of ownership associated with deployments at scale. These advantages are particularly meaningful in large-scale government biometric systems, where agencies must search and process millions of records with exceptional accuracy, speed, and reliability.

ROC's ability to deliver high-performance biometric matching while minimizing computational demands provides agencies with a compelling combination of operational effectiveness, scalability, and long-term cost efficiency, delivered by an American technology provider. The $5.1 million federal ROC ABIS award is an important demonstration of our ability to compete and win in this government market.

We are also seeing encouraging momentum from our channel strategy, as pilots, evaluations, and targeted deployments demonstrate the performance of ROC's technology in customers' operating environments and create opportunities for broader adoption.

Our near-term strategy is to pursue large-scale identification modernization opportunities across the federal government, including ongoing engagement and procurement activity involving the

FBI, the Department of War, Department of Homeland Security, and the Department of State, as well as state and local governments and international markets.

While the timing of contract awards can be difficult to predict, the potential for multi-year software licensing and support agreements makes these opportunities an important driver of our long-term growth strategy. Our objective is to build on this initial federal beachhead by expanding into additional ROC ABIS opportunities, converting those opportunities into larger-scale production deployments and establishing long-term, multi-year software licensing and support relationships.

Turning to ROC Evidence. The historic DOJ award represents a significant milestone for a product that we only began monetizing earlier this year. With ROC Evidence, we've developed a powerful platform that enables investigators to securely ingest, preserve, search, and analyze vast amounts of digital evidence from multiple sources, including mobile devices, video, email, messaging platforms, and other digital environments. By bringing these disparate sources together into a unified investigative platform, ROC Evidence helps agencies accelerate investigations, uncover critical connections, and manage complex digital evidence at scale.

In August, we completed the acquisition of ZTC, a long-term strategic partner of ROC, bringing a highly specialized digital forensic team with extensive experience supporting federal investigative customers into our organization. The acquisition also contributes incremental services revenue, although its primary value lies in the specialized expertise and capabilities it brings to ROC Evidence.

Our strategy behind the acquisition was to combine ZTC's specialized digital forensic expertise with ROC's software development capabilities to strengthen ROC Evidence's competitive position in the investigative intelligence market and accelerate its commercial expansion. We believe the DOJ award reinforces the strategic rationale for bringing these complementary capabilities together. Following the DOJ award, we promptly initiated the implementation and onboarding activities. Our near-term priority is to successfully execute the program while continuing to advance ROC Evidence's capabilities to support the complex requirements of federal investigative operations.

Longer term, we see opportunities to expand ROC Evidence beyond the implementation and technical services into software licensing and usage-based revenue associated with evidence processing, analysis, and storage. Given the complexity of these investigative environments, initial deployments require specialized engineering and hands-on implementation support to establish secure and efficient workflows. As a result, we expect services to represent a larger share of ROC Evidence revenue during the initial implementation phase, with associated margins below those of our software licensing business.

As the volume and complexity of digital evidence continues to grow, we believe ROC Evidence has the potential to generate additional revenue within existing customer relationships.

Increased demand for evidence processing, analysis, and storage creates opportunities for usage-based revenue growth as customer adoption and utilization expands.

We anticipate recognizing meaningful revenue from the DOJ award beginning in the fourth quarter, with additional contributions expected through the third quarter of 2027 for the base contract period as implementation and software milestones are achieved. Our immediate priority is to successfully execute the deployment while leveraging the experience and capabilities developed through the program to pursue additional opportunities across federal agencies, state and local law enforcement, and commercial markets.

ROC Watch, our real-time video analytics intelligence platform, represents our third core growth product and the next strategic anchor opportunity we are pursuing. As ROC's first dedicated Vision AI product, ROC Watch was the first of our three core growth products to generate meaningful revenue with active deployments across government and commercial security markets.

In the third quarter, ROC Watch generated approximately $792,000 in revenue, more than tripling from $248,000 in the second quarter. We believe this sequential growth reflects encouraging customer demand and expanding adoption of the platform.

On a year-over-year basis, revenue declined primarily due to the completion of a significant government mission deployment in the prior year quarter, as we discussed during our second quarter update. While that project successfully demonstrated ROC Watch capabilities, its defined mission requirements resulted in revenue concentrated within a limited deployment period.

Our near-term priorities for ROC Watch are focused on expanding our commercial enterprise customer base, growing recurring software license revenue, and reducing revenue concentration. At the same time, we continue to advance opportunities across our government pipeline, with the objective of securing a significant strategic anchor contract in the first half of 2027. We are also seeing encouraging engagement from existing commercial security customers, including ongoing pilots, initial deployments and discussions around broader adoption.

I would also like to address the government procurement environment. Earlier this year, we discussed the slower pace of federal funding and contracting activity while expressing our expectation that procurement activity would improve as agencies progressed through their funding and acquisition cycles.

We began seeing early signs of this improvement in the second quarter, particularly through increased government research and development activity. And in the third quarter, we saw this momentum accelerate and translate into tangible results across our core product lines. We secured two significant federal contract awards for ROC Evidence and ROC ABIS, with the ROC ABIS award contributing to third-quarter revenue and both awards strengthening our contracted business and future revenue opportunities.

The federal fiscal year end in September was an important period for procurement decisions, and we continue to actively engage with the government agencies across both early and late-stage opportunities. While September 30th represents an important deadline for certain federal funding obligations, procurement activity, and contract awards, those contract awards can extend beyond the fiscal year end as agencies advance through their acquisition processes.

Our government pipeline includes opportunities across the Department of Justice, the FBI, Department of Homeland Security, Department of State, and Department of War. These range from pilot programs and active competitive solicitations to larger scale biometric modernization and identity intelligence initiatives, particularly for our ABIS solution.

We are also encouraged by the increase in customer engagement and pipeline activity following our recent federal contract wins. These awards establish important credibility in demanding government markets, and we believe strengthen ROC's competitive position in current and future procurement opportunities.

That being said, I would like to reiterate that government procurement is neither a linear nor a rapid process. Larger programs can require extended periods for technical evaluations, funding approvals and implementation planning. Our responsibility to our stakeholders is to continue advancing these opportunities, converting them into contracted revenue commitments, and executing successfully once they are awarded.

Before turning the call over to Cody, I wanted to address the longer-term financial model we are building and how the two significant federal awards secured in the third quarter support that strategy.

During the first half of the year, we made significant investments in engineering, product development, commercialization and compute infrastructure. In the third quarter, we began seeing the benefits of those investments, demonstrating the operating leverage potential of our business model as higher software license revenues contribute to our established operating cost structure.

As we build a larger base of repeatable software licensing and support revenue, we believe revenue growth can increasingly outpace operating expense growth. As the business scales, the revenue mix has the potential to support attractive gross margins and expanding operating profitability.

While we do not expect every quarter to deliver the same financial results, particularly given the timing of government contracts and variations in revenue mix, we believe the third quarter represents an important inflection point for ROC. With record quarterly revenue and our first profitable quarter since the IPO, we have demonstrated the financial potential of our business model as we continue to scale.

With that, I'll turn the call over to Cody for a review of our financial results.

Cody Barnes
Thank you, Scott, and good afternoon, everyone. I will now provide a brief overview of our financial results for the third quarter ended September 30, 2026. In the third quarter of 2026, total revenue achieved a quarterly record of $8.0 million, compared to $5.3 million in the third quarter of 2025, an increase of approximately $2.7 million or 50%. On a sequential basis, revenue increased 57% from $5.1 million in the second quarter.

Our record quarterly revenue was driven by ROC ABIS and ROC SDK product revenue and higher R&D contract revenue from an existing US government research program. These areas of growth more than offset lower ROC Watch revenue due to the completion of a significant ROC Watch deployment recognized in the prior year quarter.

Product revenue was $5.7 million compared to $4.6 million in the prior year quarter, an increase of 24%, contributing approximately 71% of total quarterly revenue.

ROC ABIS revenue increased 654% year-over-year to approximately $2.2 million, reflecting continued traction of our ABIS solution, driven primarily by approximately $2 million of product revenue from our federal ROC ABIS award.

ROC Evidence generated revenue of approximately $63,000 during the quarter, primarily from initial services delivered on the Department of Justice award secured in the last two weeks of the third quarter 2026. The DOJ award has a one-year base period valued at approximately $7.4 million. ROC expects more significant revenue recognition in the fourth quarter of 2026 and continuing through the third quarter 2027 as implementation and delivery milestones are completed.

ROC Enroll revenue was approximately $59,000, up 55% from $38,000 in the prior year quarter.

ROC Watch revenue was approximately $0.8 million, a decline of approximately 69% from the prior year quarter, reflecting the successful completion of a significant tactical deployment in the prior year quarter. On a sequential basis, ROC Watch revenue increased by approximately 219%, driven primarily by continued traction with early-stage government and commercial deployments.

ROC SDK revenue was approximately $2.6 million, up 52% year-over-year, reflecting new customer contracts and expanding commercial adoption of our foundational software platform.

Following the acquisition of ZTC on August 31, in the third quarter of 2026, we recognized a new service contracts revenue line, reflecting revenue from pure service contracts that are not attached to software licensing, hardware, or R&D deliverables. For the third quarter of 2026, we reported service contracts revenue of approximately $0.2 million, which was primarily attributable to incremental revenue recognized from the ZTC acquisition.

R&D contract revenue was $2.2 million compared to approximately $0.8 million in third quarter 2025, an increase of $1.4 million or 175%, primarily due to an increase of activity under a research and development contract with a US government customer that commenced in the second quarter 2026.

Gross profit increased to $7.2 million in the third quarter 2026, from $4.2 million in third quarter 2025, and gross margin improved to 90% from 79% in the prior year quarter. The improvement reflected the quarter's higher margin revenue mix of software licenses, with lower cost of sales driven by the ROC ABIS platform license. We sustained 90% gross margin for a second consecutive quarter and believe this reflects an emerging product-led revenue base, the strength of our software-driven revenue model, and the efficiency of our Vision AI platform. Notably, margin will fluctuate depending on the revenue mix of software licenses, services, hardware, and R&D contract revenue.

Operating expenses were $6.6 million in the third quarter 2026, compared to $4.3 million in the third quarter 2025. Selling, general, and administrative expenses increased to $3.9 million, primarily driven by our continued investment in growth, reflected in higher personnel-related costs across engineering and product development, business development, operations, and fees associated with the ZTC acquisition. Research and development expenses increased to approximately $2.7 million. The increase from the prior year reflects continued investment in engineering, product development, and platform enhancement.

Net income for the third quarter of 2026 was $0.6 million, compared to a net loss of $0.8 million in the third quarter 2025. Basic and diluted earnings per share were each $0.03 compared to basic and diluted loss per share of $0.05 in the prior year period. As of September 30, 2026, we had $7.5 million in cash, approximately $14.8 million in working capital, and no borrowings under a revolving line of credit.

Accounts receivable increased to $11.1 million from $5.6 million on June 30, primarily reflecting our strong revenue performance in the third quarter. We believe our balance sheet provides the flexibility to continue executing our current strategic growth plan across product development, deployment capacity, customer acquisition, and the infrastructure required to support larger, longer duration programs.

With that, I'll turn the call back to Scott.

Scott Swann
Thank you, Cody. In closing, the third quarter marked a defining milestone for ROC. We delivered record quarterly revenue, achieved our first profitable quarter since our IPO, and sustained gross margins of approximately 90% for the second consecutive quarter. These results, combined with the two significant federal contract awards, demonstrate the progress we have made against the strategic objectives established at our IPO. They reinforce our belief that ROC's differentiated

American-built Vision AI technology is increasingly positioned to compete and win in some of the most demanding government markets.

Looking ahead, our priorities are clear, expand our federal ABIS footprint, secure a strategic anchor for ROC Watch, and successfully execute the DOJ program while extending ROC Evidence into broader government and commercial markets, including complex litigation and e-discovery.

We entered the fourth quarter with meaningful momentum across our federal and commercial businesses. Our contract wins have established important beachheads, strengthened our market credibility, and created opportunities to build larger, longer-term customer relationships with more predictable, high-margin software revenue. We recognize that our success will not be measured by a single quarter. It will be measured by our ability to consistently execute, convert opportunities into revenue and translate our technological advantages into sustainable financial performance.

The third quarter demonstrated what ROC is capable of achieving. Our focus now is on building upon that success quarter-after-quarter to create lasting shareholder value. Thank you to our employees, our customers, our partners, and our shareholders for your continued confidence and support.

Operator, we are ready now to begin questions and answer session.

QUESTION AND ANSWER

Our first question today comes from Yi Fu Lee from StoneX. Please go ahead with your question.

Yi Fu Lee
Thank you for taking my question, Scott, Cody, and the ROC team. Congrats on the record profitable quarter. I have a couple of questions. Let's start with the government vertical. It seems like federal procurement activity is sitting strongly up 175% year-on-year in the September fiscal quarter end. Just want to get your thoughts, Scott, on the government vertical. I remember last quarter you mentioned that it could start slowly and then it gradually ramps up. Has there been any changes since the midterm election results?

Scott Swann
Yes, great question, Yi. Of course, we monitor these activities on the hill very closely, and as we closed out the Q3, we saw an acceleration of government procurement activities and acquisition results. As we move into Q4, we're continuing to foster a range of opportunities with the government that we were actively pursuing. We saw record budgets for government agencies in 2026, and a lot of that money has spilled over into the next several months. We'll be watching very closely to see what progress that they make on passing their budgets. And as such, for us, we feel that we are in a really good position of strength with the existing customer relationships and the funding cycles that they currently have already on budget and are able to obligate.

Yi Fu Lee
Hey, Scott, just to follow up on that, right. As compared to last year, in terms of obviously, like it picks up in the normal government cycle that the last September quarter is the strongest. Do you see any changes this quarter, meaning the fiscal 1Q, this fiscal '27. Is it stronger than last year. I am trying to get to, because some of your commentary sounds like there is still some leftovers in terms of spending?

Scott Swann
Yes, Yi, if you look toward last year, you have to also recall that they operated the entire year off of a continuing resolution, and there was no new money for quite some time. As we entered 2026 and it was late in the year to pass those budgets, so we saw a bit of delay in the first quarter for when they could execute new programs. As we come into 2026 funding this past year, in a lot of cases, those were some record budgets within the federal government. And as such, it is not the same situation as we enter into the beginning of this year. That's not to say that there isn't some seasonality, because Q1 is usually a slower quarter for the government in general. They are coming in off the holidays, and they are pushing other funding from 2027 into the right agencies so they can spend that money. However, it was a different storm last year, operating an entire year off of a continuing resolution.

Yi Fu Lee
Yes, Scott. That's very clear. It sounds like it is a strong start this year. So let's flip over to the fun stuff, right. The ABIS and DOJ, I would say…the two contracts, the DOJ contract at $64 million and the ABIS, the beachhead wins. So, what are the initial milestones, Scott, you could tell us in obviously, the initial year that you feel confident that this contract could get more upsell, cross-sell. It seems like with the beachhead wins, if the team executes well, you could potentially cross-sell to other opportunities. And one of the opportunities, it sounds like in the call, is Watch, that you seem that has great potential, even though it is a smaller base. Just want to get your thoughts on the initial first inaugural year. What are the things your team are doing on the ground to make sure, obviously, there is a continuation of that contract and other cross-sell opportunities to other products like Evidence, Watch and Analytics, et cetera?

Scott Swann
Yes, the size of these opportunities with our two beachhead wins with the ROC ABIS and the ROC Evidence platform are measured much more than just in dollars. These are very strategic wins for ROC. These are major federal programs, and we know that as such, there are a lot of agencies watching our performance on these programs. Our number one priority at this point is execution. We want to ensure that we execute flawlessly. Our feedback to this point has been really phenomenal with the level of customer service that we provide. But to ensure that we are able to provide a pristine capability for these agencies, that will undoubtedly provide great reference material for us as we continue to expand into other government agency opportunities.

Yi Fu Lee
Okay, Scott. In terms of like other products, what would you imagine that you could cross-sell ABIS as well as Evidence to? Would it be like Watch, Analytics? Any thoughts on other

departments? I know you mentioned a lot of three letter agencies like FBI, Department of War, Department of State, even commercial international opportunities.

Scott Swann
Yes.

Yi Fu Lee
Thoughts on, yes. Anything you can provide. I know it is highly sensitive?

Scott Swann
Yes, for sure. Well, first of all, as we look at these products individually, we see good pipeline opportunities for each one of these products. ROC Watch, we have increased the amount of the early adopters. We believe there is expansion opportunities for each one of these. As we built our product stack, there was opportunities to do expansion between products with each of our customer sets as well. We have seen in this past cycle a very healthy release of solicitations from the government, the RFIs that are out there, and the signaling that there will be competitive procurements coming up, especially in the ROC ABIS space for the large-scale federal identity providers.

We saw solicitations released by FBI, Department of Homeland Security. We are also tracking very closely Department of War and as well as Department of State, that we know that they are at the natural end of their current service provider contracts. So, there will be a lot of opportunity to sell individual contracts. The data, as I have always said, with the Vision AI platform lends itself toward cross-selling opportunities. As we are able to provide capabilities for these individual products and deliver them with good customer service, we believe that that will position us well to expand those to these government agencies.

Yi Fu Lee
Scott, just wondering, like is there any like…in terms of the timeline, what do you think like out of these three letter agencies, right. What are the more nearer term opportunities, the RFI that's going to materialize? Do you have any idea on the timeline on that?

Scott Swann
Yes, these timelines are, they are difficult to predict. We have to look at the open-source materials the same as our competitors and others in the market to try to determine that. Schedules haven't necessarily been communicated with preciseness of when those solicitations will come out. We believe that there will be opportunities in the beginning of 2027 for some large-scale identity systems. We have already seen in the digital evidence space, as we look out even beyond federal and state, local and commercial, that there are active solicitations out there right now that we are obviously taking a hard look at and trying to compete to see whether we can expand into ROC Evidence.

And then with ROC Watch, as I mentioned, we have actively been delivering, competing in pilots, and being able to demonstrate the power of our technology against competitors. And as we

mature those opportunities, we are very confident that we will be able to secure that anchor beachhead customer in ROC Watch as we have in ROC Evidence and ROC ABIS.

Yi Fu Lee
Got it. Scott, one more technology question, and I will finish off with a financial question, is SaaS. It sounds like you released the Age Estimation API this quarter. It sounds like as you scale the SaaS offering, obviously we have seen the gross margin, right, 90%. This is your second quarter achieving 90%. What are your thoughts on scaling the SaaS portfolio? I know you just launched, that is your inaugural product in SaaS? Age identification, you know like how do you think about this opportunity? And then I will finish off with financials, and that's it from me.

Scott Swann
Yes. We were able to successfully launch our first SaaS offering, which was age estimation. We believe that our current software development kit provides a range of additional capabilities that we can also introduce into our SaaS offering. Obviously, SaaS has very attractive margins, and also, it's much easier for a company to actually monitor and engineer and provide the maintenance for overall SaaS offering. So, we believe that we want to expand on the offerings that we do offer in SaaS. We want to make sure that we are able to provide success with the current SaaS offering with age estimation and find some early adopters to be able to really expand that and start creating some of that high-margin revenue with new customer sets that we have not been able to work with before.

Yi Fu Lee
Okay and then I will finish off. That's what I have got. Okay, obviously 90% gross margin. Just want to get your thoughts. Should we get used to this, obviously, I know Cody said it is going to fluctuate. Obviously, your cash balance is at $7.5 million. But with that said, you are profitable this quarter, right? Your inaugural quarter of profitability since IPO. How should investors think about your thoughts on your capital requirements? But you are also profitable, so how should we think about that? Are we self-sufficient now, or should we think about obviously tapping the capital markets? And that's it from me. Thank you, guys.

Scott Swann
Yes, I will let Cody help with this question but let me initiate that. First of all, our margins for the core product capabilities have been able to achieve some really impressive gross margins early. As we introduce ROC Evidence, it does require, especially these early deployments, there is more services mix that are there. Our customers need help. These are complex systems, so there will be more direct services labor that introduces maybe some reduced margin for that particular product line, especially early in our deliverables for that. But we do believe it still will be a high-margin revenue for ROC. But you probably should not expect the 90% margin to sustain. When we talk about our cash requirements, we are very comfortable with our cash levels right now. If you look at our working capital it slightly increased, relatively flat from Q2 to Q3. We have a good, healthy accounts receivable that we will be able to collect and be able to continue to fund the business. So, as we move into the future quarters with the high-margin business and the momentum that we have, we believe that our current cash levels are comfortable for us.

Cody, if there is anything that you would like to add to that, please do.

Cody Barnes
Yes, that sounds good. I will just kind of touch on the gross margins again, as Scott said. It's compelled by the contract mix. It's been very heavy on the software licensing. If you take a look at the revenue mix, we have got a lot of composition in ROC SDK and then ROC Watch, of course, the big platform license with the ABIS delivery. So very heavy on the software licensing that's going to really drive the gross margin profile.

Yes, I mean, just to reiterate, I mean, $7.5 million cash, $14.8 million of working capital. We have got a $2.5 million line of credit that's completely undrawn. The cash usage in Q3 was largely anticipated, and it generally reflects the timing of the contract activity and how it's come in, as well as the completion of our planned capital investments and the ZTC acquisition. So, I think a really important data point from our perspective as well is working capital is completely neutral. We see that as a really important data point. So yes, we feel like we have got really good flexibility, Yi.

Yi Fu Lee
Thanks again, Cody, Scott, and the ROC team. Congrats again on a really strong, strongly executed quarter. Talk soon.

Operator
Our next question comes from Jeff Van Rhee from Craig-Hallum. Please go ahead with your question.

Jeff Van Rhee
Great, thanks. Thanks for taking the question today, guys. Congrats. On ROC Evidence, I'd love to hear more, Scott, on, I mean, obviously landmark $64 million win. It had to be very competitive. Talk about what happened in that bake-off. Why you think you won? What were the key defining factors you were able to deliver that others weren't? And I've got a few follow-ups on that one.

Scott Swann
Thank you, Jeff. Well, first of all, I think one of the things to really keep in mind with ROC is the experience that we bring to this problem set. We have essentially hired the team that built the FBI's digital evidence platform. We have tremendous amount of experience and with the acquisition of ZTC, we have really the foremost experts in the world with digital evidence. And I think as we approach the problem, that expertise combined with our solution and our ability to map that directly to what the user needs, our ability to ensure that they got to own and control their own data and providing them with a very cost-efficient way to store that data, those were all, I think, differentiators in our ability to be able to win this record contract.

Jeff Van Rhee
Understood. And then as it relates to just the rev-rec on the $7.4 million, year one, how does that flow in? I know there's milestones, but just generally speaking, how should we think of that over the first four quarters of recognition, and then what portion of that is services?

Scott Swann
Yes, so heavy on services. I think it was awarded a bit late in Q3, so not really any substantial revenue in Q3. As we go into Q4, there'll be some license revenue that will flow in. I think I'll let Cody describe the kind of the rules for revenue recognition of what we apply. Of course, that will stretch across the first base year for the contract. And then also I'll let Cody describe also kind of our anticipated gross margin on the DOJ, ROC Evidence. Do note, ROC Evidence delivery to DOJ, is our first deployment of this technology. And generally, your first deployments, the margins would be just a little bit smaller than what you would expect as you expand this into other customer sets.

Cody, would you like to provide those answers?

Cody Barnes
Yes, for sure. Thanks, Scott. Yes, so it's a $7.4 million base year contract, and it's really two main performance obligations. It's about 45% software licensing and 55% services. So just from like an overall sort of delivery and what we expect, we are expecting most of the software licensing rev rec tied to the delivery in Q4 based on how we recognize about 83% of that portion in Q4, and then 17% will be the PCS. And then the services will be spread out over time from Q4 through Q3 of next year.

From a margin profile, of course, the software component, we're expecting the gross margins to be high-90s, of course. Of course, the services will carry a larger margin profile given the personnel costs associated with the delivery. So, when you pull it all together, we are expecting an attractive gross margin profile at the blended level. We are estimating about a 56% blended gross margin at the total blended level. And really, the last thing I will kind of mention on that is, this is what's on contract. The $7.4 million is currently what's on contract. There is consumption upside on the software portion as this program progresses.

Jeff Van Rhee
Got it. That is helpful. And then Scott, it has been obviously a transformational year. You are delivering on these landmark wins, which will pay dividends down the road. From the leadership seat, how do you look at your team and areas of the organization that need additional either talent, investments, infrastructure. I know you talked about a lot of investments already taking place, but as you said, you are inflecting, you are getting into a higher growth period. Just how do you think about it from a leadership seat in terms of making sure you are ready for what 2027 holds and beyond?

Scott Swann
Yes. I mean, it is the area, Jeff where we can't fail. We have to make sure we deliver these products with good customer service. And so, we are looking at, as we bring in additional talent, of course, we are in budget season now, we are thinking about how we set budgets for next year and what kind of headcount we will bring in. A lot of forward deployed engineers, a lot of engineering support to ensure that these product deliveries are successful. We did fill a majority of our other positions, so I think that from the overall business side as well as a lot of the back-office side, we are in a good position. However, the forward deployed engineers, as we further expand, will be a gap that we will need to fill as we grow with additional contracts.

Jeff Van Rhee
Got it. And then on ROC Watch, obviously the other of the three product sets that you are really focused on and you are looking for your next landmark win there. Had there been any major opportunities? It seems like you have got one or two in particular you have really got specked out. I think you said look for it possibly early in 2027. Just sort of the leading opportunity there, how is that progressing? Tracking as expected, as competitive as expected? Just any additional color on the ROC Watch landmark deal that I think you have been working on would be great.

Scott Swann
Yes. It's more than one deal. There's a variety of these, and they're balanced between both the government and the commercial sector. We have a couple on the commercial side that we're tracking very closely, that we're trying to advance. And as we've won competitive benchmarks in those places, and so we're hopeful that we'll be able to move those toward contract wins.

On the government side, again also there have been competitive evaluations that we've performed quite well in, that we believe that we are in a very good position now of trying to move these toward contract wins as we move either late this year or toward the beginning of next year, the ability to kind of convert those as we've wanted to for a beachhead win.

Jeff Van Rhee
Yes, understood. And even though it's not in those three core categories, when I look at the SDK line, nice number this quarter. Is that something that should continue to grow sequentially? Are there unusual's in there? Do we dip down Q4? How do you think about that going into '27?

Scott Swann
Yes. I think we believe SDK can continue to grow. In some cases, we do try to convert SDK customers to our application product, and we've had examples of that already. But there's just a demand for some of the core components that we provide. So, we believe that we will see growth with the SDK as well. We certainly have a very healthy pipeline of opportunities with the SDK, as well as the rest of our product line. But the SDK services a variety of capabilities. It's very broad. It's the foundation for how we build all of our own applications. So, for those that do need just component capabilities, it does allow us to build a very healthy pipeline for it.

Jeff Van Rhee
Yes, and then maybe last, just back to the cash question. Obviously, AR spiked here meaningfully, and you've had a couple of these very large contracts. Any little finer point you could put on when these two big contracts and the initial AR that went in there gets collected? Are those likely Q4 collections? Do we see that AR come down a lot and a lot of cash generated, or does some of that trickle into Q1?

Scott Swann
Cody, I will let you answer that question on what you think the cash profile looks like.

Cody Barnes
Yes, for sure. I mean, the federal ROC ABIS contract is part of the AR. One thing I will mention is, you don't see any of the DOJ contract in the AR, just a little bit. It is very minimal. So, I think overall, looking forward, we are generally expecting cash and working capital levels to stabilize, Jeff, as we move through Q4. So yes, I think we are going to see some of that AR recycle, but we got the big DOJ contract that we are working on, we are encouraged with what we are seeing in Q4.

Jeff Van Rhee
Yes. Well, you should be. Congrats to the team. Real nice numbers here and great progress.

Scott Swann
Thank you, Jeff.

Cody Barnes
Thanks so much.

Operator
And with that, we will be concluding today's question and answer session, as well as today's conference call and presentation. We thank you for joining. You may now disconnect your lines.