



**One Stop Systems, Inc.**

**Financial Results for the Fourth Quarter and Full Year  
Ended December 31, 2020**

**March 25, 2021**

## CORPORATE PARTICIPANTS

**David Raun**, *President and Chief Executive Officer*

**John Morrison**, *Chief Financial Officer*

**Jim Ison**, *Chief Sales and Marketing Officer*

## CONFERENCE CALL PARTICIPANTS

**Scott Searle**, *ROTH Capital*

**Ruben Roy**, *The Benchmark Company*

**Brian Kinstlinger**, *Alliance Global Partners*

**Christopher Scott**, *Noble Capital*

## PRESENTATION

### 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, 2020.

With us today are the Company's President and 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.

Before we conclude today's call, I will provide some important cautions regarding the forward-looking statements made by Management during this 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 President and CEO David Raun. Please go ahead, sir.

### David Raun

Thank you, Jenny, and good afternoon, everyone. We're grateful you could join us today and I hope you've been all able to stay safe, healthy, and virtually productive.

Before addressing the financial, operational, and strategic progress we've made during the fourth quarter, I'd first like to thank our shareholders, existing and new, for their tremendous support. We hope your patience has been rewarded by the strengthening performance in the stock over the past several months.

In 2020, we seized the opportunity to take several transformative steps and have laid the cornerstones for a stronger foundation on which to build our future growth. These steps include a new senior leadership and corporate reorganization, reduced spending, three new independent Board members, which also added to the Board diversity, and we directed more focus on our long-term strategic vision to increase shareholder value over time.

Regarding our financials, we are pleased to announce that we were able to exceed our Q4 2020 revenue outlook by \$900,000. This was a direct result of our continued efforts to drive existing OEM business and our success in expanding our customer base, offsetting some of the downside from the pandemic. We see early indications of improvements with customers impacted by COVID. While we anticipate the impact will continue for some time in 2021, our energies are focused on a return to normalcy and the opportunities inherent in that improved environment.

As previously stated, the pandemic impacted our top-line revenue growth in 2020 with several of our key customers. We identified about \$14 million in lost or delayed business compared to our annual plan due to COVID-related matters. More than half of this loss or delayed revenue in 2020 was from our largest customer in the media and entertainment industry.

During the fourth quarter, we saw an encouraging rebound by this customer, as their 3D virtual product line continues to develop traction in the market. Their product premiered last year on *American Idol* as the virtual performance stage in a Katy Perry music video. We expect the virtual platform to drive increased sales in the current and future quarters. The eventual return of live events should contribute additional revenue from their core products in the second half of the year.

Earlier this month, we announced a direct offering which further fortified our cash position. In addition to this offering, we achieved significant cash gains through a combination of lower expenses, increased efficiency, and improvements in working capital. The result is we currently have a cash position of approximately \$19 million. This gives us the ability to invest in key strategic initiatives that should fuel future growth.

Now, before I provide additional color and the outlook for Q1, I'd like to turn the call over to our CFO, John Morrison, who will take us through the financial details for the fourth quarter and the full year 2020. Following John will be Jim Ison, our Chief Sales, and Marketing Officer, who will share some information on exciting products and discuss customer activity.

John?

**John Morrison**

Thank you, David, and good afternoon, everyone. I'm glad you can join us today.

Earlier today, we issued a press release with our results for the fourth quarter and the year ended December 31, 2020. The release is available in the Investor Relations section of our website at [onestopsystems.com](http://onestopsystems.com).

Our revenue in the fourth quarter was \$13.9 million, which was up 7% from the third quarter, resulting from improved shipment to Disguise and Raytheon. However, we were lower by 24% compared to the fourth quarter of last year, mainly due to pandemic-driven reductions. Most significant was the quarterly

revenue for Disguise, which was down \$4.3 million, attributable to government restrictions on large group events. Approximately \$1 million of flash storage array shipments to Raytheon were delayed to the first quarter of 2021 and we also had a one-time program valued at \$1.1 million in the prior year, 2019.

These reductions were partially offset by \$1.2 million in sales of our new 4U Pro GPU accelerator being supplied to the U.S. Army.

Revenues for the year totaled \$51.9 million. This was down \$6.4 million or 11% compared to the previous year. Most of the decrease is attributable to the reduction in shipments of \$8.2 million to Disguise due to COVID restrictions on large gatherings.

As David mentioned, we are seeing encouraging signs with demand for their 3D virtual platform, and we should see a return of their core products in the second half of the year. Recently, the Carlyle Group purchased a 50% interest in Disguise, providing them greater financial stability. Other reductions in revenue included Raytheon of \$2.9 million, primarily due to the timing of different programs. Revenues were also down with other COVID impacted customers and the elimination of a low margin \$2.4 million project with a former customer.

The noted reductions, however, were partially offset by favorable results from our diversification efforts, which included \$2.6 million to a new test and measurement company for our new PCIe Gen 4 products, over \$1.9 million direct with the Navy for our flash storage arrays, and the previously mentioned \$1.3 million of our new 4U Pro to the Army. This was further supported by our ongoing project with Lyft, which saw \$1 million of incremental revenue during 2020.

The Q4 breakdown for our operating units. OSS business contributed \$8.9 million as compared to \$13.9 million in the same year-ago period. Bressner, our European subsidiary, contributed \$5 million in the fourth quarter as compared to \$4.5 million in the same year-ago period. For the full year, our core OSS business contributed \$33.7 million of revenue as compared to \$40.1 million last year. Bressner was approximately flat at \$18.2 million year-over-year.

Since we fully integrated CDI into our core OSS operations in June of last year, we no longer report CDI as a standalone business unit. This integration was part of our reorganization and cost reduction program that we implemented in the second quarter of 2020.

Now, turning to gross profit. During the fourth quarter, we had strong gross margins of 34.5%, so yielding a smaller gross profit as compared to the prior year based on reduced revenues and a higher mix of Bressner sales. Our gross profit was \$4.8 million as compared to \$6.5 million or 35% gross margin in the same year-ago quarter.

Gross margin for our core OSS business improved to 42% in the fourth quarter from 40.1% in the same year-ago quarter. This increase was attributable to changes in product mix, customers, as well as an increased focus on margins and reorganization.

Bressner's gross margins decreased by 30 basis points to 21.3% in the fourth quarter as compared to the same year-ago period based on product mix.

Full-year 2020 gross profit totaled \$16.4 million or 31.7% of revenue. This compares to \$19.4 million or 33.3% of revenue in 2019. Gross margin for our core OSS business was 37.3% in 2020 as compared to 38.2% in the prior year. Bressner's gross margin decreased by 1.3 points to 21.2% in 2020 as compared to 2019.

Our overall operating expenses decreased 9% to \$4.3 million from \$4.7 million in the fourth quarter of 2019. The decrease was primarily due to cost reduction initiatives that we began in April, where our workforce was reduced and new cost containment programs were implemented. Overall, our operating expenses as a percentage of revenue increased to 30.9% in the fourth quarter, compared to 25.7% in the same year-ago quarter. This is fully attributable to lower revenue.

For the year, December 31, 2020, our total operating expenses decreased 16% to \$16.9 million as compared to \$20.2 million in the previous year. The decrease is primarily attributable to the reorganization and expense reduction programs executed by the team, along with the non re-occurring goodwill impairment charge of \$1.7 million in the prior year. Operating expenses as a percentage of revenue for the full year improved to 32.5% versus 34.6% in the prior period, resulting, again, from our expense reduction program.

On a pro forma basis, excluding the prior-year goodwill impairment charge, operating expenses as a percentage of revenue increased 80 basis points largely due to the reduction of revenue. On a pro forma basis, after adjusting for last year's goodwill impairment charge of \$1.7 million, our operating expenses in 2020 decreased 8.8% or \$1.6 million.

Income from operations was \$513,000 as compared to \$1.8 million in the same year-ago quarter. For the year, our loss from operations is \$424,000, compared to a loss of \$779,000 in the prior year. On a pro forma basis, excluding goodwill write-off of \$1.7 million in the prior year, our loss increased \$1.3 million.

Our net income on a GAAP basis totaled \$244,000 or \$0.01 per share in Q4 2020. This compares to net income of \$1.1 million or \$0.06 per diluted share in the same year-ago period.

For the year, net loss on a GAAP basis was \$6,500 or \$0.00 per share, compared to a loss of \$900,000 or \$0.06 per share in 2019. On a pro forma basis, after giving effect to the before-mentioned goodwill impairment charge in the prior year, GAAP income was down \$803,500 from \$797,000 in 2019.

On a non-GAAP basis, net income totaled \$636,000 or \$0.04 per diluted share in Q4 2020 as compared to \$1.3 million or \$0.07 per diluted share in the same year-ago period. For the year, non-GAAP net income totaled \$1.4 million or \$0.08 per share as compared to \$2.3 million or \$0.14 per diluted share in 2019.

Adjusted EBITDA, which again is another non-GAAP metric, was \$1.1 million in Q4 as compared to \$2.4 million in the same year-ago quarter. For the full year, Adjusted EBITDA was \$1.8 million compared to \$3.2 million in 2019.

Now turning to our balance sheet. Cash and cash equivalents totaled \$6.3 million on December 31, 2020 as compared to \$5.5 million on September 30, 2020. Our cash position as of today, as David mentioned, is approximately \$19 million. This is the result of the combination of net proceeds of \$9.2 million from our offering earlier this month, plus our recently improved operating cash position during the first quarter of 2021.

This improvement from our year-end balance is mainly due to a reduction in our working capital requirements resulting from collections on outstanding customer accounts receivable and management of inventory on hand. Most notably is the paydown in accounts receivable for Disguise to bring their account current and more closely aligning our day sales outstanding in accounts receivable with the payment terms for accounts payable.

We are very pleased with our significant improved cash position, which provides security and sustainability for the Company during periods of economic uncertainty. Most importantly, it means we

have sufficient liquidity to meet our cash requirements for current operations, paying down debt, while also supporting growth and strategic initiatives of the Company.

This completes our financial review. I would now like to turn the call over to our Chief Sales and Marketing Officer, Jim Ison.

Jim?

**Jim Ison**

Thank you, John, and good afternoon, everyone.

During the fourth quarter of 2020, we closed four additional major OEM opportunities, including two industrial, one instrumentation, and one autonomous driving project. For 2020, the program wins totaled 16, which matched 2019 without the pandemic. As a reminder, we define program wins as those expected to yield \$1 million or more of revenue within four years.

Our 32 program wins over the past two years contributed \$18 million to 2020 revenue, including \$12 million from new customers, supporting our diversification initiatives. In addition to adding new customers in 2020, we expanded our breadth of project wins inside our most strategic customers.

For example, we now have four major project wins within various divisions of Raytheon. After being awarded a Raytheon Premier Vendor Excellence Award in 2017 for a five-year \$36 million contract for radar and sensor flash storage arrays designed for the Navy's P-8A Poseidon aircraft, we added project wins across the entire AI workflow landscape. This included a large format data center in the sky, AI threat detection system, and a multi-server AI target recognition and threat detection cluster. These systems provide AI training and inference in the harshest environments. We were also awarded a multi-GPU missile simulation system with Raytheon for the Missile Defense Agency.

These wins at Raytheon have led to the direct program awards with the Navy for flash storage arrays that John discussed earlier.

In 2020, we primarily marketed in a virtual environment using social media, virtual events, and webinars alongside strategic technology partners, NVIDIA and Marvell. Looking forward in 2021, we plan to use a hybrid format of virtual and in-person events based on the re-opening plans for several trade shows in Q3 of this year. Our next hosted webinar in April will feature our Edge AI rugged server and data storage solutions, supported by our flash memory partner, KIOXIA. Later this fall, we plan live demo exhibits at Sea Air Space, Defense and Security Equipment International, AI Summit, and Supercomputing.

Despite the global challenges navigated in 2020, we are focused on driving strategic sales, diversifying our customer base, and executing upon our new go-to market initiatives. We believe this strategy will drive future revenue growth and industry expansion opportunities for OSS.

Now, I would like to turn the call back over to David.

**David Raun**

Thanks, John and Jim.

As John mentioned, we ended the year with nearly \$52 million in revenue while concentrating on building a strong foundation fortified by a financially solid balance sheet and a disciplined management strategy. A key initiative in 2020 was improving the bottom line by reducing costs on all fronts and increasing

operational efficiencies. The combination of these steps and our recent \$9.3 million raise puts our cash position at very comfortable levels.

Now for 2021 and our future. We have defined and started implementation of a multi-year strategic plan to enhance our product roadmap, market position, and value proposition for target industries and customers. After confidential discussions with customers, much research, trend analysis, review of core strengths, and our current business, we have identified the focus segment within the fast-growing Edge computing space.

According to Zion Market Research, in 2018, 90% of all data was created in the Cloud or the data center. By 2025, they expect a massive shift where 75% of all data will be acquired and processed at the edge. Edge computing space is expected to be one of the fastest growing technology markets for years to come.

To better understand where we offer the greatest unique value and innovation, we look at the three different components of the Edge computing space.

First, smaller data centers have moved to the Edge, closer to the users and data creation. Like the Cloud and large data centers, these are environmentally controlled buildings. This portion of Edge computing does not take advantage of OSS's strengths of deploying the most advanced technologies in harsh environments. This is not a focused marketplace for us.

Second, the Edge has billions of simple IoT devices that collect information and may or may not take specific action. These tend to require low levels of performance and do not have latency challenges communicating back to the Cloud or data center on the Edge. This includes anything from multiple devices in your home, like a thermostat or an alarm system, to sensors on a factory floor. This is not our focus.

Our strategic focus is on a quickly developing third segment of Edge computing. We call it AI transportables. This includes anything that is not in a fixed location but requires the very latest in high-performance computing for AI where responsive action needs to be taken immediately at the very edge. This trend will become more widespread with applications, including mobile containers, equipment, drones, aircraft, watercraft, submersibles, and land vehicles.

The challenge associated with these AI transportables is where OSS's core capabilities and expertise is strongest. We believe we will offer the greatest growth opportunities throughout this decade. Our value proposition offers the absolute highest, ruggedized performance without compromise, in these harsh environments, making it an ideal growth segment for the Company.

Demand for this type of AI performance in these challenging applications includes military theater of tomorrow for all branches of the service. The U.S. and NATO have programs and ambition to implement AI with most of the actors or nodes, including land, sea, air, and space. This includes autonomous and partially autonomous control, threat detection, defensive systems, and portable command centers. On the industrial side, we'll continue to pursue different types of autonomous vehicles as well as specific applications related to medical, oil and gas, and mining.

AI transportables' revenue is currently the fastest-growing part of our business. In 2020, it was about 20% of our revenue and currently represents over half of our perspective programs wins. Directly tied to our value proposition and strengths, these customers and opportunities really represent our higher-margin business, as well as where we win follow-on programs.

We look forward to updating you in the future with our progress in this exciting, fast-growing, AI transportable space.

With the close of the first quarter of 2021 only a week away, we are pleased to provide a revenue expectation of approximately \$13 million. While there remains uncertainty around when we'll finally conquer the pandemic and return to business as usual, we believe the worst is behind us. We are seeing signs of improvement and OSS has become foundationally stronger to execute the strategic plan to create increased value for our shareholders.

Now, with that, I'd like to open up the call to your questions.

Jenny?

**Operator**

Thank you. We will go first to Scott Searle of Roth Capital.

**Scott Searle**

Hi, good afternoon. Thanks for taking my questions.

Before diving in on the Edge and AI transportables, I want to just clarify a couple of things on Disguise. I'm not sure if I heard a number in the fourth quarter. I'd love to hear that if you have it. It sounds like you're starting to see a recovery now based on the newer 3D product before you start to see a recovery based on the traditional entertainment products in the second half of this year.

I was wondering if you could give us some color on the fourth quarter, what you're seeing going into the first quarter of that \$13 million assumption, is Disguise, and kind of how you're thinking about them contributing over the course of 2021?

**David Raun**

This is Dave.

A couple of things. First of all, we saw what we believe was the bottom in the third quarter with them, so we saw increased growth in the fourth quarter. That was primarily all in their new 3D virtual products, which are getting more traction. We expect that's going to project growth into the current quarter and future quarters; and then the second half will layer back in the kind of business we've enjoyed in the past. We think we'll be in pretty good shape later this year with our largest customer.

**John Morrison**

I think you were asking the question on the number: we cited that we were down \$4.3 million year-over-year on Disguise in the fourth quarter.

**Scott Searle**

Okay. It was down \$4.3 million.

Okay, and if you could as well, just component availability, it's obviously been a big issue throughout every supply chain globally right now. I'm wondering if you could give us some updated thoughts on that,



what you're seeing, particularly as it relates to things like GPU's and memory and how that's impacting the outlook for the gross margins.

**David Raun**

We definitely have seen it. Fortunately, throughout 2020 and into 2021, which may look worse than the previous year, we've taken action quick and it hasn't impacted our revenues in any significant or material way so far. We're staying on top of it.

We believe that as far as price increases, those are things that we have to pass on to our channel and our customers, so we don't expect it to impact our margins.

**Scott Searle**

Okay, great. Lastly, if I could, just in terms of the pipeline of opportunities, I think in the past, you've given some idea in terms of the level of RFP activity. I'm not sure if you provided those numbers or I missed them. I'd love to hear some more color on that front.

Dave, specifically as it relates to Edge and AI transportables, I'm wondering if you could delve in a little bit more in terms of how you're thinking about the ultimate market there in terms of how you go to market with partners, what additional incremental required investment looks like. Again, it sounds like this is a higher gross margin segment, more software content, so I'm trying to understand the investment required there and ultimately what that does to the financial model. Are we talking about you guys sustainably having 35%, 40% kind of gross margins, or what is the longer-term target on that front? Thanks.

**John Morrison**

I can help on the design win front, the outlook. Well, going into this year, we were in the 21 opportunities. That's been growing even in the first quarter. We're up at 24 as of today. That's what we're tracking. Typically, we've seen anywhere from a 60% to 70% win rate on those projects.

**David Raun**

And others will layer in.

**John Morrison**

And we'll layer in more over the year.

**David Raun**

Okay, and basically what we're saying is more than half of those are dead square in the AI transportable space.

The other questions, first of all, our higher-margin business tends to be things related to military and AI transportable. That's really where we're focused.

As far as additional investment, we're going to be careful with that. We're not in a situation where we're just going to go and start spending the \$19 million. We're going to be very careful. I think we've proven that that's our methodology, but we will not hesitate to do it if we believe it can radically accelerate our growth. We're looking for those opportunities.

**Scott Searle**

Great. Thank you.

**Operator**

We'll go to our next question from Ruben Roy of Benchmark.

**Ruben Roy**

Thank you, and nice job, guys, finishing up a challenging year.

Dave, I wanted to pick up on the last question and some of that, and get a little more context around how you're thinking about the strategic shift, maybe, to this Edge area. I assume some of the stuff that you're doing with Raytheon, with the storage containers, as well as what you're doing with Lyft, would be things that you're talking about here. Can you tell us in terms of some of these new projects that you're working on with customers, what types of projects are they? Are they Edge servers? Any type of detail on the type of work that you're getting asked to do. And if you've come up with some initial ideas of what the market TAM could look like over the next three to five years for OSS.

**David Raun**

Yes, absolutely. A couple of things. One is that, first of all, this plan is a lot about focus. We've already had success in this area, the AI transportable, but when you look at the data in that space is just very attractive versus other things we do. Again, part of it, that's what's nice, is we're not starting from scratch. We're just getting the organization more focused on it as we believe that it will provide a higher return to the Company and shareholders.

As far as Raytheon and Lyft, you mentioned those two, yes, they would fit into that category for sure. Pretty much anything that moves. I think you said a server on Edge. If that server is sitting in a vehicle or something that needs to move that has challenges, anything from heat, space, cooling, then it would be a fit, but it's not if it's in a little building with air conditioning. We're trying to make that really clear because, historically, we used to try to chase that business. We'd end up losing it because there's too many players. You end up against the big boys and it ends up being a price play.

As far as market size, we're trying to still sizes, but we believe the market today is somewhere in the \$200 million to \$400 million range. Other people may not define it as AI transportables. We think that's a good name for it and we think this is something that a number of years out could be \$1 billion to \$5 billion. In the next call, I'll try to hone that in a little bit more, we're doing work on that front. It's an exciting space and will be, I think, the fastest-growing space. It is the lagger in the Edge computing space.

**Ruben Roy**

Great. That's very helpful context. Thank you for that, Dave.

I guess the follow-up question to that would be when you look at your other products and assets, does this potentially entail some de-emphasis around some of the other areas that you guys have been working on, whether it's some of the stuff you integrated with CDI or Bressner, or what have you?

**David Raun**

I think the main thing to think about is that we're not going to do anything that first of all impacts our customers. We have great customers. It's just really focused where we look forward, where we put our greatest R&D dollars moving forward, is going to be where the highest return is. We're not going to turn this battleship real quick. We've got to build this over time and not hurt the revenue in the process.

**Ruben Roy**

Right. Okay, the last question I had was just more on the outlook for the rest of the year and specifically around Disguise and kind of layering back in some of the core revenue. How do you see that working? Is there inventory out there that they can work with once we start seeing some live events coming back? Or do you think that you're going to see a switch turn on and you guys are going to get a bunch of new orders if things get sort of going back into normal? Or how are you thinking about that maybe for the second half of this year and maybe longer term?

**David Raun**

First, I think we're going to have some nice results from the virtual products, which is really encouraging because there's a lot of pull in that area, and then the second half is with the large gathering events. Sure, there's some inventory in the channel with them and stuff, but I think we'll see an impact of that as early as Q3, and most likely it will be in Q3. I think they're going to rebound to a pretty good customer for us for sure.

**Ruben Roy**

That's perfect. Thanks, guys.

**David Raun**

Thank you.

**Operator**

We'll go to our next question from Brian Kinstlinger, Alliance Global Partners.

**Brian Kinstlinger**

Hi. Good evening, guys. How are you?

As it relates to the AI portables, can you talk about the competitive landscape and how your technology stacks up? I believe you talked about using the latest NVIDIA technology. Talk about where your peers are, and then for those that aren't using the technology that maybe equals what you are, how are you identifying and what is your go-to market strategy to replacing and bringing faster technology to those customers?

**David Raun**

I think really you could look at the market in three different segments. First of all, you've got inside design teams that we will compete with, whether they're going to try to do design themselves, but that's the challenge there. It's like we've done at Raytheon where we have to show our value and they decide to use us over and over.

Second, you've got the big players in the market, the growers, which would be the Mercurys, the Curtis Whites. They tend to go to market with more mature products, full-mill grade, and they're really good at doing that. We see a demand that says, "That's great, but I need the latest technology. I need the commercially available product. How could you give me that commercially available product that's sitting in the data center, the latest and greatest, and put in this harsh environment?"

That's what we do. I think the players that do some of that didn't get really fragmented, public companies that tend to be smaller ones. This is where we really believe we do take an initiative and carve out a real leadership in this area and offer a lot of value.

**Brian Kinstlinger**

What is the sales cycle for a replacement like that where someone might not be using the latest and greatest? Is it quick that they realized they need faster speed, or it can take a long time convincing because of the capital investment they've already made?

**David Raun**

I think it's the same we've seen in the past commercials and work from six months to 12 months; military is anywhere from nine months to 18 months, in general kind of thing. One of the things, just to point out, when Jim talks about having X number of opportunities, those are way down the path. They probably already bought some stuff from us. They're prototyping. I mean, it's not like, hey, that's the guy we want to go and pursue.

That doesn't mean it necessarily it takes that long to turn into revenue for us. In some cases, we made these terms in revenue with them already.

**Brian Kinstlinger**

Great. Thank you.

**Operator**

We'll go next to Christopher Scott of Noble Capital.

**Christopher Scott**

Guys, I'm sitting in for Joe. Thanks for taking my questions. Congratulations on a solid quarter. A lot of my questions have been answered.

But after the offering recently, what's the current fully diluted number of shares outstanding?

**John Morrison**

That's 18.5 million.

**Christopher Scott**

Eighteen point five million. Thank you, and let's see. I think I heard...

**John Morrison**

That's the number of shares, not fully diluted. I'm sorry to interrupt you. That is 18.5 million fully outstanding, not fully diluted.

**Christopher Scott**

Do you have a fully diluted number?

**John Morrison**

It's 18.5 million shares outstanding. On the fully diluted, we would have about another 700,000 on top of that.

**Christopher Scott**

Seven hundred thousand. Thank you. I heard some comments on Bressner and the margins being down. I think John made them. A little more detail on that, please. Is that related to Europe and increasing or ongoing COVID lockdowns?

**David Raun**

First of all, the Bressner, because they're more closer to a bar-type model, frankly, their margins tend to be in the lower twenties. I don't think it was radically down. It was just more the nature of the business.

**John Morrison**

Product mix 1.3 for the year.

**David Raun**

Yes, and then as far as margins overall, since our revenue was down, we're spreading overhead over a smaller number of dollars, which impacts the gross margin number also. We see positive things happening in this Company, creating a foundation so that when we pull out of this, which we think we're starting to do, a lot's going to go much more to the bottom line.

**Christopher Scott**

Right. Okay. Thank you.

**David Raun**

One of the things I think I'd like to add something to that is as you know, we gave guidance of \$13 million for the current quarter. What's kind of interesting about that number is last year in Q1 we did \$3.3 million, that's pre-COVID. We had no impact. Disguise was very strong. We're in shooting distance of that in a COVID world, which really backs up that we've layered in new customers. We fought our way through this in setting up for the future.

**John Morrison**

Chris, sorry to interrupt David on that.

I'm going to add \$10 million to his number. He posted 3.4 (multiple speakers)—13.4, so I don't want to let go on that \$10 million. Actually, that \$13.4 million was an all-time record for first quarter, for us last year.

As I said, we gave guidance this year of about \$13 million. We also feel that it's not all the slides, it's more in this new strategy that we're focusing on.

**Christopher Scott**

Thank you. That sounds great. The last question for me, just with some reports of improving employment, has that impacted your ability to source employees, especially maybe engineers?

**David Raun**

No. We've been pretty stable. I think we've created an environment that they're thriving in. They feel challenged and excited about our future. We're doing pretty good.

**Christopher Scott**

Great. Thanks very much.

**John Morrison**

Thank you, Chris.

**Operator**

We have no more questions at this time. I'd like to turn the conference back to our speakers for closing remarks.

**David Raun**

Sorry about that. That's the second time I've done that.

Thank you, Jenny, and thank you, everybody, for joining us today. We look forward to talking to each of you more in the future, reporting on our progress. In the meantime, please feel free to reach out to John, Jim, and me any time.

Jenny, please go ahead and wrap up the call.

**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 are not a description of historical facts or forward-looking statements. These statements are based on the 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, including

COVID-19, in regions of the world where we have operations, customers, or source material, or sell products, may affect such market.

Our operating results may fluctuate significantly, which would make our future operating results difficult to predict and could cause operating results to fall below expectations or guidance. Our abilities 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 are 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 abilities 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 a limited number of suppliers to support our manufacturer design process, and 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 condition and will 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 and 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.

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 replay starting later this evening through April 8. Please refer to today's press release for dial-in and replay instructions available via the Company's website at [ir.onestopsystems.com](http://ir.onestopsystems.com).

Thank you for joining us today. This concludes our conference.