



One Stop Systems, Inc.

Third Quarter 2018 Earnings Conference Call

November 8, 2018

CORPORATE PARTICIPANTS

Steve Cooper, *President and Chief Executive Officer*

John Morrison, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Gary Mobley, *The Benchmark Company*

Scott Searle, *ROTH Capital Partners*

Michael Potter, *Monarch Capital Group*

Rudy Miller, *Miller Capital*

PRESENTATION

Operator:

Good afternoon, and thank you for joining us today to discuss One Stop Systems' Third Quarter Results ended September 30, 2018. With us today are the Company's President and Chief Executive Officer, Steve Cooper, and its Chief Financial Officer, John Morrison. Following their remarks, we will open the call to your question. Before we conclude today's call, I'll provide some important cautions regarding the forward-looking statements made by Management during the call. I would also like to remind everyone that today's call will be recorded and will be made available for telephone replay via instructions in today's press release in the Investors' section of the Company's website.

Now I'd like to turn the call over to OSS President and CEO, Steve Cooper. Sir, please go ahead.

Steve Cooper:

Thank you, James (phon), and good afternoon, everyone. Thank you for joining us on today's call. Today, I'd like to discuss, one, our strong financial and operational performance for the quarter, two, our recent acquisition of Bressner Technology, and third, our updated Q4 and 2019 guidance.

Our revenue in the third quarter was a record \$9.6 million, up 45% compared to the year-ago quarter. This growth is almost entirely organic, as the recent CDI acquisition was included for only one month. Our margins also increased significantly to generate net income of \$1.3 million or \$0.09 per diluted share. We're very pleased with such high growth results. They validate our vision and growth strategies and reflect our team's strong execution. We're even more encouraged by the continuing market acceptance of our products and increasing growth outlook which has been strengthened by two recent acquisitions, including Bressner Technology acquisition that we announced this past Monday.

Let me talk a little bit more about the Bressner acquisition. The company is based in Grobenzell, Germany, which is right outside of Munich, and they provide standard customized servers, panel PCs, PCI expansion systems. They provide manufacturing test, sales and marketing services for customers throughout Europe and the Middle East. Bressner has more than 700 customers and some of their largest OEM customers include Novartis, Ipsotek, Intel, Rohde & Schwarz, BMW and many others. Bressner generates annual revenues of approximately EUR14 million which is about USD\$16 million. They're profitable and have positive cash flow.

To acquire the company, we paid cash of EUR4.725 million, which is USD\$5.4 million and also issued 106,463 shares of restricted OSS common stock. This stock has a 2-year lockup period. This strategic acquisition greatly expands our operations internationally. Through the acquisition we've been able to establish a strong European presence, which is key to our vision of rapid worldwide growth in the specialized high performance computing marketplace.

Bressner's Founder, Joseph Bressner, and its Managing Director, Martin Stiborski, will both continue to manage the Bressner business. As Joseph mentioned in Monday's press release, we've worked closely with Bressner for the past 10 years. They see OSS' R&D capabilities greatly enhancing Bressner's engineering capability, allowing us together to pursue a wider scope of customers looking for a high degree of customization. We both believe this acquisition is an ideal fit with our collective capabilities and creates powerful synergies that will drive the growth and global reach of OSS.

With the Bressner sales, marketing and support teams in Europe, we can further expand into the EMEA marketplace, where we see strong demand for OSS computing products. Bressner's support team will allow us to offer extended service level agreements to our core customers which we believe will make our products more attractive to the high growth AI and deep learning customers in the region.

We also announced yesterday that, along with Bressner, we've recently won four major OEM design-in for specialized high performance computing systems. We define a major OEM design-in as an application expected to achieve an annual production run-rate of more than \$1 million. The new design-ins brought to us by Bressner include a panel PC, which is used as part of a laser surgery medical equipment and a security video analysis server system.

For OSS, we won a design-in for a satellite communications compute accelerator and another for a smart studio video display system for television production, concerts and shows. These new design-ins represent state-of-the-art technology applied to specific application needs. These wins reflect that we're becoming increasingly dominant in the worldwide market for specialized high-performance computing. OEM design wins such as these also allow us to layer on long term recurring revenue, helping OSS achieve continued high growth results.

We expect prototypes for these new customer design-ins to ship this quarter with full production shipments beginning in 2019.

Now, before I go into our outlook for the remainder of the year, I'd like to turn the call over to our CFO, John Morrison, who will take us through the financial results for the third quarter of 2018. John?

John Morrison:

Thank you, Steve, and good afternoon, everyone. Thank you for joining us today. Earlier today, we issued a press release with results for our third quarter ended September 30, 2018. A copy of the release is available in the Investor Relations section of our website, at onestopsystems.com.

Turning to our income statement, our revenue in the third quarter, as mentioned, was a record \$9.6 million, up 45% compared to the year ago quarter of \$6.6 million. The improvement was primarily due to increased sales of military flash arrays, video display servers and new OEM design-in. Revenue also included the one month of revenue from CDI, which was acquired on August 31, 2018.

Gross margin also increased to 32.9% of revenue as compared to 29.9% in the year-ago quarter. The increase in gross margin was due to a favorable shift to higher margin sales of flash array systems. Operating expenses increased to \$3.5 million, or 36% of revenue. This compares to \$2.1 million or 32% of revenue in the year-ago quarter. These increases are primarily due to increased costs associated with increased R&D expenses for software development, increased sales commissions associated with sales, our acquisition costs, associated with CDI and Bressner, and costs associated with being a Public Company.

Net income attributable to common stockholders on a GAAP basis was \$3.1 million or \$0.09 per diluted share. This compares to a net loss attributable to common stockholders on a GAAP basis of \$119,000 or a loss of \$0.02 per diluted share in the same year-ago period.

As we discussed on our previous call, we believe our non-GAAP earnings per share and Adjusted EBITDA metrics are helpful to assist in the evaluation of the Company's financial performance. Please reference our definition and use of these non-GAAP terms and the reconciliation to GAAP in today's press release.

On a non-GAAP basis, net income attributable to common stockholders was \$1.2 million or \$0.09 per diluted share. This compares to net income attributable to common stockholders of \$23,000 or less than \$0.01 per basic and diluted share in the year ago period. Adjusted EBITDA totaled \$674,000 as compared to \$196,000 in the year-ago period.

Now turning to our balance sheet, cash and cash equivalents totaled \$7.1 million at September 30, 2018. This cash balance compares to \$186,000 at December 31, 2017 with that increase being primarily attributable to the proceeds from our IPO which occurred on February 1 of 2018. The cash balance at September is inclusive of the total cash expenditures for the acquisition of CDI which consumed about \$1,070,000.

Now let's move ahead to the time period ended October 31, 2018. Our ending cash balance was approximately \$2.8 million, which is inclusive of the total cash expenditures attributable to the Bressner acquisition of approximately \$5.7 million. At the time of the acquisition, Bressner had a tangible net book value of about EUR2 million or \$2.3 million.

Our expected ending cash balance as of December 31, 2018 is anticipated to be approximately \$2 million. We are in the process of finalizing a new line of credit in the fourth quarter of approximately \$2 million. We believe that the existing cash on hand plus the line of credit will provide adequate funding for the foreseeable future.

Following the closing of the Bressner transaction, on October 31, we had a total of 14,184,167 of our total common shares outstanding. Of this total, 57.4% of those shares are eligible for free trading with 42.6% held by affiliates. Now affiliates include those who are members of our Board of Directors, Senior Management, and Shareholders from our recent acquisitions, who received restricted shares for one or two years. Those total restricted shares were 1,372,728 shares of common stock.

This wraps up our financial results for the quarter. I'd now like to turn the call back over to Steve. Steve?

Steve Cooper:

Thanks, John. The same forces that have created this strong Q3 results will be even stronger in Q4. We are thus expecting an accelerating growth rate this quarter, Q4 and into 2019. Including Bressner, our revenue outlook is \$13 million to \$15 million for Q4 revenues. This represents a growth of 84% to 113% over last year Q4. In other words, we've basically doubled the run rate of our business over the last year. We expect our high growth rate and increasing earnings trends to continue throughout 2019. More specifically, we anticipate 2019 revenues to be between \$54 million and \$58 million or up 51% to 54% year-over-year. We should also remind Investors that the nature of our business is such that revenue from quarter-to-quarter fluctuates plus or minus 15% from our plan due to variations in product deliveries and/or seasonal fluctuations.

As the Company continues to scale up, we're also investing in the appropriate infrastructure for a larger and more sophisticated Company. These investments include expanded facilities and new internal IT systems. Regarding facilities, we've secured additional facility space at our Escondido headquarters and are currently working on completing tenant improvements. We expect to move into the new space during the first quarter of 2019.

Also our recent acquisitions add facility space in Irvine, California and, of course, Grobenzell, Germany. We're also in the process of implementing a new ERP, or enterprise resource planning system. We've chosen the Infor software package and we expect to go live in Q2 2019. We expect this new system will provide greater operational efficiencies and support our growing worldwide enterprise as we scale the business.

Now since our goal is to be and to be recognized as a leading high growth technology company, let me now talk a bit about the be recognized part of this. We continue to implement an Investor Relations outreach program that includes press releases, Investor meetings and participation in Investor Conferences. Over the next two months there's a particular flurry of activities planned. We're planning to participate in a number of Investor Conferences and in conjunction with these conferences, we're planning to visit with Institutional Investors and what's often referred to as a non-deal roadshow. We're schedule to present at four major Investor conferences across the country starting in New York next week at the ROTH Technology conference. Then we go to Minneapolis and Chicago for the Benchmark conference. Next is on to LA for the LD Micro Conference and then on to Salt Lake City for the ROTH Deer Valley event.

At each of these conferences we'll present our Company and meet with Institutional Investors for one-on-one meetings. We hope to see some of you there. Now with that, I'd like to open the call to your questions. James?

Operator:

Thank you. If you would like to ask a question, you may do so by pressing the star key, followed by pressing the one key 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. Once again, if you'd like to ask a question, please press star, one. We'll pause for just a moment to allow everyone the opportunity to signal for questions.

We'll take our first question today from Gary Mobley with Benchmark.

Gary Mobley:

Hi, guys. Good afternoon. I extend my congratulations to a strong quarter of profitability. I wanted to get my bearings with respect to these recent acquisitions and what is implied in your fourth quarter revenue

outlook and your fiscal year '19 revenue outlook. I guess if I back out the contribution from CDI and Bressner from the fourth quarter expectations and what they have been running at, you're expecting sequentially flat revenue comp on an organic basis. Am I reading that correctly?

John Morrison:

I'm not sure what you're referring—you're referring to the breakout of Q4's projected revenue?

Gary Mobley:

Correct.

John Morrison:

Okay, so we're expecting in Q4 revenue to be midpoint of guidance is about \$14 million and of that we would expect about \$12 million come from the traditional OSS, \$1 million to come from CDI and \$1 million to come from Bressner. Does that help?

Gary Mobley:

Sure, so Bressner, I'm assuming, just closed, in last couple of days?

Steve Cooper:

That's correct. It was a sign and closed transaction meaning—which took effect October 31.

Gary Mobley:

But just to be clear, their annual run rate is about \$16 million?

Steve Cooper:

That's correct. It's a little unclear how much we get now in Q4, it's going to be a partial quarter, and then also have about half of December as a shutdown period so I think we should be a little conservative about their partial quarter results and we'll get the first full quarter in Q1 of next year.

Gary Mobley:

Got you, and so extending that conversation to 2019, if I back out the contribution from Bressner and TDI, looks like you're guiding organic revenue growth to about 10% to 12%, is that too conservative?

Steve Cooper:

Again, if we just look at the midpoint of the guidance we just provided, it's \$56 million for the year and if I were to break that out I'd go \$38 million for the traditional OSS, about \$4 million for the CDI and about \$14 million for Bressner.

Gary Mobley:

Got you. Great, and then with respect to gross margin and OpEx to get our bearings here and using Q4 as a starting point, first of all, can you tell us whether Bressner is gross margin accretive and on a

blended basis, what your outlook is for gross margin in Q4 and then what your outlook is for GAAP and non-GAAP OpEx for Q4?

John Morrison:

Regarding margins, CDI, starting there, is a little higher than One Step's traditional margin. They run about 40% gross margins. Bressner, on the other hand, is slightly below One Step's traditional margins at around 28% 29%. One Stop, as we know, has been trending up but it's currently at about 32% margins.

Gary Mobley:

Okay, and so we'll call it a little bit of a downtick from OSS's traditional gross margin run rate, somewhere in the neighborhood of low 30%?

John Morrison:

I think it will be a little higher than that but perhaps slightly below what we just achieved in Q3 as a percentage.

Gary Mobley:

Got you, okay, and then as far as OpEx contribution to GAAP and non-GAAP?

John Morrison:

We'll have to get back to you on that one, I think. Too much guidance at this point.

Gary Mobley:

Right, sorry about that and then with respect to Bressner, how would you expect to benefit from synergies, cross selling synergies, and R&D synergies between the two companies?

Steve Cooper:

We think it's going to be tremendous. I have set up European sales channels in the past and typically you spend millions of dollars in four or five years to get to a level of sophistication that we get in this one acquisition. We're very, very pleased with that. The immediate is that they'll continue to run the business as they have but it really gives us a strong presence throughout Europe and access to a lot of customers for the standard OSS products and conversely, there are a number of products that have been developed by Bressner that we believe we can sell in the U.S. and other markets around the world. There's a lot of cross pollination synergies going on that we think will have tremendous benefit for the Company.

Gary Mobley:

Okay, Raytheon for the quarter, I think you mentioned on the last earnings call you had about \$3.2 million in backlog. Was that, in fact, an approximation of the revenue contribution for Raytheon? I think in this press release you mention \$2 million in backlog. Is there a sequential dip there, just maybe for various reasons?

Steve Cooper:

Yes. Q3 we ended up shipping, I believe, it was about \$3 million in revenue to Raytheon and our scheduled backlog is about \$2 million this quarter. We do expect there to be fluctuations quarter-to-quarter as they continue to ramp up, but for 2019, we are expecting somewhere between \$8 million to \$10 million in total revenue, the exact split by quarter is still being worked out.

Gary Mobley:

Okay. All right. I am going to hop in the queue and we'll speak in a little while. Thanks, guys.

Steve Cooper:

Thank you. Looking forward to being out at the Benchmark conference.

Operator:

Next we will hear from Scott Searle with ROTH Capital.

Scott Searle:

Hey, good afternoon. Steve, just quickly the follow up on Bressner, you mentioned that it was profitable (inaudible).

Steve Cooper:

Scott, I am sorry, we kind of lost your phone connection. Can you repeat your question?

Scott Searle:

Just the (inaudible) what does the EBITDA margin look (inaudible)—

Steve Cooper:

Again, Scott, I hope you can hear us, okay, but you are really cutting out again. I can get only pieces of your words.

Operator:

Mr. Searle, are you still there?

Scott Searle:

Hey, guys, is this better?

Steve Cooper:

Much better. Thank you.

Scott Searle:

Okay. Hey, my apologies. To follow up on the Bressner front again, trying to get an idea about what the profitability looks like. You said 28%, 29% kind of gross margin, you said it's profitable. Can you give us an idea of how profitable, what the EBITDA margins look like?

Steve Cooper:

We would expect profitability in 2019 to be approximately EUR500,000 for the full year. They do have a slight seasonality to their business, slightly light Q1, middle of the road Q2, Q3, and usually Q4 is their best quarter.

Scott Searle:

Got you, and following up, it sounds like Raytheon was in line for the quarter, little bit softer in the fourth quarter, but 2019 looks like it's generally on track in that \$8 million-plus range that you talked about. How are some of the other design opportunities for additional storage arrays, GP accelerators, et cetera, within Raytheon and Poseidon specifically? How are they progressing, what's the visibility on that front?

Steve Cooper:

The other one you didn't mention, maybe it's your next question, I'll answer as well, is Disguise, our video entertainment system, had an excellent Q3 and it's really going crazy in Q4. We are also—have won a new design that's just been announced by Disguise and will begin shipping in Q4 and we are very, very excited about the ramp up from that product.

With regards to some of the other design wins, we mentioned four \$1 million design wins that we just won in the last few days and weeks. We are very excited about those, prototyping this month, ramping up next year. In our last conference call, we commented that we had more \$1 million-plus opportunities than we had ever had and it's really good to see that many of those opportunities are now being closed and going to move into full production—full realization.

That continues. The number of proposals has never been higher. Another anecdote that's kind of interesting is I remember when we went out on our IPO roadshow, we were talking about how proud we were that we had \$10 million in scheduled backlog and that that gave us comfort. I just looked at it this morning and we currently have about \$21 million scheduled backlog. Again, the Company has roughly doubled over the last 12 months.

Scott Searle:

Got you. Hey, Steve, are there any numbers you would attach here? I think last quarter you had said \$10 million to \$11-plus-million design opportunities in the pipeline, looks like four of those came to fruition. What is the number of opportunities in the pipeline and what do you expect the close rate to be on some of those opportunities? Pretty good for the first quarter that you first started reporting it, but is this something we are getting a 50% closure rate, do you think it's going to be something higher than that?

Steve Cooper:

Unfortunately, I think it's a little lower than that. Actually, I'd guess we closed about a third of those \$1 million proposals and right now we have between 15 and 20 outstanding. But I would say we should only count on closing about a third of them and then obviously we continue to drive our sales team to close a higher percentage but history would say about a third.

Scott Searle:

Okay, and last question, just a follow up on the disguise front, certainly sounds like third quarter ramped up seasonally very strong, looks like that's continuing, what's your outlook and your thought process as

how it's factored into your guidance in numbers for 2019? Is Disguise a growth opportunity going forward, how do you think about 2019? Thanks.

Steve Cooper:

We're being a little bit cautious at this point. This year, as you may recall, in Q1 and Q2 they were pretty flat. They now have exploded in Q3 and Q4. For the year in total, they will end up growing 30% on the previous year. Pretty good growth here for them, pretty good growth here for us as a result. At this point, we're modeling them basically flat next year but they are a rapidly growing company and they are introducing new products that we have designed for them. There's definitely potential to see significant increases next year as well.

Scott Searle:

Great, thanks. I'll get back in the queue.

Steve Cooper:

Thank you.

Operator:

Our next question comes from Michael Potter with Monarch Capital Group.

Michael Potter:

Hi, guys. Congratulations on a solid quarter.

Steve Cooper:

Thank you.

Michael Potter:

Steve, I am just trying to understand I guess a little bit, I am little confused, same thing with Benchmark and ROTH in regards to the numbers. When I look at the guidance from beginning of the year versus where we are now and the guidance going into 2019, that did not include two acquisitions, Bressner or CDI, and now we have those two to layer on top of it. It seems that you're not looking for really much organic growth at all for '19 versus '18, is that correct?

Steve Cooper:

If we're looking at about \$38 million next year, Roth and Cowen (phon) and the others will end up at 134ish this year. There is \$4 million growth modeled in to the \$56 million number for 2019. It could be quite a bit higher than that. It's definitely a growth year, we believe, but perhaps not as much as it could have been or could possibly be, that's correct.

Michael Potter:

Okay, so you're anticipating a slower organic growth rate for '19 versus what we are seeing for '18 versus '17?

Steve Cooper:

Yes. That's correct.

Michael Potter:

Okay, the Bressner acquisition, how much of the revenue was intra-Company?

Steve Cooper:

About \$800,000, I believe. A bit lower than that, they are telling me, about \$500,000.

Michael Potter:

About \$500,000, and was their business a backlog business?

Steve Cooper:

It's a mix. They have major OEM customers, several of whom (inaudible) who will order an entire year, in some cases, 18 months in advance, and so they do have a substantial backlog for those long orders but that's probably their top five or 10 customers they do that out of 700 total. The rest of the customers typically order and take delivery within a one- or two-month period.

Michael Potter:

Also, what was their current backlog?

Steve Cooper:

Roughly, EUR5.5 million, that's in euros, again, sorry. EUR5.5 million in current exchange rates, roughly \$1.14 million.

Michael Potter:

Okay, and do they have any long-term contracts, similar to ours with Raytheon?

Steve Cooper:

Yes, they do. In particular, the contracts with Novartis and Ipsotek are both long-term contracts. I believe they have several others with those other customers but I would have to double check that.

Michael Potter:

Okay. One thing you didn't comment on was, or at least I don't remember hearing it, was our cloud offering. How is that doing? Are we seeing revenue ramp with that offering?

Steve Cooper:

No. That's one of our disappointments for the year. It has not proceeded as expected. We're struggling with exactly what to do with that going forward.

Michael Potter:

Okay. Are you contemplating shutting it down?

Steve Cooper:

Yes.

Michael Potter:

Okay. How much was the loss from that operation for Q3?

Steve Cooper:

We will have to look at it. Again, (inaudible) half of it.

John Morrison:

For the nine months? For the quarter, it was a \$204,000 loss.

Michael Potter:

For that division.

Steve Cooper:

(Inaudible) it's half of that.

Michael Potter:

Okay, and then and for the nine months?

John Morrison:

Nine months, \$369,000.

Michael Potter:

Got it. Okay. Steve, I wanted a comment. We were involved in the public offering at the beginning of the year and now we're November 8 and our stock is about half the value it was when you guys came out, extremely disappointing obviously, for what is a growth company and an area that has been, I guess, one of the attractive areas in the markets this year. What do you think—where do you think the disconnect is between the capital market's perception of the Company and the actual value of the Company or the execution, or is there a disconnect, I guess?

Steve Cooper:

Well, I think there is a major disconnect. I think two things are happening, is my theory of what's going on. Because I think there is a huge disconnect. The Company is growing and doubling in size and stock is going in the opposite direction. On a purely financial multiple perspective, that doesn't make any sense. I think the two things that are happening though is once our lock up expired for the legacy Shareholders, I believe we have legacy Shareholders that are choosing to sell and are putting downward pressure on the

stock. Obviously the stock is thinly traded. I bet even a relatively modest amount of selling can move the stock quite a bit.

Secondly, though our first half was slower, our results were slow. Although we were foreshadowing these great Q3 and great Q4 numbers that we're now achieving, I think there is a bit of a show me phenomenon going on. I'm optimistic that now that we're actually doing the things we said we were going to do, grow rapidly in the second half, increase margins and do acquisitions, that that has an effect.

Then the third aspect is, it's not only having a good message but it's effectively communicating it to new investors. We've done quite a bit, been to several conferences earlier in the year, but now that we have the really strong message plus this flurry of conferences and mini roadshow, I think that will have a positive effect.

Michael Potter:

Okay, well, listen as one Shareholder, I certainly hope that the communication improves because I think it's been pretty poor so far. I know it takes some time to get used to being a Public CEO. It's very different than being a private CEO. Are you ready to be a Public Company CEO?

Steve Cooper:

I believe I am. I am thoroughly enjoying it and I think the IPO process was quite successful. I'm looking forward to this non-deal Roadshow. We need to do both, one is execute the strategy and show great results, plus to be recognized for that, appropriately communicate that, particularly to the institutional investment community. I think we're going to be doing a lot of that over the next couple of months.

Michael Potter:

Very good, I'll get back in queue.

Steve Cooper:

Thank you.

John Morrison:

Thank you.

Operator:

As a reminder, press star, one if you have a question. We'll now hear from Rudy Miller with Miller Capital.

Rudy Miller:

(Foreign Language Spoken) We know you, Steve. It was my (inaudible) from Germany. He's been (inaudible) to be a little bit on the Deutsche (inaudible). First of all, I like to thank all the previous folks who asked a few questions and gave some of the commentary because 85% of my questions were asked by the previous investment bankers and analysts involved with the Company so I will keep my encounter short. I don't know, Steve, I'm glad you are having fun. But from an Investor point of view, they're not having fun, as what was asked today. But going forward on that, when I—have a couple of questions. I want to thank you, John, the CFO, on given the cash analysis after your two acquisitions, the amount of cash you guys had, and course, last year you had almost nine months of the earnings percentage on your

cash, a little bit down, interest rates are clicking up and certainly the Bressner acquisition, if you look at the \$16 million going forward in 2019, and also took out what the profit margin would be on that company, even if you reverse that to euros, it's not a very high margin situation.

Now one thing it appears to me from hearing about Bressner is that you really have now hired more sales people and there was some cross-selling, sometimes that's over optimistic with some transactions. But I do see you're getting a stronger footprint in that endeavor. I think it's very helpful to the overall Company.

On the cash basis, let me go into the cash and I had the same questions and I—we're on the same numbers there locally as the other speakers did on your actual true organic growth to what the core business is and new acquisitions. Getting into a strategic aspect of it is now that you're down to roughly \$2 million, \$2.1 million, you used up a large majority of your capital for acquisitions and, of course, associated expenses. But now going forward, you really don't have a lot of cash and with the stock being down, and second with Shareholders that are potentially—it could be how their stock positions in as little as three to six months and some longer, you've got a fair amount of selling and when—anytime you see insiders, whether they're smaller Company employees who've worked at the Company for years and you understand why someone would sell their stock. It doesn't give a lot of confidence to other Investors in the Company, when you see that, for whatever reasons they bit into it, and that's their position and that's up to them and we all take a risk, no one made us buy the stock, certainly.

But you do look flat from all the numbers we've run regarding your growth, if you take out the two acquisitions that you talked about, and your \$2.1 million cash. Annual numbers next year for you to make the acquisitions, you'd have to finance them primarily with debt if they are any reasonable size. If you can do that and/or get paper that's got a dilution factor built into it over the next six or 12 months, from my perspective, from older insiders and others, and including your first acquisition with Magnus, a pretty large amount of stock sitting there at \$1.3 million.

That's a bit of a concern for me on your cash position that you won't have the ability to make acquisitions next year, unless you do it with debt. Some of these acquisitions are great gross revenues but they don't look like overly strong cash flow and profit margin from what little information I have publicly. I could be totally wrong on a portion of that. I think that is a concern for me because I really, every time—there definitely is selling pressure on the stock and we all bought ours at \$5 a share, we averaged down about a little less than that, down into the high threes. But that is a disappointment.

I think the key is that I think, as the previous speaker said, that communication with the Shareholders, and I did appreciate your call to me on some deals and also John, when I had a couple of generic questions too and I do appreciate that, but I'm looking for either the cash flow increase, or how would you—I'm assuming that you've always talked about the acquisition strategy. How would you finance future acquisitions or do you see 2019 as really digesting what you've acquired, making it more profitable through a combination of synergies with the companies that you've acquired for 2019 because you're certainly not going to have the cash unless you go out and get some good leverage financing. We know interest rates are not going down.

That's just a comment. If you can give any additional commentary, because I think you've answered 85% of the other things already, on—and I'm glad to see you are doing the conferences and communicating because it has not been a good communication story and certainly, when the market goes down a lot, we don't expect you to be the Rock of Gibraltar either. But you guys are in charge of executing the strategy and if 2019 is only X, we're trying to look at this over the next six, 12 and 18 months from my perspective. If you can add any other color, you've already answered most questions. Those are my concerns and my question is about, I can't really see how you're going to make acquisitions in 2019 without a lot of debt coming in to play. If you can help me understand better, I'd be appreciative. Thank you.

Steve Cooper:

Yes, the element I didn't mentioned is that we believe the appropriate action right now is to take a strategic pause in terms of doing new acquisitions. These two, because deals happen when they happen, happened to come fairly close together and there's quite a bit of digestion, absorption, integration and whatever term you want to use, and we want to do that right so that we get the full value of all the synergies and also grow each of those business. Just irregardless of the funding, we want to take a strategic pause. I do not anticipate actively pursuing another acquisition at least for the next six months, perhaps for all 2019.

I do believe that once some of this legacy Shareholders flush its way through the market and we do the roadshow and this and that, that I believe that our stock value will more appropriately reflect the new Company and our growth and profitability will be more appropriately reflected in the market. For example, if you look at where we might be a year from now, as a \$56 million Company with increasing margins, increasing profitability, positive cash flow, and you say what's an appropriate public Company valuation for that Company, I think you could certainly rationalize that it'll be quite a bit higher than today's value.

I'm optimistic for that, but to directly answer your question, I think both for strategic, we need to absorb these companies before we do more acquisitions, and then for the practical side, also we don't have funding and to achieve funding might be problematic. For both those reasons, we're going to take a strategic pause regarding new acquisitions.

Rudy Miller:

Steve, I appreciate your comments and I also think a year of maturity as a CEO will be helpful to you as you get comments like the other investment community has made to you, and as you get on your roadshow, and I'll tell you what the value will be of your Company, it's pretty easy. It will be what the market think it's worth and then that's all measurable. Thank you for your time and still support you. But we're disappointed, but we still support you.

Steve Cooper:

I understand and appreciate your support, Rudy.

Rudy Miller:

Thank you. Have a good day.

Operator:

As a reminder, press star, one if you have a question. We will pause for a moment. At this time, this concludes our question-and-answer session. I'd now like to turn the conference over to Mr. Cooper. Sir, please proceed.

Steve Cooper:

Thank you, James, and thank you, everybody, for joining us today. We look forward to talking to each of you in the future and reporting on our progress. Meanwhile, please feel free to reach out to myself or John at any time. Thank you, everyone. Operator?

Operator:

Thank you. Now before we conclude today's call, I'd 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 this presentation that are not a description of historical facts, are 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 2018 financial outlook and expectations for 2019 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 this 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 developed as we expect. 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 ability to successfully integrate the operations, system, technologies, products, offerings and personnel of 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 sell and competitive pressures 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 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 manufacturing 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 risk that can adversely affect our operating results and financial condition 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 releases 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're cautioned not to place undue reliance on these forward-looking statements which speak only as of the date of this 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'd like to remind everyone that this call will be available for a replay starting later this evening through November 22.

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 today's conference. You may now disconnect.