C O R P O R A T E   P A R T I C I P A N T S

David Raun, Interim CEO, & Director
John Morrison, Chief Financial Officer
Jim Ison, Chief Sales & Marketing Officer

C O N F E R E N C E   C A L L   P A R T I C I P A N T S

Ruben Roy, The Benchmark Company
Joe Gomes, Noble Capital
Brian Kinstlinger, Alliance Global Partners
Michael Potter, Monarch Capital Group
Dave Flowers, Private Investor

P R E S E N T A T I O N

Operator

Good afternoon, and thank you for joining us today to discuss One Stop Systems' financial results for the fourth quarter and full year ended December 31, 2019.

With us today are the Company's Interim Chief Executive Officer, David Raun; and Chief Financial Officer, John Morrison. Also joining today is the Company's Chief Sales and Marketing Officer, Jim Ison. Following their remarks, we will open the call to your questions. Then before we conclude today's call, I will provide some important cautions regarding the forward-looking statements made by the Management during the call.

I would also like to remind everyone that today's call will be recorded and will be made available for replay via the instructions in today's press release in the Investors section of the Company's website.

Now I would like to turn the call over to OSS' Interim CEO, David Raun. Please go ahead, sir.

David Raun

Thank you, Nadia, and good afternoon, everyone.
Thank you for taking the time to join us today, especially during these challenging times. I hope you're all in a safe place, and your families and friends are doing well.

I'd especially like to first thank the OSS teams around the world for their contributions and focus on keeping us all safe while also continuing to supply product to our key customers and partners.

We are especially thankful there are no known cases of COVID-19 among our staff and that we've been able to continue to process and ship customer orders.

Due to the medical, military and other critical applications served by our products, the U.S. Under Secretary of State has requested that we remain in operation and continue to provide the essential infrastructure products that we design and manufacture.

Given this responsibility, early on, we took the appropriate precautions and measures to protect the health of our employees, while continuing on our daily business operations. The measures we've taken so far include directing those who can work from home to do so. For those who can't work from home, we have implemented multiple shifts, disinfect frequently and check employees' temperatures daily. We've also spread the workspace out to allow the appropriate social distancing between our production staff.

We plan to continue to post the latest information related to the virus and the impact to us on our homepage at onestopystems.com.

About five weeks ago on February 15, the One Stop Systems' Board of Directors decided a change in leadership was essential to take the Company to another level. Based on an existing succession plan, and my background of being a public company CEO in a closely related space, I was to asked take over as Interim CEO. The Board is currently interviewing and considering candidates, including me, for the role long term.

On the supply side, we have had our challenges, and we've seen some longer lead times. As of today, I'm pleased to announce that we've not been facing any major bottlenecks with product availability.

On the customer front, while our activity in business remains solid for the most part, we are seeing some potential softness for future quarters with customers who have been significantly impacted by the coronavirus. disguise is an example, with their business being very focused on the concert and large sporting event markets. As a result, we are experiencing extended payment terms from disguise and currently have about $5.8 million in outstanding receivables. We are working very closely with disguise to ensure collections and to properly manage this liquidity.

disguise expects its market to recover first in Asia, where some events are starting to be planned for the May/June timeframe, as this part of the world is slowly coming back to normal. Meanwhile, according to disguise, they're seeing a growing interest in their virtual product line, especially the major universities who've gone to remote learning.

On the other hand, many of our businesses either serve military or essential government projects, or are critical such that we believe the impact will be less or not at all with respect to these programs. Fortunately, these businesses also tend to be our higher-margin products. This is backed by a strong pipeline of closed wins obtained in 2019 that will help fuel our revenue for the year.

As part of working with our customers and partners, we have now moved to a fully virtual model to keep our business moving forward everywhere we can. For today's call, I've invited Jim Ison, our Chief Sales and Marketing Officer, to provide additional color on our customers and new opportunities. But first, I'd
like to turn the call over to our CFO, John Morrison, who will take you through the financial results for the quarter.

**John Morrison**

Thank you, David, and good afternoon, everyone. Thank you for joining us today.

Earlier today, we issued a press release with our results for the fourth quarter and the year ended December 31, 2019. The release is available on the Investor Relations section of our website at onestopsystems.com.

Starting with our statement of operations for the fourth quarter.

Revenue in the fourth quarter of 2019 totaled $18.4 million, up 28% from the same year ago period. This is a new quarterly revenue record for the Company. The increase in revenue was primarily driven by increased shipments on our media and entertainment products, military-grade flash storage arrays and compute accelerators for satellite signal processing.

Operating expenses in the fourth quarter of 2019 decreased 12.1% to $4.7 million versus the year-ago quarter. This decrease was primarily due to decreased expenses associated with acquisition costs that were incurred in the prior year that were attributable to the acquisition of CDI and Bressner.

Net income on a GAAP basis was $1.1 million or $0.06 per diluted share in the fourth quarter. This is in comparison to a net loss of $120,000 or a loss of $0.01 per basic and diluted share in the same year ago period.

Non-GAAP net income totaled $1.3 million or $0.07 per diluted share in Q4 as compared to $1.4 million or $0.09 per diluted share in the same year ago period.

Adjusted EBITDA was $2.4 million in Q4 as compared to $856,000 in the same year ago period.

Now turning to our operating results for the full year 2019.

Revenue in 2019 increased 57% to $58.3 million. This again is a new all-time record for revenue for the Company. The increase was primarily driven by revenue from acquisitions, which totaled $16.3 million.

Of the total increase in revenue, Bressner contributed $14.5 million or 68.1% of our growth, CDI contributed $1.8 million or 8.4% of the increase, with our existing OSS business growing $5 million, representing 23.5% of the overall revenue increase for the year.

On an organic basis, revenue for 2019 increased 12% to $41.5 million.

As mentioned, our existing OSS business revenue increased $5 million as compared to the prior year. The majority of this increase was attributable to shipments associated with flash arrays under our airborne military flash contract, as well as improvements in our sales of media and entertainment products, compute accelerators for AI-powered signal processing of satellite data, sale of flash arrays and accelerators for infield mobile AI data centers performing RF signal analysis, and sale of Ion Accelerator of flash arrays for high-speed ERP data management.

There was also a small comparative decrease year-over-year of revenue of approximately $158,000 attributable to SkyScale, which was dissolved last year.
Gross profit in 2019 increased 71% to $19.4 million, with overall gross margins improving to 33.3%. That's in comparison to 30.6%, an improvement of 2.7 percentage points.

For our existing OSS core business, the gross margin percentage for 2019 was 39.2%, which is a 5.6 percentage increase as compared to our prior year of 33.6%. The 5.6 percentage point increase is attributable to a change in mix attributable to higher sales of our flash array systems.

CDI contributed gross margin at a rate of 22.6% due to cost engineering projects on fixed-price contracts, while Bressner contributed gross margin at a rate of 22.5%, which is consistent with a reseller type business model.

Operating expenses in 2019 increased 39% to $20.2 million. Of this increase, $1.7 million was attributable to a write-down of goodwill on CDI and the full inclusion of expenses for CDI and Bressner, which contributed an incremental $4.4 million, which increase was offset by a decrease in our existing OSS business of $394,000.

Net loss on a GAAP basis totaled $900,000 or a loss of $0.06 per share for the year, as compared to a net loss of $1.1 million or $0.09 per share in 2018.

For the year of 2019, non-GAAP net income was $2.3 million or $0.14 per diluted share as compared to non-GAAP net income of $1.4 million or $0.10 per diluted share in 2018.

For 2019, our annual Adjusted EBITDA was $3.2 million as compared to $584,000 in 2018.

Now moving to our balance sheet.

Cash and cash equivalents totaled $5.2 million at December 31, 2019. Our current cash balance is approximately $3.1 million.

For additional liquidity, we have executed a term sheet for a loan commitment for a noninterest-bearing note in the amount of $5 million, of which $3 million can be drawn upon following finalization of terms, with an additional $2 million available in the seventh month following closing. We expect this transaction to be completed within the next 15 days.

Now I'd like to turn the call over to Jim.

Jim Ison

Thank you, John.

As David mentioned earlier, in light of the challenges created by the coronavirus outbreak, we've taken a number of proactive measures on the sales and marketing side to adjust to the current market conditions and continue to operate efficiently.

We have shifted our marketing approach from a 50-50 mix of trade shows and digital advertising to a much heavier digital mix, focused on the content marketing, lead generation; and larger opportunities always remain the priority.

Instead of physical trade shows and show booths at industry conferences like NVIDIA's GTC, Sea-Air-Space and National Association of Broadcasters, we have launched our own digital series using virtual trade show tours of each event and webinars along with the organizers.
As with the rest of the Company, our sales and marketing resources are working remotely. With no travel on the schedule, we’ve increased our customer outreach via telephone, e-mails and video conferencing to help keep our global sales targets for 2020 moving forward. Interestingly enough, we’re finding our customers more engaged with meaningful projects because their travel trade shows and corporate meetings have also been minimized.

Although clearly there is some uncertainty out there, this strong virtual activity we are seeing appears solid and very positive so far.

In 2019, we significantly increased our focus on opportunities over $1 million. You’ve heard us mention several of these wins on our calls and in press releases during the year. In 2019, we closed 16 of 21 programs valued at $1 million or more, with this representing a strong 76% win rate. This was up significantly from the 30% to 40% win rate of the previous year. Of these 16 closed opportunities, 75% were new customers. Of those, three have the potential to be valued at $10 million or greater over the next three to four years.

We currently have 20 additional large opportunities in our pipeline to start 2020. Eight of these involve our leadership and our high-margin PCI Express Gen 4 products, and we see this reflecting the beginning of the market shift to high-performance Gen 4. We have over $2 million in orders for our existing Gen 4 products to date. During 2020, we will introduce four new PCI Express Gen 4 platforms. We’re seeing significant early interest in these leading edge standard products, which double the performance of Gen 3, and we’ll expect to start converting this into additional Gen 4 revenue later this year.

In regard to Raytheon, our largest government segment customer, we expect a similar level of business and schedule of business in 2020 as we had in 2019. We have planned our material purchases and preorders to be consistent with their requirements to deliver in Q2 and Q3. This business offers significantly higher margins than businesses like disguise.

So far, our government contracts have not been affected by the coronavirus; in fact, as David mentioned, the U.S. Under Secretary of State has requested that we continue to provide the critical infrastructure products that we design and manufacture.

Another growing OSS application area includes autonomous vehicle, GPU-accelerated hardware. We have reached over $1.3 million in autonomous vehicle system orders from a large rideshare provider and European auto manufacturer for 2020 delivery.

Overall, our market diversity, sales capabilities and the OSS product offering strengthened considerably in 2019.

While no one can be 100% prepared for the impact and uncertainties caused by the coronavirus in 2020, we believe we have taken appropriate action, and we continue to book and ship business. We expect to benefit as the world economy gets back on track following the eventual defeat of the global pandemic.

Now I’d like to turn the call back over to David.

David Raun

Great. Thank you, John and Jim.

As John outlined, OSS closed the year strong with record total revenues totaling $58.3 million, representing growth of 57% year-over-year, while increasing non-GAAP net income to $2.3 million as
compared to $1.4 million in 2018, and Jim shared a strong pipeline of wins that will turn into future revenue.

While recently there have been many unexpected challenges, I believe our team has done a great job with proactively addressing them and keeping us on track. Given that we're near the end of the first quarter, depending on the timing of some of the final shipments, we expect revenue to come in between $12.5 million and $12.9 million. This would represent an increase of 24% to 28% over the year ago quarter.

Looking beyond the first quarter, we expect to experience our normal challenges with our business that tends to be much stronger in the second half of the year in terms of revenue and margins, seasonality now being combined with the uncertainty around the economic impact of the coronavirus.

Our Management team has been taking some well-thought out steps to ensure OSS can withstand a prolonged period of uncertainty, while also laying a strong foundation that can take OSS to the next level.

These efforts include strengthening our balance sheet by securing additional capital, as John mentioned, as well as a deep review of our operational structure and priorities. We expect this to lead to significant cost reductions and increased efficiencies.

They will be designed to ensure our long-term sustainability, especially as we work through the current period, and allow us to become stronger in the process. Clearly, this is not to be accomplished overnight, and we need to manage several challenging things in the process. But through it all, we expect to better define and enhance our unique value proposition and begin to focus more on specific markets where we can establish clear leadership.

As part of this process, we'll also accelerate the deeper integration of CDI and Bressner into OSS and collectively pursue opportunities where we can leverage our combined strengths and capabilities.

We will be challenging our Organization and our partners to discover innovative ways to increase our IP and stickiness, and along the way, build greater barriers of entry for our competitors. This will include a greater flow of scalable, standard products introduced to the market while increasing our value with our key customers who need our custom products.

As a result of this process, I believe we'll become an organization that takes additional pride of being efficient while driving revenue, margins, profits and shareholder value up over time.

This will be a challenging process, but I'm confident in our evolving vision and capabilities, and I'm very proud to be part of the OSS team.

We'd now like to open the call to your questions.

Operator

Absolutely. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

We'll take our first question. Please go ahead, Mr. Ruben Roy from Benchmark.

Ruben Roy
Thank you. David, nice to meet you over the phone, and congratulations to the team for solid execution in 2019.

David, I was wondering if we could start with just sort of the commentary. I understand—and thank you for the—some of the details around disguise and Raytheon. But in terms of getting through the month of March here, you're almost done with Q1, and you have sort of the commentary around the seasonality being combined with uncertainties around the impact of the virus. If you can give any more detail on what that—what you might be implying there as it relates to Q2 and how we should think about weighting on second half versus first half this year, that would be helpful.

David Raun

John, you want to take that instead, or…?

John Morrison

Our second quarter tends to be a little softer. Yes, as David mentioned, it's really our back half revenue in the third and fourth quarter, where we're going to—where our strength is. We are currently operating as projected in our budget. So we feel comfortable with where we're at. But as consistent with prior years, you'll see the same seasonality that we've had in the past.

Ruben Roy

Okay.

David Raun

Ruben, let me just add to this. This is Dave. I think one of the dynamics is the team's pretty bullish about what's going on, frankly. But one of my perspectives is companies are pushing to close out this quarter, and it will be interesting what the type of cost trend becomes into the new month. So again, we're seeing pretty positive stuff for the type of business we normally would have in the Q2 time frame, but a little bit of uncertainty for the dynamics I just mentioned.

Ruben Roy

That's helpful. Thanks David.

I guess just a quick follow-up for Jim then maybe. It's good to hear that you guys are continuing on with the sales and marketing process virtually. I'm wondering if you've seen any changes over the last couple of weeks in design activity.

Also, if you can kind of comment on the supply chain. There was some mention of some extension of lead times, but no significant bottlenecks. Any specific components that you guys are having problems procuring or how you see that playing out? We're hearing that supply chain activity, at least in Asia, has started to return to normal.

So any color on I guess, A, design activity from your customers and your perspective there? Then how you think the supply chain ends up looking over the next several weeks would be helpful.

Jim Ison
Yes. So as I mentioned earlier that the level of activity actually seems to be increasing. We seem to be getting more meaningful work out of customers towards finishing out projects, and they're kind of taking the time to get all the paperwork in, get the statement of works in and actually place the orders. So that part of it hasn't slowed down. The team has actually said that they're busier than ever, which is less distraction, less people out of the office, those type of things, because they're working from home.

But on the supply side, we've had several of our vendors that have even done as much as—said that they were going to shut down, then turned around and said, oh, wait, we can't shut down because of these critical projects. Reopened their doors, and we were getting letters every day even from companies like Cynex (phon), who is one of our distributors as well as a supplier, that is telling us and providing, say, intel guidance that they have product in the supply chain, you can count on them, those type of things.

There's a few vendors here and there that might have shut down. But just like when we have the tariff issue come up, is vendors tend to find a way to make the business happen. They shifted their manufacturing to Taiwan to get out of China, to stop the tariff problem. The same thing is happening around this. If one vendor is shut down, we're moving, say metal to another vendor. So that has kept our operations people on their toes, does seem to be moving forward. We haven't hit those issues yet with any particular component or metal or anything like that.

David Raun

Just to clarify that a little bit, we saw some like four to six week pushout on PCB boards, but again, like Jim said, the operations team has done an awesome job adjusting to that. It puts more stress-test pressure on March versus February, and that's kind of dynamics we've seen NAND and RAM, but we've been able to find supplies and really it's working with our customers, getting alternate sources. If we have additional cost, doing everything we can to pass it on to them.

Ruben Roy

Right, okay. That's very helpful. Okay, well that's all I have for now. Thank you guys.

John Morrison

Thanks, Ruben.

Operator

We'll take our next caller, Joe Gomes from NOBLE Capital.

Joe Gomes

Good afternoon. David, pleasure to meet you over the phone. Thanks for taking the questions here.

Just the first one, I want to talk on the CEO search. Have you got any guidance—have any type of timing around that? Is it being pushed out because of the coronavirus situation we're in? If you could just give us a little update on that.

David Raun

Yes. I don't want to speak for the Board in its entirety, but the general consensus is with all the dynamics of the world, they're trying to make this a fairly quick process.
Joe Gomes

Okay. When you talk on the—in your press release about looking to get some significant cost reductions, I was wondering if you could just give us a little more color around where you guys are looking or thinking that you might be able to take additional cost out of the business?

David Raun

It's from looking at the Company, all aspects of it, which includes different services or things we don't necessarily need. That includes the structure of the Organization and unfortunately has to include people also.

Joe Gomes

Do you perceive a fair amount of that coming out of being able to do a deeper integration with CDI and Bressner?

David Raun

Yes, we'll get some of it from that for sure. We've had—our VP of Ops has done a really good job of working on cost reductions of products, and that will continue to help also.

Joe Gomes

Okay, and it seems, at least sitting here, you guys talked about disguise, and that obviously, with all the shutdowns of all the events, where that would seem to be the company, major customer that is going to be the most impacted at least here in the near term.

If you can, can you kind of give us kind of how does the revenue from disguise normally flow across the income statement through the year? Is it fairly equal throughout the year? Is it—their revenue stream more concentrated historically in one quarter or the back half of the year, like you were saying that typically, the company has a stronger back half? Are we looking at potentially just a second quarter impact? Any color you can provide on that would be appreciated.

David Raun

Why don't you start that Jim, and I might add to it.

Jim Ison

Sure. So on the disguise side, in addition to what David said, they typically have a really strong fourth quarter, which they did. Then they typically will back off a little in first quarter, and then vacillate from large to a small to a large to a small, back and forth. They do—in getting in front of the Chinese New Year shutdown that then went extended, did take extra product to hedge against those—the shutdown. So from that aspect, first quarter looks pretty robust compared to, say, last year.

Joe Gomes

Okay.

Jim Ison
We expect them to be—they usually do go up and down, let's say, every quarter.

Joe Gomes

Okay. One last one for me, you guys did a great job last year in getting all those design wins. We talked about, on the commercial side, it could be a six to nine month process where you're building the product before you really start to see significant revenues on that. Have you seen any of those 16 make—kind of like pump the brakes on those and say, let's just slow it down? Or is it still, as you seem to be indicating, more business as usual?

Jim Ison

Yes. So far, it's been business as usual. I'd say about half of those commercial wins have already entered some kind of preproduction or production. The military ones take a lot longer. But of the 16, I believe it was—60% were commercial in that range. So yes, that's where you've seen the good traction, as I talked about earlier, with the autonomous vehicles, two different customers there. In the PCIe Gen 4, which is three different customers there, those are already ramping up.

So far, the pumping the brakes, yes, there are a few government projects that are just taking longer. I wouldn't say pumping the brakes on that one. I haven't seen it yet. I'm sure I'll be the first to see it, if it does happen.

Joe Gomes

Again, thank you guys. Nice quarter.

David Raun

I would just say I was on a call yesterday with one of our government contractors; and they were all forward body length (phon).

Joe Gomes

I didn't catch that. I'm sorry.

David Raun

I'm sorry. I said I was on a conference call doing a review with one of our large government contractor-type customers, and they were all forward body length moving forward, kind of not letting us slow them down. That was kind of the perspective they gave us.

Joe Gomes

Okay, great. Thank you for taking the questions.

Jim Ison

Thanks, Joe.

Operator
Thank you for your questions. To remind everyone if you'd like to ask a question, please signal by pressing star, one on your telephone keypad.

We'll next take Brian Kinstlinger from Alliance Global Partners. Please go ahead.

**Brian Kinstlinger**

Great, thanks so much. Hi guys.

In terms of your government business, you talked about the supply chain already. What about capacity utilization at your facility with the different shifts you talked about, and then the ability to meet that government demand since it sounds as though it's unchanged?

**Jim Ison**

Yes. So we did two things last year that have really actually prepared us more than we thought it would for what's going on here.

We did an enlarging of our production floor and a redesign in our building that actually has helped us to be able to maintain our full production staff with the local guideline regulations of six feet per person and ten persons in each room. So actually, those cap ex that we did last year in the building really came in handy to be able to handle what we're doing now on the production floor to keep them moving.

The second thing that really helped from last year was we got the ERP system online November 4. That new ERP system has allowed us to, within three days, transition our process that was a mix between electronic and paper into a fully paperless process all the way through the system, because we had that infrastructure in place. So it actually made it—it hastened something that we had as a goal anyway, and we were able to make it happen because of those two infrastructure pieces.

**Brian Kinstlinger**

Great, thanks, and then can you maybe quantify, or at least roughly, the margin profile? I think you alluded to, on the defense business, where it sounds like demand is going to be strong this year compared to maybe the entertainment and media side of your business where you might see some near-term weakness?

**Jim Ison**

Yes. Well, usually, it comes from the more value add we have, the higher the margin it's going to be. In the media and entertainment space is we do, say, one level of ruggedization that's needed for that, that's above what a Tier 1 Dell, HP or any of our substitute potential customer or potential vendors could make. So the margin in that is not as large.

But for something like a military, where we put a lot of ruggedization, testing, reports, requirements, all that is all value-add stuff that allows us to have much larger margins for those type of products based on how much touch you have to do in, say, a rugged server versus one that's got all these GPUs and high-speed networking and things like that, that's specialized for military or autonomous vehicles.

**Brian Kinstlinger**

Got it. Okay. Lastly, in terms of the outstanding $5.8 million receivable, I think that was the number, have they—has disguise communicated a time line for payment? Then did the delay of the Olympics impact the...
John Morrison

Yes. So we are currently working with them on a payment plan. It's actually fairly consistent with their business that they had last year. We had at year-end, we were in the same situation where we had a big fourth quarter with them, and they had a large receivable balance that we had to extend terms on last year. I would say we are kind of repeating that exact same behavior from the prior year, where this outstanding balance will be paid out over approximately a 120-day period of time.

Brian Kinstlinger

Great.

Jim Ison

I can help with the Olympics question, usually, a large live event like the Super Bowl or the Olympics or something like that takes somewhere between five to ten systems total to run. Since we ship over, what, 300 every year, 400 every year, the impact of any one event is fairly small, but the impact of many events like we're having in the short term is a little larger. They also have another piece of their business that we didn't talk a lot about, that is their XR business, their generative content and their virtual business, which has been one of the growing market segments in their business. That side of the business tends to be picking up speed as people are doing more virtual events that used to be in the live event category. So that's why we have a mix in the next quarter.

Brian Kinstlinger

That's helpful. Thanks so much for your time.

John Morrison

Thank you, Brian.

Operator

Thank you for your question. We'll next go with Michael Potter from Monarch Capital Group. Please go ahead.

Michael Potter

Hey, guys. Good to talk to you.

A lot of my questions have been answered so far. But I guess, just to be clear, John, you mentioned the $5.8 million AR with disguise; that's the same level that it was at this time last year?

John Morrison

Yes. That's correct.

Michael Potter
Okay. So it's not something that so far afield that we need to be overly concerned.

**John Morrison**

The concern this year is just the nature of the business due to the slowdown in the concert arena across the world. Obviously, there's concern at their end whether or not their customers will pay them, which would then, again would affect us. So I'm just bringing it to the attention in the marketplace that given the nature of where we are in this business climate that there is more risk associated with collection on these receivables.

**Michael Potter**

Okay, and the $5.8 million, that's the year-end number or that's the current number?

**John Morrison**

That is the current number.

**Michael Potter**

That is the current number. Okay. But there's a plan in place that you've agreed to with disguise where they're going to pay this down over 120 days?

**John Morrison**

We are currently working on the plan, and that has been proposed. It has not been fully agreed to. We are continually working with them and making sure that we match their collections with the amounts that they owe to us. So we're trying to align both of the companies' goals along with what their plan is on collections versus payments to us.

**David Raun**

Michael, this is Dave. I'd just like to add that we're hitting this on multiple fronts, the CFO with John, the CEO with me. So we're in constant contact with them and pushing hard.

**Michael Potter**

Okay, okay. Understood. The pipeline of—I guess, you have 20 additional opportunities for—in the new business activity side, each over $1 million. Have we won any of those opportunities so far this year?

**Jim Ison**

Yes. We have two wins so far in the first quarter.

**Michael Potter**

Okay. Congratulations. Can you give us some color on who they are and what they're for?

**Jim Ison**
One of them is military for a new follow-on program for the similar product to what we're doing with the Raytheon business, and one is a commercial customer. At this time, I don't want to go any further with that.

Michael Potter

Okay. Got it. Will you be making a release in regards to that commercial customer at some point?

Jim Ison

Typically, our releases are when we have material wins of—I think, the lawyer has said over $1 million of actual POs. A lot of our customers, because they're OEMs, will place a PO for, say, a prototype product, then a preproduction order later, then a production order later. That's kind of how the Gen 4 has crept up to that $2 million level that we have.

It wasn't any one order of $1 million that would have been considered material for the lawyers to tell us to press release those, but it happens over time. If we have any big ones, those definitely will hit the wires.

Michael Potter

Got it. The 16 design wins from 2019, you mentioned 50% have entered production or preproduction; 60% commercial, 40% military. I guess, how much of the—how much revenue do you anticipate generating from those 16 new design wins for 2020?

Jim Ison

Yes. I don't have that number in front of me for those broken out. Yes. I don't want to guess on a call like this.

Michael Potter

In aggregate. You don't have to break it out by customers, but in aggregate, how much do you think that will add to our organic growth?

Jim Ison

I think we've put out—we haven't put out guidance for this year.

John Morrison

So Michael, where we are currently in our plan is that we are looking at organic growth of basically a plan of—in excess of double digits of 10%, and we did do a bottom-up forecast on revenue for 2020. I don't have the exact list in front of me, but we did build in the anticipation of these contracts that Jim alluded to. It will basically put us there at an overall double-digit growth year-over-year of ’19 versus ’20.

Michael Potter

Okay. So double-digit growth that's coming off of a Q1 where you're anticipating 24% to 28% growth.

John Morrison
I’m talking about year-over-year, not off the run rate that we came off of from ’18—2019, excuse me. So if we’re looking at a 10% growth rate over the $58 million—excuse me, on organic revenue year-over-year.

**Michael Potter**

Okay. So you mentioned also the—these $5 million notes. Can you—is this with a commercial lender? Can you walk us through the terms, again?

**John Morrison**

Yes. So what it is, it's a convertible note. The total value is $5 million, which has two tranches associated with it. The first tranche is $3 million with deferred payments starting after six months from the date of close. On month seven, at our option, we have the ability to drawdown an additional $2 million. It is for a 24 month turn with payments over a 22-month period.

**Michael Potter**

Okay, and you mentioned that it's a zero coupon convert.

**John Morrison**

Yes. That is correct. Ten percent OID on it.

**Michael Potter**

Okay. So the 10% OID, and then it's convertible at what price?

**John Morrison**

A hundred and thirty five percent premium.

**Michael Potter**

To…?

**John Morrison**

To whatever the current market price is on the day of conversion and the limitations on how much can be converted at any one period of time. But that is only if the Company does not have the wherewithal to make the payment. As long as we are making our payments in cash, the lender does not have the right to exercise the conversion feature.

**Michael Potter**

Okay, so this is not a commercial lender. I'm assuming this is a specialty structured debt lender.

**John Morrison**

That is correct.

**Michael Potter**
Okay. I'll get back in queue. Thanks guys.

John Morrison

Thank you very, much. Good talking to you, Michael.

Operator

Thank you for your question. We'll next go with Dave Flowers, who's a private investor.

Dave Flowers

Hi, fellows. Thanks for answering.

John Morrison

Hi, David.

Dave Flowers

The Q4 net profit—congratulations, I think it was about 6% of revenue. The question is, can you—are you in a position to share your expectations for 2020 on that number?

John Morrison

I'm sorry. I missed the question there, David. Would you repeat it, please?

Dave Flowers

Okay. With my faulty math, I came up with 6% of revenue for net profit in Q4. The question is, what do you think is going to happen in 2020? Can you share that expectation?

John Morrison

Right now, we are currently holding on providing the expectations for 2020. I will tell you that the fourth quarter is always our strongest quarter. It has the greatest gross margin of the year. Typically, it's because of the mix of products that we have in there. It tends to be our most profitable quarter of the year. So I wouldn't be projecting off of that fourth quarter run rate. I will tell you that the way we have budgeted 2020, we are looking for a significant improvement year-over-year both in revenues as well as bottom line growth. I think that's the best I can give you with respect to expectations on profitability and revenue for next year.

Dave Flowers

That's good, thanks.

John Morrison

Thank you.

Operator
Thank you for your questions. We have no more questions. I'd like to turn the conference back to our speakers for closing remarks.

David Raun

Okay. Thank you, Nadia, and thanks everybody else for joining us today. We look forward to talking to you in the future and reporting our progress. Meanwhile, feel free, of course, to reach out to John, Jim and me any time. Operator?

Operator

Thank you. Now before we conclude today's call, I would like to provide the Company's Safe Harbor statement that includes important cautions regarding forward-looking statements made during today's call.

One Stop Systems cautions you that statements in the presentation that are not a description of historical facts, are forward-looking statements. These statements are based on Company's current beliefs and expectations. Such forward-looking statements include those regarding the Company's expectations for revenue growth generated by new products, design wins or M&A activity. The inclusion of such forward-looking statements and others should not be regarded as a representation by OSS that any of its plans will be achieved.

Actual results may differ from those set forth in the presentation due to the risks and uncertainties inherent in our business, including, without limitation, that the market for our products is developing and may not develop as we expect. Global pandemics or other disasters or public health concerns in regions of the world where we have operation or source material or sell products may adversely affect our financial condition. Our operating results may fluctuate significantly, which would make our future operating results difficult to predict and would cause operating results to fall below expectations or guidance. Our ability to successfully integrate the operation systems, technologies, product offerings and personnel with acquired companies may prove difficult and adversely affect our financial results.

Our products subject to competition, including competition from the customers to whom we may sell and competitive pressure from new and existing companies, may harm our business sales, growth rates and market share. Our future success depends on our ability to develop and successfully introduce new and enhanced products that meet the needs of our customers. The likelihood of our design proposals becoming design wins is uncertain and revenue may never be realized. Our products fulfill specialized needs and functions within the technology industry, and such needs or functions may become unnecessary or the characteristics of such needs and functions may shift in such a way as to cause our products to no longer fulfill such needs or functions. New entrants into our market may harm our competitive position.

We rely on the limited number of suppliers to support our manufacturer design process. If we cannot protect our proprietary design rights and intellectual property rights, our competitive position could be harmed or we could incur significant expenses to enforce our rights. Our international sales and operations subject us to additional risks that can adversely affect our operating results and financial conditions, and we fail to remedy material weaknesses in our internal controls or financial reporting. We may not be able to accurately report our financial results and other risks described in our prior press release, in our filings with the Securities and Exchange Commission, SEC, including under the heading Risk Factors in our Annual Report on Form 10-K and any subsequent filings with the SEC.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of the conference call, and we undertake no obligation to revise or update this information to
reflect events or circumstances after this date hereof. All forward-looking statements are qualified in their entirety by this cautionary statement, which is made under the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995.

Before we end today’s conference, I would like to remind everyone that this call will be available for a replay starting later this evening through April 9. Please refer to today’s press release for dial-in and replay instructions available via the Company’s website at ir.onestopsystems.com.

Thank you for joining us today. This concludes our conference. You may now disconnect.