UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to ________________

Commission File Number: 001-38371

One Stop Systems, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**33-0885351**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2235 Enterprise Street #110

Escondido, California 92029

(Address of principal executive offices including Zip Code

(760) 745-9883

(Registrant's telephone number, including area code)

(Former Name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of exchange on which registered
Common Stock, $0.0001 par value per share	OSS	The Nasdaq Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 30, 2020, the registrant had 16,485,362 shares of common stock (par value $0.0001) outstanding.

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PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements.

ONE STOP SYSTEMS, INC. (OSS)

UNAUDITED CONSOLIDATED BALANCE SHEETS

	Unaudited March 31, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,038,006	$ 5,185,321
Accounts receivable, net	9,111,679	11,667,157
Inventories, net	8,984,877	7,369,356
Prepaid expenses and other current assets	840,525	453,938
Total current assets	21,975,087	24,675,772
Property and equipment, net	3,552,551	3,568,564
Deposits and other	45,133	47,146
Deferred tax assets, net	3,459,972	3,019,823
Goodwill	7,120,510	7,120,510
Intangible assets, net	1,171,667	1,346,192
	$ 37,324,920	$ 39,778,007
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 3,833,791	$ 4,115,977
Accrued expenses and other liabilities	4,610,506	4,607,432
Current portion of notes payable, net of debt discount of $7,019 and $7,019, respectively (Note 8)	1,016,814	1,377,751
Current portion of related-party notes payable, net of debt discount of $23,060 and $23,060, respectively (Note 8)	575,422	561,441
Total current liabilities	10,036,533	10,662,601
Notes payable, net of current portion and debt discount of $292 and $2,047, respectively (Note 8)	15,722	149,301
Related-party notes payable, net of current portion and debt discount of $961 and $6,726 , respectively (Note 8)	50,686	199,943
Total liabilities	10,102,941	11,011,845
Commitments and contingencies (Notes 10 and 11)		
Stockholders' equity		
Common stock, $.0001 par value; 50,000,000 shares authorized; 16,476,661 and 16,121,747 shares issued and outstanding, respectively	1,647	1,612
Additional paid-in capital	30,144,896	30,537,015
Noncontrolling interest	-	500
Accumulated other comprehensive loss	(73,340)	(17,773)
Accumulated deficit	(2,851,224)	(1,755,192)
Total stockholders' equity	27,221,979	28,766,162
	$ 37,324,920	$ 39,778,007

See accompanying notes to consolidated financial statements

ONE STOP SYSTEMS, INC. (OSS)

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31, 2020	2019
Revenue	$ 13,359,637	$ 10,057,899
Cost of revenue	9,963,950	7,646,277
Gross profit	3,395,687	2,411,622
Operating expenses:		
General and administrative	2,514,065	2,043,934
Marketing and selling	1,189,351	1,137,932
Research and development	1,203,425	1,261,964
Total operating expenses	4,906,841	4,443,830
Loss from operations	(1,511,154)	(2,032,208)
Other income (expense):		
Interest income	24,637	3,107
Interest expense	(68,784)	(6,268)
Other income (expense), net	(8,029)	(11,271)
Total other income (expense), net	(52,176)	(14,432)
Loss before income taxes	(1,563,330)	(2,046,640)
Benefit for income taxes	(467,298)	(1,101,911)
Net loss attributable to common stockholders	$ (1,096,032)	$ (944,729)
Net loss per share attributable to common stockholders:		
Basic	$ (0.07)	$ (0.07)
Diluted	$ (0.07)	$ (0.07)
Weighted average common shares outstanding:		
Basic	16,332,898	14,239,711
Diluted	16,332,898	14,239,711

See accompanying notes to consolidated financial statements

ONE STOP SYSTEMS, INC. (OSS)

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	For the Three Months Ended March 31,	
	2020	2019
Net loss attributable to common stockholders	$ (1,096,032)	$ (944,729)
Other comprehensive loss:		
Currency translation adjustment	(55,567)	(41,869)
Total other comprehensive loss	(55,567)	(41,869)
Comprehensive loss	$ (1,151,599)	$ (986,598)

See accompanying notes to consolidated financial statements

ONE STOP SYSTEMS, INC. (OSS)
UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For The Three Months Ended March 31, 2020

	Common Stock				Accumulated Other		
	Shares	Amount	Additional Paid-in-Capital	Noncontrolling Interest	Comprehensive loss	Accumulated Deficit	Total Stockholders' Equity
Balance, January 1, 2020	16,121,747	$ 1,612	$ 30,537,015	$ 500	$ (17,773)	$ (1,755,192)	$ 28,766,162
Stock-based compensation	-	-	207,761	-	-	-	207,761
Exercise of stock options, RSU's and Warrants	354,914	35	56,965	-	-	-	57,000
Return of capital upon dissolution of SkyScale				(500)			(500)
Taxes paid on net issuance of employee stock options	-	-	(656,845)	-	-	-	(656,845)
Currency translation adjustment	-	-	-	-	(55,567)	-	(55,567)
Net loss	-	-	-			(1,096,032)	(1,096,032)
Balance, March 31, 2020	16,476,661	$ 1,647	$ 30,144,896	$ -	$ (73,340)	$ (2,851,224)	$ 27,221,979

See accompanying notes to consolidated financial statements

ONE STOP SYSTEMS, INC. (OSS)
UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For The Three Months Ended March 31, 2019

	Common Stock				Accumulated Other		
	Shares	Amount	Additional Paid-in-Capital	Noncontrolling Interest	Comprehensive Income (loss)	Accumulated Deficit	Total Stockholders' Equity
Balance, January 1, 2019	14,216,328	$ 1,422	$ 27,424,113	$ 500	$ 1,142	$ (854,855)	$ 26,572,322
Stock-based compensation	-	-	167,474	-		-	167,474
Exercise of stock options, RSU's and Warrants	54,098	5	14,196	-	-	-	14,201
Currency translation adjustment	-	-	-		(41,869)	-	(41,869)
Net loss	-	-	-	-	-	(944,729)	(944,729)
Balance, March 31, 2019	14,270,426	$ 1,427	$ 27,605,783	$ 500	$ (40,727)	$ (1,799,584)	$ 25,767,399

See accompanying notes to consolidated financial statements

ONE STOP SYSTEMS, INC. (OSS)

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net loss attributable to common stockholders	$ (1,096,032)	$ (944,729)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred benefit for income taxes	(441,282)	(1,165,219)
(Gain) on disposal of property and equipment	(1,542)	(1,050)
Provision for bad debt	(2,405)	(88)
Warranty reserves	5,075	(3,428)
Amortization of deferred gain	(41,479)	(16,479)
Amortization of intangibles	174,525	349,419
Depreciation	221,300	115,308
Inventory reserves	148,418	57,046
Amortization of debt discount	7,520	-
Stock-based compensation expense	207,761	167,474
Changes in operating assets and liabilities:		
Accounts receivable	2,530,072	1,868,297
Inventories	(1,826,564)	(2,699,867)
Prepaid expenses and other current assets	(386,005)	(185,596)
Accounts payable	(275,428)	1,467,746
Accrued expenses and other liabilities	54,293	791,149
Net cash used in operating activities	(721,773)	(200,017)
Cash flows from investing activities:		
Purchases of property and equipment, including capitalization of labor costs for test equipment and ERP	(200,049)	(803,243)
Proceeds from sales of property and equipment	1,542	1,050
Net cash used in investing activities	(198,507)	(802,193)
Cash flows from financing activities:		
Proceeds from issuance of stock and stock options exercised	57,000	14,201
Payment of payroll taxes on net issuance of employee stock options	(656,845)	-
Net (repayment) borrowings on bank lines of credit	(430,313)	140,967
Net repayments on related-party notes payable	(141,042)	-
Net repayments on notes payable	(42,919)	(972,440)
Net cash used in financing activities	(1,214,119)	(817,272)
Net change in cash and cash equivalents	(2,134,399)	(1,819,482)
Effect of exchange rates on cash	(12,916)	2,660
Cash and cash equivalents, beginning of period	5,185,321	2,272,256
Cash and cash equivalents, end of period	$ 3,038,006	$ 455,434

See accompanying notes to consolidated financial statements

ONE STOP SYSTEMS, INC. (OSS)

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

	For the Three Months Ended March 31,	
	2020	2019
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 22,369	$ 6,268
Cash paid during the period for income taxes	$ -	$ 62,349

See accompanying notes to consolidated financial statements

NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION

Nature of Operations

One Stop Systems, Inc. ("we," "our," "OSS," or the "Company") was originally incorporated as a California corporation in 1999 after initially being formed as a California limited liability company in 1998. On December 14, 2017, the Company was reincorporated as a Delaware corporation in connection with its initial public offering. The Company designs, manufactures and markets industrial grade computer systems and components that are based on industry standard computer architectures. The Company markets its products to manufacturers of automated equipment used for entertainment, telecommunications, industrial and military applications.

During the year ended December 31, 2015, the Company formed a new wholly-owned subsidiary in Germany ("OSS GmbH"). During July 2016, the Company acquired Mission Technologies Group, Inc. ("Magma") and its operations.

In April 2017, the Company and a related entity formed a joint venture named SkyScale, LLC in the State of California ("SkyScale"). In accordance with the Contribution Agreement, each member contributed $750,000 and received a 50% interest in the joint venture. The purpose of SkyScale was to engage in the business of providing high performance computing capabilities as cloud services. As a result of changes in the competitive landscape and downward pressure on pricing from large competitors, the members to the SkyScale joint venture agreement agreed to dissolve SkyScale and ceased operations as of December 31, 2018.

In May 2017, the Company entered into a Technology and Software License Agreement with Western Digital ("WDT") for their Ion flash storage software. The agreement provides the Company with the Ion source code and rights to develop and market derivative products. The Company intends to develop and sell Ion flash storage software with its high-density storage arrays, as well as service existing WDT software users.

In July 2017, the Company entered in to a Service Agreement with WDT to service its existing customer base that utilizes Ion flash storage software. The Company also purchased certain equipment from WDT and hired selected employees to assist in the servicing of these existing customers. Management has determined that the activities and assets acquired from WDT comprise a business as defined in ASC 805-10-55-4 through 55. Consideration paid by the Company to WDT pursuant to the arrangements described above was $67,000. In addition, the Company is required to pay prospective royalties to WDT of $2,500 or $5,000 for each sale of the Company's products that include licensed software. WDT is obligated to pay the Company for services rendered to support existing WDT software users the amount of $1,400,000 in defined declining quarterly amounts over a three year period. Management does not believe this business acquisition meets the significance definition provided in Regulation S-X, Rule 210.1-02(w).

On August 31, 2018, the Company acquired Concept Development Inc. (CDI) located in Irvine, California for cash of $646,759, and common stock valued at $4,194,673 (Note 3). CDI specializes in the design and manufacture of custom high-performance computing systems for airborne in-flight entertainment systems.

On October 31, 2018, the Company's wholly-owned German subsidiary, OSS GmbH, acquired 100% of the outstanding stock of Bressner Technology GmbH, a Germany limited liability company located near Munich, Germany, from its principal owners for cash consideration of €4,725,000 (US$5,374,582) and stock consideration of 106,463 newly-issued restricted shares of the Company's common stock.

Liquidity and Going Concern Considerations

Given our recent operating losses, the Company's primary sources of liquidity have been provided by (i) the Company's February 2018 initial public offering (net proceeds were approximately $16,100,000), (ii) March 2019 notes payable from members of the Board of Directors and others of $1,500,000, (iii) the July 2019 sale of 1,554,832 shares of the Company's common stock for net cash proceeds of $2,488,148 and (iv) the April 24, 2020 sale of $3,000,000 of Senior Secured Convertible Promissory Notes issued at a 10% original issue discount.

As of March 31, 2020, the Company's cash and cash equivalents were $3,038,006 and working capital was $11,938,554. Cash and cash equivalents held by Bressner totaled $599,511 (USD) at March 31, 2020, and Bressner's debt covenants do not permit the use of those funds by its parent company. During the three months ended March 31, 2020, the Company experienced an operating loss of $1,511,154, with cash used in operating activities of $721,773. Our largest customer, engaged in the media and entertainment industry, is having significant financial hardships attributable to the COVID-19 pandemic and as a result has been slow in paying its outstanding accounts receivables. The Company has formulated a plan whereby extended terms have been made available, and our customer is presently honoring those terms.

The Company's revenue growth, inclusive of two acquisitions made in 2018, has resulted in growth of the Company as a whole, but has been offset by increased spending in all areas of operating expenses: general and administrative, marketing and selling, and research and development.

The recent outbreak of the novel strain of coronavirus, or COVID-19, which has been declared by the World Health Organization to be a "public health emergency of international concern," has spread across the globe and is impacting worldwide economic activity. A public health pandemic, including COVID-19, poses the risk that we or our employees, contractors, suppliers, and other partners may be prevented from conducting business activities for an indefinite period of time, including due to shutdowns that may be requested or mandated by governmental authorities. While it is not possible at this time to estimate the impact that COVID-19 could have on our business, the continued spread of COVID-19 and the measures taken by the governments of countries affected could disrupt the supply chain and adversely impact our business, financial condition or results of operations. The COVID-19 outbreak and mitigation measures may also have an adverse impact on global economic conditions which could have an adverse effect on our business and financial condition. The extent to which the COVID-19 outbreak impacts our results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus and the actions to contain its impact.

Though management has been successfully managing through the current known impacts, if the situation further deteriorates or the outbreak results in further restriction on both supply and demand factors, our cash flows, financial position and operating results for fiscal year 2020 and beyond will be negatively impacted. Neither the length of time nor the magnitude of the negative impacts can be presently determined.

Management's plans with respect to the above is to continue its efforts to restructure the Company with the primary objectives of reducing costs, conserving cash, strengthening margins, and improving company-wide execution. Specific actions already implemented by management include the deferral of certain executive and Board compensation payments, a freeze on hiring and minimizing overtime, travel and entertainment, and contractor costs. On April 7, 2020, the Company implemented a cost reduction plan which included the termination of certain employees and elimination of certain costs. Estimated savings from this effort are estimated to be $2.5 to $3.0 million for the year ending 2020.

While management expects these actions to result in prospective cost reductions, management is also committed to securing debt and/or equity financing to ensure that liquidity will be sufficient to meet the Company's cash requirements through at least a period of the next twelve months. Management believes potential sources of liquidity include at least the following:

- In March 2019, the Company received funding commitments in the amount of $4,000,000 from members of the Board of Directors, of which $1,500,000 has been drawn through December 31, 2019, of which $786,125 remains outstanding. Management expects that $500,000 of such remaining commitments is available to the Company.

- In May 2019, the Company filed a Form S-3 prospectus with the Securities and Exchange Commission which became effective on June 19, 2019, and allows the Company to offer up to $100,000,000 aggregate dollar amount of shares of its common stock, preferred stock, debt securities, warrants to purchase its common stock, preferred stock or debt securities, subscription rights to purchase its common stock, preferred stock or debt securities and\or units consisting of some or all of these securities, in any combination, together or separately, in one of more offerings, in amounts, at prices and on the terms that the Company will determine at the time of the offering and which will be set forth in a prospectus supplement and any related free writing prospectus.
- On April 24, 2020, the Company completed a $6.0 million debt financing on a non-interest bearing convertible note with a 10% original issue discount. The first tranche of $3.0 million was received April 27, 2020, with an additional $3.0 million available seven months from the date of closing at the option of the Company conditioned upon meeting certain requirements. The note is repayable in twenty-two installments beginning three months after closing.
- On April 28, 2020, the Company received a Paycheck Protection Program (PPP) loan in the amount of $1,500,000.

As a result of management's cost reduction plans, the Company's potential sources of liquidity and management's most recent cash flow forecasts, management believes that the Company has sufficient liquidity to satisfy its anticipated cash requirements for at least the next twelve months. However, there can be no assurance that management's cost reduction efforts will be effective, the forecasted cash flows will be achieved, or that external sources of financing, including the issuance of debt and/or equity securities, will be available at times and on terms acceptable to the Company, or at all.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on an accrual basis of accounting in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"), as set forth in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC").

The unaudited consolidated financial statements herein have been prepared by the Company pursuant to the rules and regulations of the United States Securities Exchange Commission ("SEC"). The accompanying interim unaudited consolidated financial statements have been prepared under the presumption that users of the interim financial information have either read or have access to the audited consolidated financial statements for the latest year ended December 31, 2019. Accordingly, note disclosures which would substantially duplicate the disclosures contained in the December 31, 2019 audited consolidated financial statements have been omitted from these interim unaudited consolidated financial statements. The Company evaluated all subsequent events and transactions through the date of filing this report.

Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2020, are not necessarily indicative of the results that may be expected for the year ending December 31, 2020. For further information, refer to the audited consolidated financial statements and notes for the year ended December 31, 2019 included in the Company's Annual Report on Form 10-K filed with the SEC on March 26, 2020.

Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of OSS, which include the results from the Magma acquisition, Ion business combination, and acquisition of Concept Development Inc., since their respective dates of acquisition, its wholly-owned subsidiary, OSS GmbH, which includes the acquisition of Bressner Technology GmbH, and the accounts of the joint venture, SkyScale LLC, which was approved for dissolution on December 31, 2018 (collectively referred to as the "Company"). Intercompany balances and transactions have been eliminated in consolidation.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosures of contingent assets, liabilities, and expenses at the date of the consolidated financial statements during the reporting period.

Significant estimates made by management include, among others, the fair value of acquired net assets of CDI in August 2018 with reevaluation in April 2019, and Bressner Technology GmbH in October 2018, the allowance for doubtful accounts, fair value of stock options, recoverability of inventories and long-lived assets, and realizability of deferred tax assets. Actual results could differ from those estimates.

Concentration Risks

At times, deposits held with financial institutions may exceed the amount of insurance provided by the Federal Deposit Insurance Corporation ("FDIC"), which provides basic deposit coverage with limits up to $250,000 per owner. As of March 31, 2020, the Company had $2,169,502 in excess of the insurance limits. The Company has not experienced any such losses in these accounts. In Germany, the deposit insurance is €100,000 per bank, per customer. As of March 31, 2020, Bressner has €443,844 (US$489,275) on deposit with banks in excess of the insurance limits.

In the three month periods ended March 31, 2020, and 2019, the Company has one customer which represented greater than 10% of the Company's revenue. Collectively, this customer represented approximately 27%, and 26% of revenue, respectively. As of March 31, 2020 and December 31, 2019, one customer accounted for 59% and 45% of net trade accounts receivables, respectively.

The Company made purchases from certain suppliers of which each supplier was greater than 10% of the Company's total vendor purchases on an annual basis. Collectively these vendors represented approximately 17% and 30% of purchases for the three month periods ended March 31, 2020, and 2019, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and money market accounts. The Company considers all highly liquid temporary cash investments with an initial maturity of 90 days or less when acquired to be cash equivalents. Management believes that the carrying amounts of cash equivalents approximate their fair value because of the short maturity period.

Accounts Receivable

Accounts receivable are presented at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts to reflect any loss anticipated on the trade accounts receivable and unbilled receivables. Unbilled receivables include costs and gross profit earned in excess of billings. The allowance for doubtful accounts is an estimate to cover the losses resulting from the inability of customers to make payments on their outstanding balances and unbilled receivables. In estimating the required allowance, management considers the overall quality and aging of the accounts receivable, specific customer circumstances, current economic trends, and historical experience with collections. At March 31, 2020 and December 31, 2019, the allowance for doubtful accounts was $11,518, and $14,000, respectively.

Revenues earned in excess of related billings are recorded as an asset on the balance sheet as unbilled receivables. Unbilled receivables as of March 31, 2020 and December 31, 2019, were $214 and $25,432, respectively.

Inventories

Inventories are valued at the lower of cost or net realizable value. The Company uses the average cost method for purposes of determining cost, which approximates the first-in, first-out method.

The Company establishes reserves on its inventories to write-down the carrying value of its estimated obsolete or excess inventories to estimated net realizable value based upon observations of historical usage and assumptions about future demand and market conditions. In addition, the Company considers changes in the market value of components in determining the net realizable value of its inventory. Inventory reserves are not typically reversed until the specific inventories are sold or otherwise disposed.

Actual demand, product mix and alternative usage may be lower than those that we project and this difference could have a material adverse effect on our gross margin if inventory write-downs beyond those initially recorded become necessary. Alternatively, if actual demand, product mix and alternative usage are more favorable than those we estimated at the time of such a write-down, our gross margin could be favorably impacted in future periods.

Property and Equipment

Property and equipment, other than leasehold improvements, are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, generally from three to seven years. Leasehold improvements are recorded at cost and are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the related asset. Tooling and test equipment includes capitalized labor costs associated with the development of the related tooling and test equipment. Costs incurred for maintenance and repairs are expensed as incurred, and expenditures for major replacements and improvements are capitalized. Upon retirement or sale, the cost and related accumulated depreciation and amortization of disposed assets are removed from the accounts and any resulting gain or loss is included in other income (expense), net.

Goodwill

Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired in business combinations. Goodwill is not amortized but is tested for impairment at least annually or when we deem that a triggering event has occurred. The Company reviews goodwill for impairment annually on December 31. The Company completed its annual assessment for goodwill impairment and determined that goodwill is not impaired as of December 31, 2019 and no adjustment was required.

In April 2019, the Company performed an impairment test of goodwill, as a result of a short-fall in the actual overall financial performance of CDI as compared to plan, a recurring need for working capital, and a decrease in the Company's stock price. As a result of this interim evaluation, the Company recorded an impairment loss to goodwill of $1,697,394, which was charged to operating expenses during the second quarter of 2019.

Intangible Assets and Long-lived Assets

We evaluate our intangible and long-lived assets for impairment when events or circumstances arise that indicate our intangible and long-lived assets may be impaired. Indicators of impairment include, but are not limited to, a significant deterioration in overall economic conditions, a decline in our market capitalization, the loss of significant business, significant decreases in funding for our contracts, or other significant adverse changes in industry or market conditions. The Company completed its qualitative assessment for impairment in December 2019 and determined that there was no impairment as of December 31, 2019. There were no events or circumstances that arose during the three month period ended March 31, 2020, that gave an indication of impairment. There can be no assurance, however, that market conditions will not change or demand for the Company's products will continue, which could result in an impairment of intangible and long-lived assets in the future.

Fair Value Measurements

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. These tiers include:

- Level 1, defined as quoted market prices in active markets for identical assets or liabilities;
- Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3, defined as unobservable inputs that are not corroborated by market data.

The carrying value of financial instruments including cash and cash equivalents accounts receivable and accounts payable and accrued expenses, lines of credit, and other liabilities approximate fair value due to the short-term nature of these instruments. Assets and liabilities assumed in the acquisition of the Ion software, Concept Development Inc., and Bressner Technology GmbH were recorded at fair value based upon the Company's market assumptions which approximated carrying value (except for acquired intangible assets – Note 3) due to the short-term nature of the instruments. The carrying amounts of the Company's notes payable and Bressner's existing lines of credit and notes payable approximate their fair values at the stated interest rates and are reflective of the prevailing market rates.

Revenue Recognition

On January 1, 2019, the Company adopted the new accounting standard update ASC 606, Revenue from Contracts with Customers, which superseded nearly all existing revenue recognition guidance under GAAP, to all contracts using the modified retrospective method. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The Company's performance obligations are satisfied over time as work is performed or at a point in time. The majority of the Company's revenue is recognized at a point in time when products ship and control is transferred to the customer. The Company determines revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, a performance obligation is satisfied.

The Company's contracts are executed through a combination of written agreements along with purchase orders with all customers including certain general terms and conditions. Generally, purchase orders entail products, quantities and prices, which define the performance obligations of each party and are approved and accepted by the Company. The Company's contracts with customers do not include extended payment terms. Payment terms vary by contract type and type of customer and generally range from 30 to 60 days from invoice. Additionally, taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer and deposited with the relevant government authority, are excluded from revenue.

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer adjusted for estimated variable consideration, if any. Variable consideration may include discounts, rights of return, refunds, and other similar obligations. The Company allocates the transaction price to each distinct product and service based on its relative standalone selling price. The standalone selling price for products primarily involves the cost to produce the deliverable plus the anticipated margin and for services is estimated based on the Company's approved list price.

In the normal course of business, the Company does not accept product returns unless the items are defective as manufactured. The Company establishes provisions for estimated returns and warranties. In addition, the Company does not typically provide customers with the right to a refund and does not transact for noncash consideration.

Customer agreements include one vendor managed inventory program. The Company recognizes revenue under this arrangement when all of the following criteria are met: (i) the goods have been identified separately as belonging to the customer; (ii) the goods are ready for physical shipment to the customer; (iii) the Company does not have the ability to direct the goods to another customer; and (iv) the arrangement was requested by the customer and that the customer has sufficiently explained a substantial business purpose for the arrangement. Management also considers whether the customer's custodial risks are insured and whether modifications to the Company's normal billing and credit terms were required.

The Company recorded revenue from product sales that are held in vendor managed inventory under these agreements of $3,179,943 and $1,494,078 during the three month periods ended March 31, 2020 and 2019, respectively. As of March 31, 2020 and December 31, 2019, $1,329,057 and $459,893, respectively, of product sold through those dates were held by the Company in the vendor management program.

Revenues on certain fixed-price contracts where we provide engineering services, prototypes and completed products are recognized based upon percentage of completion or based upon milestones delivered that are provided during the period and compared to milestone goals to be provided over the entire contract. These services require that we perform significant, extensive and complex design, development, modification or implementation of our customers' systems. Performance will often extend over long periods of time, and our right to receive future payment depends on our future performance in accordance with the agreement.

The percentage-of-completion methodology involves recognizing probable and reasonably estimable revenue using the percentage of services completed, on a current cumulative cost to estimated total cost basis, using a reasonably consistent profit margin over the performance period. Due to the long-term nature of these projects, developing the estimates of costs often requires significant judgment. Factors that must be considered in estimating the progress of work completed and ultimate cost of the projects include, but are not limited to, the availability of labor and labor productivity, the nature and complexity of the work to be performed and the impact of delayed performance. If changes occur in delivery, productivity or other factors used in developing the estimates of costs or revenues, we revise our cost and revenue estimates, which may result in increases or decreases in revenues and costs, and such revisions are reflected in earnings in the period in which the revision becomes known.

During the three month periods ended March 31, 2020 and 2019, revenue recognized on a fixed price contractual basis was $73,750 and $43,071, respectively.

The Company recognizes contract assets or unbilled receivables related to revenue recognized for services completed but not yet invoiced to the clients. Unbilled receivables are recorded as accounts receivable when the Company has an unconditional right to contract consideration. A contract liability is recognized as deferred revenue when the Company invoices clients in advance of performing the related services under the terms of a contract. Deferred revenue is recognized as revenue when the Company has satisfied the related performance obligation.

On certain contracts with several of the Company's significant customers, the Company receives payments in advance of manufacturing. Advanced payments are recorded as deferred revenue until the revenue recognition criteria described above has been met.

Related billings that are in excess of revenue earned are deferred and recorded as a liability on the consolidated balance sheet until the related services are provided. Deferred revenue was $12,359 and $24,718 as of March 31, 2020 and December 31 2019, respectively.

Remaining performance obligations represent the amount of revenue from fixed-fee contracts. As of March 31, 2020 and December 31, 2019, approximately $0, attributable to cancellation of a contract, and $317,718, respectively of revenue from fixed-fee contracts that is expected to be recognized from these remaining performance obligations. We elected to utilize the practical expedient exemption to exclude from this disclosure the amount of revenue from contracts which are not fixed-fee and where we do not have the right to invoice until the services have been performed.

The Company's operating segment revenues disaggregated by primary geographic market, which is determined based on a customer's geographic location, for the three months ended March 31, 2020 and 2019 is as follows:

	For The Three Month Period Ended March 31, 2020			For The Three Month Period Ended March 31, 2019		
Entity:	**Domestic**	**International**	**Total**	**Domestic**	**International**	**Total**
Customized computers and flash arrays	$ 6,207,898	$ 1,610,380	$ 7,818,278	$ 2,042,510	$ 3,187,576	$ 5,230,086
In-flight entertainment & connectivity	529,406	92,540	621,946	296,529	2,925	299,454
Value-added reseller with minimal customization	-	4,919,413	4,919,413	-	4,528,359	4,528,359
	$ 6,737,304	$ 6,622,333	$ 13,359,637	$ 2,339,039	$ 7,718,860	$ 10,057,899

Warranty Reserves

The Company offers product warranties that extend for one year from the date of sale. Such warranties are considered assurance-type warranties and therefore, they would not be deemed to be a separate performance obligation under ASC 606. Such warranties require the Company to repair or replace defective product returned to the Company during the warranty period at no cost to the customer. The Company records an estimate for warranty-related costs at the time of sale based on its historical and estimated future product return rates and expected repair or replacement costs (Note 7).

While such costs have historically been within management's expectations and the provisions established, unexpected changes in failure rates could have a material adverse impact on the Company, requiring additional warranty reserves and could adversely affect the Company's gross profit and gross margins.

The Company offers customers extended warranties beyond the standard one-year warranty on the product. The extended warranties are considered service-type warranties and would be considered as a separate performance obligation under ASC 606. The Company is the primary obligor and, revenue is recognized on a gross basis ratably over the term of the extended warranty. The customer can purchase extended warranties from one to five years, in the bronze, silver or gold categories. This entails hardware repair or replacement, shipping methods on how the warranties will be returned / delivered, response times and hours of operations to receive support. The amount of warranties sold for the three months ended March 31, 2020 and 2019 were $92,724 and $80,123, respectively.

The revenue that was recognized for the warranties sold for the three months ended March 31, 2020 and 2019 were $69,105 and $106,698, respectively. The Company does have recourse with some of its suppliers that offer more than a one-year guarantee on parts, but this is not standard. The few that offer greater than a year warranty, the Company may be able to cover the cost of the part from the manufacturer for the failed part. The amounts of these costs vary in a wide range, but are not material, due to the infrequency of failure. As of March 31, 2020 and December 31, 2019, deferred revenue totaled $388,378 and $394,571, respectively. The Company expects to recognize $388,378 of unearned revenue amounts from 2020 through 2024.

Shipping and Handling Costs

The Company's shipping and handling costs are included in cost of goods sold for all periods presented.

Foreign Currency

We operate primarily in the United States. Foreign sales of products and services are primarily denominated in U.S. dollars. We also conduct business outside the United States through our foreign subsidiary in Germany, where business is largely transacted in non-U.S. dollar currencies, particularly the Euro, which is subject to fluctuations due to changes in foreign currency exchange rates. Accordingly, we are subject to exposure from changes in the exchange rates of local currencies. Foreign currency transaction gains and losses are recorded in other income (expense), net in the consolidated statements of operations.

OSS GmbH operates as an extension of OSS' domestic operations. The functional currency of OSS GmbH is the Euro. Transactions denominated in currencies other than the functional currency are remeasured to the functional currency at the average exchange rate in effect during the period. At the end of each reporting period, monetary assets and liabilities are remeasured using exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical exchange rates. Consequently, changes in the exchange rates of the currencies may impact the translation of the foreign subsidiaries' statements of operations into U.S. dollars, which may in turn affect our consolidated statements of operations. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive (loss) income in the consolidated balance sheets.

Derivative Financial Instruments

We employ derivatives to manage certain market risks through the use of foreign exchange forward contracts. We do not use derivatives for trading or speculative purposes. Our derivatives are designated as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). We hedge a portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions. In anticipation of these transactions, we enter into foreign exchange contracts to provide currency at a fixed rate. As of March 31, 2020, the Company had no foreign exchange contracts outstanding.

Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses on derivatives designated as cash flow hedges are recorded at fair value as liabilities. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated other comprehensive income until reclassified into interest expense in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized as "Other income (expense) – net" in the consolidated statements of income in each period.

Stock-Based Compensation

The Company accounts for employee and director share-based compensation in accordance with the provisions of ASC Topic 718*"Compensation – Stock Compensation"*. Under ASC 718, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant).

All transactions in which goods or services are the consideration received for the issuance of equity instruments to non-employees are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date used to determine the estimated fair value of the equity instrument issued is the earlier of the date on which the third-party performance is complete or the date on which it is probable that performance will occur.

Employee and director stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest during the period. Given that stock-based compensation expense recognized in the accompanying consolidated statements of operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. The Company's estimated average forfeiture rates are based on historical forfeiture experience and estimated future forfeitures.

Compensation cost for stock awards, which include restricted stock units ("RSUs"), is measured at the fair value on the grant date and recognized as expense, net of estimated forfeitures, over the related service period. The fair value of stock awards is based on the quoted price of our common stock on the grant date.

The estimated fair value of common stock option awards is calculated using the Black-Scholes option pricing model. The Black-Scholes model requires subjective assumptions regarding future stock price volatility and expected time to exercise, along with assumptions about the risk-free interest rate and expected dividends, all of which affect the estimated fair values of the Company's common stock option awards. The expected term of options granted is calculated using the simplified method, which is the weighted average vesting period and the contractual lives of the options.

This calculation is based on a method acceptable in instances where the vesting and exercise terms of options granted meet certain conditions and where limited historical exercise data is available. The expected volatility is based on the historical volatility of the common stock of comparable public companies that operate in similar industries as the Company.

The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the expected term of the grant effective as of the date of the grant. The expected dividend assumption is based on the Company's history and management's expectation regarding dividend payouts. Compensation expense for common stock option awards with graded vesting schedules is recognized on a straight-line basis over the requisite service period for the last separately vesting portion of the award, provided that the accumulated cost recognized as of any date at least equals the value of the vested portion of the award.

If there are any modifications or cancellations of the underlying vested or unvested stock-based awards, the Company may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense, or record additional expense for vested stock-based awards. Future stock-based compensation expense and unearned stock- based compensation may increase to the extent that the Company grants additional common stock options or other stock-based awards.

Business Combinations

We utilize the acquisition method of accounting for business combinations and allocate the purchase price of an acquisition to the various tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. We primarily establish fair value using the income approach based upon a discounted cash flow model. The income approach requires the use of many assumptions and estimates including future revenues and expenses, as well as discount factors and income tax rates. Other estimates include:

- Estimated step-ups or write-downs for fixed assets and inventory;
- Estimated fair values of intangible assets; and
- Estimated income tax assets and liabilities assumed from the target

While we use our best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business acquisition date, our estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price allocation period, which is generally one year from the business acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill.

For changes in the valuation of intangible assets between preliminary and final purchase price allocation, the related amortization is adjusted in the period it occurs. Subsequent to the purchase price allocation period, any adjustment to assets acquired or liabilities assumed is included in operating results in the period in which the adjustment is determined. Should we issue shares of our common stock in an acquisition, we will be required to estimate the fair value of the shares issued. See Note 3.

Advertising Costs

Advertising costs are expensed as incurred and included in marketing and selling expense in the accompanying consolidated statements of operations. Advertising costs for the three month periods ended March 31, 2020 and 2019 were $122,092 and $130,922, respectively.

Research and Development Expenses

Research and development expenditures are expensed in the period incurred. Research and development expenses primarily consist of salaries, benefits and stock-based compensation, as well as consulting expenses and allocated facilities and other overhead costs. Research and development activities include the development of new technologies, features and functionality in support of the Company's products and customer needs.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the consolidated financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Under ASC Topic 740, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, ASC Topic 740 provides requirements for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company files income tax returns in the U.S. federal jurisdiction, California and Germany. The Company has elected to treat the tax effect of Global Intangible Low Tax Income ("GILTI") as a current-period expense when occurred. The Company does not foresee material changes to its gross liability of uncertain tax positions within the next twelve months.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law in March 2020. The CARES Act lifts certain deduction limitations originally imposed by the Tax Cuts and Jobs Act of 2017 (2017 Tax Act). Corporate taxpayers may carryback net operating losses (NOLs) originating during 2018 through 2020 for up to five years, which was not previously allowed under the 2017 Tax Act. The CARES Act also eliminates the 80% of taxable income limitations by allowing corporate entities to fully utilize NOL carryforwards to offset taxable income in 2018, 2019 or 2020. Taxpayers may generally deduct interest up to the sum of 50% of adjusted taxable income plus business interest income (30% limit under the 2017 Tax Act) for tax years beginning January 1, 2019 and 2020. The CARES Act allows taxpayers with alternative minimum tax credits to claim a refund in 2020 for the entire amount of the credits instead of recovering the credits through refunds over a period of years, as originally enacted by the 2017 Tax Act.

In addition, the CARES Act raises the corporate charitable deduction limit to 25% of taxable income and makes qualified improvement property generally eligible for 15-year cost-recovery and 100% bonus depreciation. The enactment of the CARES Act resulted in two adjustments to our income tax provision for the three months ended March 31, 2020, relating to a projected 2018 NOL utilization and tax benefits from NOL carrybacks. We have recorded a discrete benefit of $100,000 in our income tax provision for the three months ended March 31, 2020 related to the CARES Act.

Interest Expense

Interest expense consists primarily of interest associated with the Company's issued debt including the amortization of debt discounts. The Company recognizes the amortization of debt discounts and the amortization of interest costs using a straight-line method which approximates the effective interest method.

Net Income (Loss) Per Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted-average common shares outstanding during the period. Diluted net income (loss) per share is calculated by dividing the net income (loss) by the weighted-average shares and dilutive potential common shares outstanding during the period. Dilutive potential shares consist of dilutive shares issuable and the exercise or vesting of outstanding stock options and warrants, respectively, computed using the treasury stock method. During a period where a net loss is incurred, dilutive potential shares are excluded from the computation of dilutive net loss per share, as inclusion is anti-dilutive.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). Under ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 is effective for the Company for fiscal years beginning after December 15, 2020, and interim periods within fiscal year 2022. Early application is permitted. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. The Company is currently evaluating the impact of adopting ASU 2016-02 on its consolidated financial statements and disclosures. Based on our preliminary analysis, management expects the Company's assets and liabilities to increase by the present value of the lease payments disclosed in Note 11.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* ("ASU 2017-01"). The amendments in this update clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. ASU 2017-01 is effective for the Company for the year ended December 31, 2019 and interim reporting periods within 2020. The effect of the adoption of this guidance did not significantly impact the Company's consolidated financial statements.

In September 2018, the FASB issued ASU No. 2018-07, *Stock-based Compensation: Improvements to Nonemployee Share-based Payment Accounting* which amends the existing accounting standards for share-based payments to nonemployees. This ASU aligns much of the guidance on measuring and classifying nonemployee awards with that of awards to employees. Under the new guidance, the measurement of nonemployee equity awards is fixed on the grant date. This ASU becomes effective for the year ending December 31, 2020 (and interim periods in 2021) and early adoption is permitted but no earlier than an entity's adoption date of Topic 606. Entities will apply the ASU by recognizing a cumulative-effect adjustment to retained earnings as of the beginning of the annual period of adoption. We are currently evaluating the impact that ASU 2018-07 will have on our condensed consolidated financial statements.

Recently Implemented Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements in FASB Topic 605, *Revenue Recognition*. ASU 2014-09 implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. This guidance provides a single, comprehensive accounting model for revenue arising from contracts with customers. This guidance supersedes most of the existing revenue recognition guidance, including industry-specific guidance. Under this model, revenue is recognized at an amount that a company expects to be entitled to upon transferring control of goods or services to a customer, as opposed to when risks and rewards transfer to a customer. The new guidance also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flow arising from customer contracts, including significant judgments and changes in judgments. We adopted this standard beginning January 1, 2019 and used the modified retrospective method of adoption. Under the new guidance, based on the nature of our contracts, we continued to recognize revenue in a similar manner as with the former guidance. Additionally, we expect the unit of accounting, that is, the identification of performance obligations, will be consistent with current revenue guidance. Accordingly, the adoption of this standard did not significantly impact our revenues.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which is intended to reduce the existing diversity in practice in how certain cash receipts and cash payments are classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, provided that all of the amendments are adopted in the same period. The Company's adoption of this guideline did not have a material effect on the Company's consolidated financial statements.

NOTE 3 – Long-Lived Intangible Assets

Definite lived intangible assets related to acquisition are as follows, as of March 31, 2020:

	Expected Life	Remaining Months	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Customer lists and relationships	36 to 60 months	19 to 41 months	$ 2,084,515	$ (1,226,805)	$ 857,710
Drawings and Technology	36 months	0 months	760,207	(760,207)	-
Trade name, Trademarks & other	24 to 36 months	5 to 19 months	447,274	(255,655)	191,619
Non-compete	36 months	19 months	246,797	(124,460)	122,337
			$ 3,538,793	$ (2,367,126)	$ 1,171,667

Definite lived intangibles assets related to acquisitions are as follows, as of December 31, 2019:

	Expected Life	Remaining Months	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Customer lists and relationships	36 to 60 months	22 to 44 months	$ 2,084,515	$ (1,109,681)	$ 974,834
Drawings and Technology	36 months	0 months	760,207	(760,207)	-
Trade name, Trademarks & other	24 to 36 months	8 to 22 months	447,274	(217,570)	229,704
Non-compete	36 months	22 months	246,797	(105,143)	141,654
			$ 3,538,793	$ (2,192,601)	$ 1,346,192

As of March 31, 2020, amortization expense of the definite lived intangible assets for the years remaining is as follows:

2020	2021	2022	2023	Total
$ 509,410	$ 556,872	$ 63,231	$ 42,154	$ 1,171,667

Amortization expense recognized during the three months ended March 31, 2020 and 2019 was $174,525 and $349,419, respectively.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable, net consists of the following:

	March 31, 2020	December 31, 2019
Accounts receivable	$ 9,122,983	$ 11,655,725
Unbilled receivables	214	25,432
	9,123,197	11,681,157
Less: allowance for doubtful accounts	(11,518)	(14,000)
	$ 9,111,679	$ 11,667,157

Unbilled receivables include amounts associated with percentage of completion and milestone billing accounting, which includes cost and gross profit earned in excess of billing, not currently billable due to contractual provisions. Recoveries of bad debt expense related to accounts receivable was ($2,405) and ($88) for the three month periods ended March 31, 2020 and 2019, respectively.

NOTE 5 – INVENTORIES

Inventories, net consist of the following:

	March 31, 2020	December 31, 2019
Raw materials	$ 3,820,575	$ 2,478,882
Sub-assemblies	1,277,061	1,857,004
Work-in-process	1,024,973	493,276
Finished goods	3,490,385	3,087,529
	9,612,994	7,916,691
Less: reserves for obsolete and slow-moving inventories	(628,117)	(547,335)
	$ 8,984,877	$ 7,369,356

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment, net consists of the following:

	March 31, 2020	December 31, 2019
Computers and computer equipment	$ 659,763	$ 633,546
Furniture and office equipment	337,901	340,801
Manufacturing equipment and engineering tools	2,503,576	2,501,020
ERP System	1,892,420	1,709,125
Leasehold improvements	902,974	892,097
	6,296,634	6,076,589
Less: accumulated depreciation and amortization	(2,744,083)	(2,508,025)
	$ 3,552,551	$ 3,568,564

During the three month periods ended March 31, 2020 and 2019, the Company incurred $221,300 and $115,308, respectively of depreciation and amortization expense related to property and equipment.

NOTE 7 – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	March 31, 2020	December 31, 2019
Accrued compensation and related liabilities	$ 1,798,990	$ 1,621,177
Deferred revenue and customer deposits	1,410,491	1,260,126
Warranty reserve	422,782	424,011
Other accrued expenses	978,243	1,302,118
	$ 4,610,506	$ 4,607,432

NOTE 8 – DEBT

Bank Lines of Credit

Bressner Technology GmbH has three revolving lines of credit with German institutions totaling €3,600,000 (US$3,968,492). Borrowing under the lines of credit bear interest at variable rates of Euribor plus a stated rate. Current rates are between 3.75% and 7.99%. There were no outstanding lines of credit balances as of March 31, 2020 and December 31, 2019.

Foreign Debt Obligations

Bressner Technology GmbH has two term loans outstanding with a total balance outstanding of €763,556 (US$841,713) as follows:

Bressner entered into a note payable in September 2017, in the amount of €400,000 (US$436,272) which bears interest at 2.125% and matured on January 31, 2020. As of March 31, 2020, this note has been paid in full. Quarterly principal payments of €25,000 (US$28,068) were due in January, April, July and November of 2019. The balance outstanding as of December 31, 2019 is €25,000 (US$28,068).

Bressner entered into a note payable in April 2019 in the amount of €500,000 (US$561,350) which bears interest at 2.25% and matures on March 30, 2021 with monthly payments of principal and interest of €22,232 (US$24,960). The balance outstanding as of March 31, 2020 and December 31, 2019 is €263,556 (US$290,534) and €328,525 (US$368,835), respectively.

Bressner entered into a note payable in June 2019 in the amount of €500,000 (US$551,180) which bears interest at 1.70.% and matures on June 25, 2020 with a balloon payment of principal and interest. The amount outstanding as of March 31, 2020 and December 31, 2019 is €509,544 (US$561,700) and €508,679 (US$571,095), respectively. Bressner is in the process of having this loan's maturity date extend one year.

Bressner entered into a note payable in September 2019 in the amount of €300,000 (US$336,810) which bears interest at 1.65.% and matured on March 24, 2020, with a balloon payment of principal and interest. The outstanding balance was paid in full as of March 31, 2020. At December 31, 2019 the outstanding balance was €301,650 (US$338,663).

Notes Payable

In April 2019, the Company borrowed $350,000 from three individuals for a two year period at an interest rate of 9.5% which requires the Company to make monthly principal and interest payments of $16,100 per month. These loans are secured by the assets of the Company. In connection with these loans, the Company issued to the noteholders warrants to purchase shares of the Company's common stock equal to 10% of the original principal at a price per share equal to $2.15 per share. Accordingly, the Company issued to the noteholders warrants to purchase 16,276 shares of the Company's common stock at an exercise price of $2.15 per share. The relative fair value of each warrant was $0.90. The relative fair value of warrants was estimated using Black-Scholes with the following weighted-average assumptions: fair value of the Company's common stock at issuance of $2.15 per share; five year contractual term; 44.60% volatility; 0.0% dividend rate; and a risk-free interest rate of 2.307%. The total relative fair value of the warrants issued is $14,037. The balance outstanding as of March 31, 2020 and December 31, 2019 is $198,134 and $241,054, respectively.

Notes Payable – Related Parties

In April 2019, the Company borrowed $1,150,000 from three individuals who serve on the Company's board of directors for a two year period at an interest rate of 9.5% which requires the Company to make monthly principal and interest payments of $52,900 per month. These loans are secured by the assets of the Company. In connection with these loans, the Company issued to the noteholders warrants to purchase shares of the Company's common stock equal to 10% of the original principal at a price per share equal to $2.15 per share. Accordingly, the Company issued to the noteholders warrants to purchase 53,490 shares of the Company's common stock at an exercise price of $2.15 per share. The relative fair value of each warrant was $0.90. The relative fair value of warrants was estimated using Black-Scholes with the following weighted-average assumptions: fair value of the Company's common stock at issuance of $2.15 per share; five year contractual term; 42.60% volatility; 0.0% dividend rate; and a risk-free interest rate of 2.3067%. The relative fair value of warrants issued is $46,121. The balance outstanding as of March 31, 2020 and December 31, 2019 is $650,129 and $791,170, respectively.

Debt Discount

The relative fair value of warrants were recorded as debt discount, decreasing notes payable and related-party notes payable and increasing additional paid-in-capital on the accompanying consolidated balance sheets. The debt discounts are being amortized to interest expense over the term of the corresponding notes payable using the straight-line method which approximates the effective interest method.

For the three month periods ended March 31, 2020 and 2019, total debt discount amortization was $7,520 and $0, respectively, and such amounts are included in interest expense in the accompanying consolidated statements of operations.

Total future payments under notes payable and related-party notes payable as of March 31, 2020 are as follows:

Period Ending March 31,	Related Parties	Third Parties	Foreign	Total	Discount
2020	$ 598,482	$ 182,120	$ 841,713	$ 1,622,315	$ (30,079)
2021	51,647	16,014	-	67,661	(1,253)
Total minimum payments	650,129	198,134	841,713	1,689,976	(31,332)
Current portion of notes payable	(598,482)	(182,120)	(841,713)	(1,622,315)	30,079
Notes payable, net of current portion	$ 51,647	$ 16,014	$ -	$ 67,661	$ (1,253)

NOTE 9 – STOCKHOLDERS' EQUITY

The Company's amended and restated certificate of incorporation filed on December 14, 2017, authorizes the Company to issue 10,000,000 shares of preferred stock and 50,000,000 shares of common stock.

Common Stock

The voting, dividend and liquidation rights of the holders of the common stock are subject to rights of preferred stockholders, if any, as designated by the Board of Directors. Common stockholders have voting rights at all meetings of stockholders and are entitled to one vote for each share held subject to certain limitations otherwise required by law. Dividends may be declared and paid on the common stock as and when determined by the Board of Directors subject to any preferential dividend or other rights of preferred stockholders. The Company does not anticipate declaring any dividends in the foreseeable future. Upon the dissolution or liquidation of the Company, common stockholders are entitled to receive all assets of the Company, subject to any preferential or other rights of preferred stockholders.

On June 26, 2019, the Company filed a prospectus supplement relating to its common stock, par value $0.0001per share, whereby under the prospectus supplement, the Company may offer and sell common stock having an aggregate offering price of up to $10,000,000 through Noble Capital Markets, Inc., ("Noble") acting as the Company's agent. As such, the Company entered into an Equity Distribution Agreement with Noble dated as of June 26, 2019. In July 2019, the Company sold 1,554,832 shares of common stock through this offering for total gross proceeds of $2,700,714, which resulted in net proceeds to us of $2,488,148, after deducting compensation payable to Noble of $55,127 and other expenses of $157,439. The Equity Distribution Agreement with Noble was terminated on August 26, 2019.

Exercise of Stock Options and Warrants

During the three months ended March 31, 2020, the Company issued 354,914 shares of common stock for proceeds of $57,000 in cash related to the exercise of stock options and warrants. Of the total shares issued, 279,914 shares of common stock were issued as a cashless exercise of stock options.

During the three months ended March 31, 2019, the Company issued 54,098 shares of common stock for proceeds of $14,201 in cash related to the exercise of stock options and warrants. Of the total shares issued, 17,598 shares of common stock were issued as a cashless exercise of stock.

Preferred Stock

Preferred Stock may be issued from time to time in one or more series, each of these series to have such terms as stated or expressed in resolutions providing for the issue of such series adopted by the Board of Directors. Since February 1, 2018, there has been no outstanding preferred stock.

Regarding unissued preferred stock, the Board of Directors is authorized to determine or alter any or all of the rights, preferences, privileges and restrictions granted to or imposed upon wholly unissued series of preferred stock, and to fix or alter the number of shares comprising any such series and the designation thereof, or any of them, and to provide for rights and terms of redemption or conversion of the shares of any such series.

Stock Options

A summary of stock option activity under each of the Company's stock option plans during the three month period ended March 31, 2020:

	Stock Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2020	1,686,444	$ 1.32	4.84	$ 1,416,279
Granted	20,000	$ 2.70		
Forfeited / Cancelled	(6,500)	$ 2.12		
Exercised	(686,250)	$ 0.79		
Outstanding at March 31, 2020	1,013,694	$ 1.69	5.08	$ 287,953
Exercisable at March 31, 2020	866,837	$ 1.49	5.08	$ 287,953
Vested and expected to vest at March 31, 2020	1,009,288	$ 1.69	5.55	$ 287,953

The following table presents details of the assumptions used to calculate the weighted-average grant date fair value of common stock options granted by the Company:

	For the Three Months Ended March 31, 2020	2019
Expected term (in years)	5.87	4.65 - 5.87
Expected volatility	43.5 - 47.8%	43.7 - 44.4%
Risk-free interest rate	1.41 %	3.00 %
Weighted average grant date fair value per share	$ 2.70	$ 1.09
Grant date fair value of options vested	$ 720,095	$ 1,441,371
Intrinsic value of options exercised	$ 463,800	$ 56,369

As of March 31, 2020, the amount of unearned stock-based compensation estimated to be expensed from 2020 through 2029 related to unvested common stock options is $158,871, net of estimated forfeitures. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is 1.57 years.

If there are any modifications or cancellations of the underlying unvested awards, the Company may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense or calculate and record additional expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that the Company grants additional common stock options or other stock-based awards.

Restricted Stock Units

Restricted stock units may be granted at the discretion of the compensation committee of the Board of Directors under the Company's 2017 Equity Incentive Plan that was adopted on October 10, 2017 (the "2017 Plan") in connection with the hiring and retention of personnel and are subject to certain conditions. Restricted stock units generally vest quarterly or semi-annually over a period of one to three years and are typically forfeited if employment is terminated before the restricted stock unit vest. The compensation expense related to the restricted stock units is calculated as the fair value of the common stock on the grant date and is amortized to expense over the vesting period and is adjusted for estimated forfeitures.

The Company's restricted stock unit activity for the three months ended March 31, 2020 is as follows:

	Restricted Stock Units: Number of Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2020	216,670	$ 3.02
Granted	80,000	$ 2.31
Vested	(91,669)	$ 2.94
Cancelled	(12,500)	$ 2.43
Unvested at March 31, 2020	192,501	$ 2.80

As of March 31, 2020, there was $423,077 of unrecognized compensation cost related to unvested restricted stock units which is expected to be recognized over a weighted average period of 1.51 years.

Stock-based compensation expense for the three month periods ended March 31, 2020 and 2019 was comprised of the following:

	For the Three Months Ended March 31,	
Stock-based compensation classified as:	2020	2019
General and administrative	$ 159,680	$ 125,206
Production	17,969	14,898
Marketing and selling	17,292	14,393
Research and development	12,820	12,977
	$ 207,761	$ 167,474

Warrants

The following table summarizes the Company's warrant activity during the three months ended March 31, 2020:

	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding – January 1, 2020	630,947	$ 4.16
Warrants granted	-	$ -
Warrants exercised	-	$ -
Warrants outstanding – March 31, 2020	630,947	$ 4.16

NOTE 10 – EMPLOYEE BENEFIT PLAN

The Company has a 401(k) retirement plan. Under the terms of the plan, eligible employees may defer up to 20% of their pre-tax earnings, subject to the Internal Revenue Service annual contribution limit. Additionally, the Plan allows for discretionary matching contributions by the Company. In the three month periods ended March 31, 2020 and 2019, the matching contributions were 100% of the employee's contribution up to a maximum of 5% of the employee's annual compensation. During the three month periods ended March 31, 2020 and 2019, the Company contributed $116,527 and $91,371, respectively, to the 401(k) Plan.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Legal

From time to time the Company is subject to various legal claims and proceedings arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of any such matters as of March 31, 2020 and December 31, 2019, will not have a materially adverse effect on the consolidated financial position or results of operations of the Company.

Guarantees and Indemnities

The Company has made certain indemnities, under which it may be required to make payments to an indemnified party, in relation to certain transactions. The Company indemnifies its directors, officers, employees and agents to the maximum extent permitted under the laws of the State of Delaware. In connection with its facility lease, the Company has indemnified its lessor for certain claims arising from the use of the facilities. Also, in connection with its Credit Agreement (Note 8), the Company has agreed to indemnify its lender and others related to the use of the proceeds and other matters. The duration of the indemnities varies, and in many cases is indefinite. These indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated to make any payments for these obligations and no liabilities have been recorded for these indemnities in the accompanying consolidated balance sheets.

Leases

The Company leases its offices, manufacturing, and warehouse facility in San Diego County under a non-cancelable operating lease. Our corporate headquarters are in a leased space comprising approximately 29,342 square feet in Escondido, California under a lease that was renewed in August 2018 and expires in August 2024. The Company also leases a 3,208 square foot facility in Salt Lake City, Utah that houses our Ion software development team. The Company is the lessee of a leased space comprising approximately 12,000 square feet located in Irvine, California with the lease expiring in March 2021. Bressner Technology GmbH, leases space comprising 8,073 square feet on a month to month basis.

For the three month periods ended March 31, 2020 and 2019, rent expense was $189,417 and $171,145, respectively.

NOTE 12 – RELATED PARTY TRANSACTIONS

In April 2019, certain members of the Company's Board of Directors executed definitive agreements to commit funds of up to $4,000,000 as a credit facility. The Company initially borrowed $1,150,000 from members of the Board of Directors and $350,000 from other shareholders for a two year period at an interest rate of 9.5% which requires the Company to make monthly principal and interest payment of $69,000 per month. In connection with these loans, the Company issued to these note holders warrants to purchase shares of the Company's common stock equal to 10% of the original principal at a price per share equal to $2.15 per share. Accordingly, the Company issued to these note holders warrants to purchase 69,766 share of the Company's common stock. The relative fair value of the warrants issued was $60,158. Interest expense on all related-party notes payable for the three months ended March 31, 2020 and 2019 totaled $17,156 and $0, respectively.

The Company has engaged an advertising firm whose president is a former member of the Board of Directors of the Company. Amounts paid to this company are included in marketing and selling expense in the accompanying consolidated statements of operations and for the three months ended March 31, 2020 and 2019, totaled $6,000 and $9,000, respectively.

The Company has appointed certain stockholders to the Board of Directors. Director fees paid by the Company, including stock-based compensation, for the three months ended March 31, 2020 and 2019 totaled $50,505 and $82,836, respectively, and are included in general and administrative expenses in the accompanying consolidated statements of operations.

The Company has engaged a related-party law firm (a principal of that firm owns shares in the Company) to provide legal services. Legal fees paid to this firm are included in general and administrative expenses in the accompanying consolidated statements of operations for the three months periods ended March 31, 2020 and 2019 and totaled $9,000 and $9,000, respectively.

The Company has engaged an IT network support firm whose owner is an employee of the Company. Fees paid to this firm are included in general and administrative expense in the accompanying consolidated statements of operations for the three months ended March 31, 2020 and 2019 totaled $356 and $660, respectively.

NOTE 13 – NET LOSS PER SHARE

Basic and diluted net loss per share was calculated as follows for the three month periods ended March 31, 2020 and 2019:

	For the Three Months Ended March 31,	
	2020	2019
Basic and diluted net loss per share attributable to common stockholders:		
Numerator:		
Net loss attributable to common stockholders	$ (1,096,032)	$ (944,729)
Denominator:		
Weighted average common shares outstanding - basic	16,332,898	14,239,711
Effect of dilutive securities	-	-
Weighted average common shares outstanding - diluted	16,332,898	14,239,711
Net loss per common share attributable to common stockholders:		
Basic	$ (0.07)	$ (0.07)
Diluted	$ (0.07)	$ (0.07)

NOTE 14 – SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in three reportable segments: the design and manufacture of high-performance customized computers and flash arrays, in-flight entertainment & connectivity and value-added reseller with minimal customization. The Company evaluates financial performance on a company-wide basis.

Segment detail for the three month periods ended March 31, 2020 and 2019 is as follows:

	For The Three Month Period Ended March 31, 2020				For The Three Month Period Ended March 31, 2019			
	OSS	CDI	Bressner	Total	OSS	CDI	Bressner	Total
Revenues	$ 7,818,278	$ 621,946	$ 4,919,413	$ 13,359,637	$ 5,230,086	$ 299,454	$ 4,528,359	$ 10,057,899
Cost of revenues	(5,621,751)	(499,158)	(3,843,041)	(9,963,950)	(3,729,173)	(345,727)	(3,571,377)	(7,646,277)
Gross profit	2,196,527	122,788	1,076,372	3,395,687	1,500,913	(46,273)	956,982	2,411,622
Gross margin %	28.1%	19.7%	21.9%	25.4%	28.7%	-15.5%	21.1%	24.0%
Total operating expenses	3,530,278	455,931	920,632	4,906,841	3,137,869	312,977	992,984	4,443,830
(Loss) income from operations	$ (1,333,751)	$ (333,143)	$ 155,740	$ (1,511,154)	$ (1,636,956)	$ (359,250)	$ (36,002)	$ (2,032,208)

Revenue from customers with non-U.S. billing addresses represented approximately 50% and 72% of the Company's revenue during the three month periods ended March 31, 2020 and 2019, respectively.

As of March 31, 2020, substantially all the Company's long-lived assets were located in the United States of America with the exception of assets of $223,000 located in Germany.

NOTE 15 – SUBSEQUENT EVENTS

Cost Reduction Plan

On April 5, 2020, the Board of Directors approved workforce reductions as part of the Company's cost cutting measures implemented in response to the negative financial and operational impacts resulting from the rapidly evolving novel coronavirus ("COVID-19") pandemic. Approximately 19% of the Company's 115 employees are impacted through workforce reductions as well as some reduced-hour work weeks.

On April 7, 2020, the Company implemented a cost reduction plan which included the termination of certain employees and elimination of certain costs. Estimated savings from this effort are expected to be $2.5 to $3.0 million for the year ending 2020.

Bressner – Line of Credit

On April 9, 2020, Bressner converted €500,000 of their line of credit from UniCredit Bank to a one year term loan at 1.9% interest with principal and interest due upon maturity.

Senior Secured Convertible Promissory Notes

On April 20, 2020, the Company entered into a Securities Purchase Agreement providing for the issuance of the Company's Senior Secured Convertible Promissory Notes with a principal face amount of up to 6,000,000. The Notes are, subject to certain conditions, convertible into shares of the Company's common stock, par value $0.0001 per share at an initial conversion price per share of $2.50. Pursuant to the Purchase Agreement, the Notes will be issued with a 10% original issue discount.

On April 24, 2020, the Company consummated the initial closing of the offering (the "Initial Closing") under the Purchase Agreement and issued a Senior Secured Convertible Promissory Note with an aggregate of $3,000,000 to an institutional investor ("Initial Note"). The investors purchased the Initial Note for an aggregate purchase price of $2,700,000, at the Initial Closing after a 10% original issue discount. The Initial Note bears no interest rate (except upon event of default) and, unless earlier converted or redeemed, will mature on the date that is the twenty-three (23) month anniversary of the last day from the Initial Closing.

On April 28, 2020, the Company received a two year, 1% Paycheck Protection Program (PPP) loan of $1.5 million.

The Company has evaluated subsequent events after the consolidated balance sheet dated as of March 31, 2020 through the date of filing of this quarterly report. Based upon the Company's evaluation, management has determined that, other than as disclosed in the accompanying notes, no subsequent events have occurred that would require recognition in the accompanying consolidated financial statements or disclosure in the notes thereto.

ITEM 2 . MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and operating results together with our financial statements and related notes included elsewhere in this Quarterly Report. This discussion and analysis contains forward-looking statements based upon current beliefs, plans and expectations that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" or in other parts of this Quarterly Report.

Overview

OSS designs, manufactures and markets custom high speed computing systems for high performance computing (HPC) applications. These applications require ultra-fast processing power and the ability to quickly access and store ever-growing data sets. Systems are built using the latest GPU (graphical processing unit) and solid-state flash (memory) technologies. We are a niche provider of HPC custom servers, compute accelerators, and flash storage arrays. We deliver this technology to customers through sale of equipment and software to customers.

Concept Development Inc., (CDI) which was acquired on August 31, 2018, specializes in the design and manufacture of specialized high-performance in-flight entertainment systems for commercial aircraft. CDI's capabilities include electrical, mechanical and software design as well as extensive experience in test and certifications required for airborne systems.

Bressner Technology GmbH, (Bressner) which was acquired on October 31, 2018, provides standard and customized servers, panel PCs, and PCIe expansion systems. Bressner provides manufacturing, test, sales and marketing services for customers throughout Europe.

Business Developments

On August 31, 2018, the Company acquired Concept Development Inc. (CDI) located in Irvine, California for cash of $646,759, and common stock of $4,194,673. CDI specializes in the design and manufacture of custom high-performance computing systems for airborne in-flight entertainment systems.

On October 31, 2018, the Company's wholly-owned German subsidiary, OSS GmbH, acquired 100% of the outstanding stock of Bressner Technology GmbH, a Germany limited liability company located near Munich, Germany, from its principal owners for cash consideration of €4,725,000 (US$5,374,582) and stock consideration of 106,463 newly-issued restricted shares of the Company's common stock with an estimated fair value of $228,779.

On December 31, 2018, as a result of changes in the competitive landscape and downward pressure on pricing from large competitors, the members to the joint venture agreement agreed to begin the dissolution of SkyScale.

In April 2019, certain members of the Company's Board of Directors executed definitive agreements to commit funds of up to $4,000,000 as a credit facility. The Company initially borrowed $1,150,000 from members of the Board of Directors and $350,000 from other shareholders for a two year period at an interest rate of 9.5% which requires the Company to make monthly principal and interest payment of $69,000 per month. In connection with these loans, the Company issued the note holders warrants to purchase shares of the Company's common stock equal to 10% of the original principal as a price per share equal to $2.15 per share. Accordingly, the Company issued to the note holders warrants to purchase 69,766 share of the Company's common stock. The relative fair value of the warrants issued was $60,158.

On June 26, 2019, the Company filed a prospectus supplement relating to its common stock, par value $0.0001 per share, whereby under the prospectus supplement, the Company may offer and sell common stock having an aggregate offering price of up to $10,000,000 through Noble acting as the Company's agent. As such, the Company entered into an Equity Distribution Agreement with Noble dated as of June 26, 2019. During the year ended December 31, 2019, the Company sold 1,554,832 shares of common stock for total gross proceeds of $2,700,714, which resulted in net proceeds to the Company of $2,488,148, after deducting compensation payable to Noble of $55,127 and other expenses of $157,439.

On February 15, 2020, Steve Cooper was terminated as President and CEO of One Stop Systems, Inc.,and was replaced by David Raun who has become interim CEO of the Company.

On April 24, 2020, the Company consummated the initial closing of the offering (the “Initial Closing”) under the Purchase Agreement and issued a Senior Secured Convertible Promissory Note with an aggregate of $3,000,000 to an institutional investor (“Initial Note”). The investors purchased the Initial Note for an aggregate purchase price of $2,700,000, at the Initial Closing after a 10% original issue discount. The Initial Note bears no interest rate (except upon event of default) and, unless earlier converted or redeemed, will mature on the date that is the twenty-three (23) month anniversary of the last day from the Initial Closing.

Our Business Model

OSS designs, manufactures and sells specialized high performance computing (HPC) systems to customers world-wide. We differentiate ourselves from other suppliers of HPC solutions by utilizing our expertise in custom systems design and PCIe expansion to build systems with a greater quantity of PCIe add-in slots, GPU-based compute cards and/or flash cards. Our systems offer industry leading capabilities that occupy less physical space and power consumption.

Concept Development, LLC focuses on engineering innovative products and solutions that enhances success for our clients in their design, manufacturing and life support cycle, with in-flight entertainment and connectivity of their processes enabling efficiencies and cost savings.

Bressner Technology GmbH is a leading provider of industrial IT solutions with long standing international contact to assist in leveraging markets around the world to our customers benefit and give them early access to innovative new products. By continuing to forge strategic partnerships, we have significantly expanded our range of services. With this, we offer consistent product portfolio at all integration levels, superior product quality, efficient logistics and excellent support.

Components of Results of Operations

Revenue

On January 1, 2019, the Company adopted the new accounting standard update ASC 606, Revenue from Contracts with Customers, which superseded nearly all existing revenue recognition guidance under GAAP, to all contracts using the modified retrospective method. For a more detailed description of our revenue recognition policies see the Company’s consolidated financial statements Note 2 – Significant Accounting Policies.

Cost of revenue

Cost of revenue primarily consists of costs of materials, costs paid to third-party contract manufacturers (which may include the costs of components), and personnel costs associated with manufacturing and support operations. Personnel costs consist of wages, bonuses, benefits, stock-based compensation expenses. Cost of revenue also includes freight, allocated overhead costs and inventory write-offs and changes to our inventory and warranty reserves. Allocated overhead costs consist of certain facilities and utility costs. We expect cost of revenue to increase in absolute dollars, as product revenue increases.

Operating expenses

Our operating expenses consist of general and administrative, sales and marketing and research and development expenses. Salaries and personnel-related costs, benefits, and stock-based compensation expense, are the most significant components of each category of operating expenses. Operating expenses also include allocated overhead costs for facilities and utility costs.

General and Administrative - General and administrative expense consists primarily of employee compensation and related expenses for administrative functions including finance, legal, human resources and fees for third-party professional services, as well as allocated overhead.

Sales and Marketing - Sales and marketing expense consists primarily of employee compensation and related expenses, sales commissions, marketing programs, travel and entertainment expenses as well as allocated overhead. Marketing programs consist of advertising, tradeshows, events, corporate communications and brand-building activities. We expect sales and marketing expenses to increase in absolute dollars as we expand our sales force, increase marketing resources, and further develop sales channels.

Research and Development - Research and development expense consists primarily of employee compensation and related expenses, prototype expenses, depreciation associated with assets acquired for research and development, third-party engineering and contractor support costs, as well as allocated overhead. We expect our research and development expenses to increase in absolute dollars as we continue to invest in new and existing products.

Other Income (Expense), net

Other income consists of income received for activities outside of our core business. This includes interest income from investments and finance charges from customers. Other expense includes expenses for activities outside of our core business. These expenses consist primarily of loan amortization and interest expense.

Provision for Income Taxes

Provision for income taxes consists of estimated income taxes due to the United States and German governments and to the state tax authorities in jurisdictions in which we conduct business, as well as the change in our deferred income tax assets and liabilities.

Results of Operations

Results of operations for the three month periods ended March 31, 2020 and 2019 include the following businesses: Magma, the purchase of the Ion assets from Western Digital, Concept Development LLC, and Bressner Technology GmbH.

The following tables set forth our results of operations for the three month periods ended March 31, 2020 and 2019 respectively, presented in dollars and as a percentage of net revenue.

	For the Three Months Ended March 31,	
	2020	2019
Revenue	$ 13,359,637	$ 10,057,899
Cost of revenue	9,963,950	7,646,277
Gross profit	3,395,687	2,411,622
Operating expenses:		
General and administrative	2,514,065	2,043,934
Marketing and selling	1,189,351	1,137,932
Research and development	1,203,425	1,261,964
Total operating expenses	4,906,841	4,443,830
Loss from operations	(1,511,154)	(2,032,208)
Other income (expense):		
Interest income	24,637	3,107
Interest expense	(68,784)	(6,268)
Other income (expense), net	(8,029)	(11,271)
Total other income (expense), net	(52,176)	(14,432)
Loss before income taxes	(1,563,330)	(2,046,640)
Benefit for income taxes	(467,298)	(1,101,911)
Net loss attributable to common stockholders	$ (1,096,032)	$ (944,729)

	For the Three Months Ended March 31,	
	2020	2019
Revenue	100.0%	100.0%
Cost of revenue	74.6%	76.0%
Gross profit	25.4%	24.0%
Operating expenses:		
General and administrative	18.8%	20.3%
Marketing and selling	8.9%	11.3%
Research and development	9.0%	12.5%
Total operating expenses	36.7%	44.2%
Loss from operations	-11.3%	-20.2%
Other income (expense):		
Interest income	0.2%	0.0%
Interest expense	-0.5%	-0.1%
Other income (expense), net	-0.1%	-0.1%
Total other income (expense), net	-0.4%	-0.1%
Loss before income taxes	-11.7%	-20.3%
Benefit for income taxes	-3.5%	-11.0%
Net loss attributable to common stockholders	-8.2%	-9.4%

Non-GAAP Financial Measures

Adjusted EBITDA

We believe that the use of adjusted earnings before interest, taxes, depreciation and amortization, or adjusted EBITDA, is helpful for an investor to assess the performance of the Company. The Company defines adjusted EBITDA as income (loss) attributable to common stockholders before interest, taxes, depreciation, amortization, acquisition expenses, impairment of long-lived assets, financing costs, fair value adjustments from purchase accounting, stock-based compensation expense and expenses related to discontinued operations.

Adjusted EBITDA is not a measurement of financial performance under generally accepted accounting principles in the United States, or GAAP. Because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact a company's non-cash operating expenses, we believe that providing a non-GAAP financial measure that excludes non-cash and non-recurring expenses allows for meaningful comparisons between our core business operating results and those of other companies, as well as providing us with an important tool for financial and operational decision making and for evaluating our own core business operating results over different periods of time.

Our adjusted EBITDA measure may not provide information that is directly comparable to that provided by other companies in our industry, as other companies in our industry may calculate non-GAAP financial results differently, particularly related to non-recurring, unusual items. Our adjusted EBITDA is not a measurement of financial performance under GAAP, and should not be considered as an alternative to operating income or as an indication of operating performance or any other measure of performance derived in accordance with GAAP. We do not consider adjusted EBITDA to be a substitute for, or superior to, the information provided by GAAP financial results.

	For The Three Months Ended March 31,	
	2020	2019
Net loss attributable to common stockholders	$ (1,096,032)	$ (944,729)
Depreciation and amortization	395,825	464,727
Amortization of debt discount	7,520	-
Amortization of deferred gain	(41,479)	(16,479)
Stock-based compensation expense	207,761	167,474
Interest expense	68,784	6,268
Interest income	(24,637)	(3,107)
Acquisition expense	-	3,975
Benefit for income taxes	(467,298)	(1,101,911)
Adjusted EBITDA	$ (949,556)	$ (1,423,782)

Adjusted EPS

Adjusted EPS excludes the impact of certain items and, therefore, has not been calculated in accordance with GAAP. We believe that exclusion of certain selected items assists in providing a more complete understanding of our underlying results and trends and allows for comparability with our peer company index and industry. We use this measure along with the corresponding GAAP financial measures to manage our business and to evaluate our performance compared to prior periods and the marketplace. The Company defines Non-GAAP (loss) income attributable to common stockholders as (loss) or income before amortization, stock-based compensation, expenses related to discontinued operations, impairment of long-lived assets and non-recurring acquisition costs. Adjusted EPS expresses adjusted (loss) income on a per share basis using weighted average diluted shares outstanding.

Adjusted EPS is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. These non-GAAP financial measures may not be computed in the same manner as similarly titled measures used by other companies. We expect to continue to incur expenses similar to the adjusted income from continuing operations and adjusted EPS financial adjustments described above, and investors should not infer from our presentation of these non-GAAP financial measures that these costs are unusual, infrequent or non-recurring.

The following table sets-forth Non-GAAP net loss attributable to common stockholders and basic and diluted earnings per share:

	For The Three Months Ended March 31, 2020	2019
Net loss attributable to common stockholders	$ (1,096,032)	$ (944,729)
Amortization of intangibles	174,525	349,419
Stock-based compensation expense	207,761	167,474
Non-GAAP net loss attributable to common stockholders	$ (713,746)	$ (427,836)
Non-GAAP net loss per share attributable to common stockholders:		
Basic	$ (0.04)	$ (0.03)
Diluted	$ (0.04)	$ (0.03)
Weighted average common shares outstanding:		
Basic	16,332,898	14,239,711
Diluted	16,332,898	14,239,711

Free Cash Flow

Free cash flow, a non-GAAP measure for reporting cash flow, is defined as cash provided by or used in operating activities less capital expenditures for property and equipment, which includes capitalized software development costs. We believe free cash flow provides investors with an important perspective on cash available for investments and acquisitions after making capital investments required to support ongoing business operations and long-term value creation. We believe that trends in our free cash flow can be valuable indicators of our operating performance and liquidity.

Free cash flow is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies.

We expect to continue to incur expenditures similar to the free cash flow adjustments described above, and investors should not infer from our presentation of this non-GAAP financial measure that these expenditures reflect all of our obligations which require cash. The following table reconciles cash provided by or used in operating activities, the most directly comparable GAAP financial measure, to free cash flow:

Cash flow:	For the Three Months Ended March 31, 2020	2019	Change
Cash used in operating activities	$ (721,773)	$ (200,017)	$ (521,756)
Capital expenditures	(200,049)	(803,243)	603,194
Free cash flow	$ (921,822)	$ (1,003,260)	$ 81,438

Comparison of the three months ended March 31, 2020 and 2019

Revenues, cost of revenues and gross profit:

	For the Three Months Ended March 31, 2020				For the Three Months Ended March 31, 2019			
Entity:	Revenue	Cost of Revenue	Gross Profit	Gross Margin %	Revenue	Cost of Revenue	Gross Profit	Gross Margin %
OSS - (inclusive of SkyScale)	$ 7,818,278	$ (5,621,751)	$ 2,196,527	28.1%	$ 5,230,086	$ (3,729,173)	$ 1,500,913	28.7%
Concept Development Inc.	621,946	(499,158)	122,788	19.7%	299,454	(345,727)	(46,273)	-15.5%
Bressner Technology GmbH	4,919,413	(3,843,041)	1,076,372	21.9%	4,528,359	(3,571,377)	956,982	21.1%
	$ 13,359,637	$ (9,963,950)	$ 3,395,687	25.4%	$ 10,057,899	$ (7,646,277)	$ 2,411,622	24.0%

Revenue

For the three month period ended March 31, 2020, total revenue increased $3,301,738 or 32.8%, as compared to the same period in 2019. The increase was primarily driven by revenue from OSS' core media and entertainment business and other products which provided an incremental $2,588,191 or 25.7 percentage points of the increase. Bressner contributed $391,054 or 3.9 percentage points and CDI contributed $322,493 or 3.2 percentage points of the total increase in revenue.

Cost of revenue and gross margin

Cost of revenue increased by $2,317,673 or 30.3%, for the three month period ended March 31, 2020 as compared to the same period in 2019. The increase in cost of revenue was primarily driven by cost of revenue from OSS' core business which contributed $1,892,578 or 24.7 percentage points of the increase. Bressner contributed $271,664 or 3.6 percentage points and CDI contributed $153,431 or 2.0 percentage points of the total increase in cost of revenue.

The overall gross margin percentage increased from 24.0% for the three month period ended March 30, 2019 to 25.4% for the three month period ended March 31, 2020, an increase of 1.4 percentage points. The gross margin for the core OSS business for the three month period ended March 31, 2020 was 28.1%, which was 0.6 percentage points less in comparison to the prior year period of 28.7%. The majority of the improvement in overall gross margin is attributable to CDI which improved margins from a negative contribution of (15.5%) to a favorable contribution of 19.7% in the current year. Bressner contributed gross margin at a rate of 21.9% as compared to 21.1% in the same year ago period.

Operating expenses

General and administrative expense

General and administrative expense increased $470,131 or 23.0 %, for the three month period ended March 31, 2020 as compared to same period in 2019. The increase in general and administrative expenses is primarily attributable to the accrual for severance benefits attributable to the termination of our former president and chief executive officer. Overall general and administrative expenses decreased as a percentage of revenue to 18.8% during the three month periods ended March 31, 2020 as compared to 20.3% during the same period in 2019.

Marketing and selling expense

Marketing and selling expense increased $51,418 or 4.5% during the three month periods ended March 31, 2020 as compared to the same period in 2019. The increase in marketing and selling expenses is primarily attributable to increased personnel costs. Marketing and selling expense decreased as a percentage of revenue to 8.9% during the three month period ended March 31, 2020 as compared to 11.3% during the same period in 2019.

Research and development expense

Research and development expense decreased by $58,539 or 4.6% during the three month period ended March 31, 2020 as compared to same period in 2019. The majority of the decrease is attributable to reductions of $110,942 in the activities of the core OSS business attributable to reductions in outside engineering and contract labor fees, and prototypes, and a reduction at Bressner of $8,982. These reductions were offset by increases at CDI of $61,385 attributable to on-going projects. Overall, total research and development expense decreased as a percentage of revenue to 9.0% during the three month period ended March 31, 2020 as compared to 12.5% during the same period in 2019.

Interest income

Interest income increased $21,530 for the three month period ended March 31, 20209 as compared to same period in 2019. The increase is attributable to increased finance charges on outstanding accounts receivable balances from our largest customer in the media and entertainment industry.

Interest expense

Interest expense increased $62,516 for the three month period ended March 31, 2020 as compared to same period in 2019. On April 4, 2019, the Company borrowed $1,500,000 from individuals and related parties at an annual interest rate of 9.5%, additionally, warrants of 10% of the value of the borrowing were also granted. The fair value of the warrants is amortized over the life of the loans and such costs are included as interest expense. The increase in increase expenses is mainly attributable to this increase in borrowings.

Other income (expense), net

Other income (expense), for the three month period ended March 31, 2020 resulted in a net decrease in other income and expense of $3,242 and compared to the same period in 2019.

Provision for income taxes / Income tax benefits

We have recorded an income tax benefit of $467,298 and $1,101,911, respectively, for the three month periods ended March 31, 2020 and 2019. This benefit is attributable to projected annual taxable income for 2020 with a projected tax rate of 28.2%. The projected effective tax rate for the quarter differs from the statutory rate mainly due to permanent non-deductible goodwill amortization for Bressner Technology GmbH, income from the Global Intangible Low-Taxed Income inclusion, as well as projecting federal, foreign and state tax liabilities for the year.

In determining the periodic income tax expense, GAAP requires us to forecast our annual effective income tax rate (“AETR”) for the years December 31, 2020 and 2019. Based on management’s projections, the Company expects income tax benefits related to research and development credits and equity compensation benefits to exceed our pretax earnings in 2020 and 2019.

Liquidity and capital resources

Given our recent operating losses, the Company’s primary sources of liquidity have been provided by (i) the Company’s February 2018 initial public offering (net proceeds were approximately $16,100,000), (ii) March 2019 notes payable from members of the Board of Directors and others of $1,500,000, (iii) the June 2019 sale of 1,554,832 shares of the Company’s common stock for net cash proceeds of $2,488,148 and (iv) the April 24, 2020 sale of $3,000,000 of Senior Secured Convertible Promissory Notes issued at a 10% original issue discount.

As of March 31, 2020, the Company’s cash and cash equivalents were $3,038,006 and working capital of $11,938,554. Cash and cash equivalents held by Bressner totaled $504,103 (USD) at March 31, 2020, and Bressner’s debt covenants do not permit the use of those funds by its parent company. During the three months ended March 31, 2020, the Company experienced an operating loss of $1,511,154 with cash used in operating activities of $721,773. Our largest customer who is engaged in the media and entertainment industry is having significant financial hardships attributable to the COVID-19 pandemic and as a result has been slow in paying its outstanding accounts receivables. The Company has formulated a plan whereby extended terms have been made available, and our customer is presently honoring those terms.

The Company’s revenue growth, inclusive of two acquisitions made in 2018, has resulted in growth of the Company as a whole, but has been offset by increased spending in all areas of operating expenses: general and administrative, marketing and selling, and research and development.

The recent outbreak of the novel strain of coronavirus, or COVID-19, which has been declared by the World Health Organization to be a “public health emergency of international concern,” has spread across the globe and is impacting worldwide economic activity. A public health pandemic, including COVID-19, poses the risk that we or our employees, contractors, suppliers, and other partners may be prevented from conducting business activities for an indefinite period of time, including due to shutdowns that may be requested or mandated by governmental authorities. While it is not possible at this time to estimate the impact that COVID-19 could have on our business, the continued spread of COVID-19 and the measures taken by the governments of countries affected could disrupt the supply chain and adversely impact our business, financial condition or results of operations. The COVID-19 outbreak and mitigation measures may also have an adverse impact on global economic conditions which could have an adverse effect on our business and financial condition. The extent to which the COVID-19 outbreak impacts our results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus and the actions to contain its impact.

The Company’s operations team is closely monitoring the potential impact to the Company’s business, including its cash flows, supply chains, customers and employees. Though management has been successfully managing through the current known impacts, if the situation further deteriorates or the outbreak results in further restriction on both supply and demand factors, our cash flows, financial position and operating results for fiscal year 2020 and beyond will be negatively impacted. Neither the length of time nor the magnitude of the negative impacts can be presently determined.

Management’s plans with respect to the above is to continue its efforts to restructure the Company with the primary objectives of reducing costs, conserving cash, strengthening margins, and improving company-wide execution. Specific actions already implemented by management include the deferral of certain executive and Board compensation payments, a freeze on hiring and minimizing overtime, travel and entertainment, and contractor costs. On April 7, 2020, the Company implemented a cost reduction plan which included the termination of certain employees and elimination of certain costs. Estimated savings from this effort are expected to be $2.5 to $3.0 million for the year ending 2020.

While management expects these actions to result in prospective cost reductions, management is also committed to securing debt and/or equity financing to ensure that liquidity will be sufficient to meet the Company’s cash requirements through at least a period of the next twelve months. Management believes potential sources of liquidity include at least the following:

- In March 2019, the Company received funding commitments in the amount of $4,000,000 from members of the Board of Directors, of which $1,500,000 has been drawn through December 31, 2019. As of March 26, 2020, management expects that $750,000 of such commitments are currently available to the Company.
- In May 2019, the Company filed a Form S-3 prospectus with the Securities and Exchange Commission which became effective on June 19, 2019, and allows the Company to offer up to $100,000,000 aggregate dollar amount of shares of its common stock, preferred stock, debt securities, warrants to purchase its common stock, preferred stock or debt securities, subscription rights to purchase its common stock, preferred stock or debt securities and\or units consisting of some or all of these securities, in any combination, together or separately, in one of more offerings, in amounts, at prices and on the terms that the Company will determine at the time of the offering and which will be set forth in a prospectus supplement and any related free writing prospectus.

- On April 24, 2020, the Company consummated the initial closing of the offering (the "Initial Closing") under the Purchase Agreement and issued a Senior Secured Convertible Promissory Note with an aggregate of $3,000,000 to an institutional investor ("Initial Note"). The investors purchased the Initial Note for an aggregate purchase price of $2,700,000, at the Initial Closing after a 10% original issue discount. The Initial Note bears no interest rate (except upon event of default) and, unless earlier converted or redeemed, will mature on the date that is the twenty-three (23) month anniversary of the last day from the Initial Closing.
- On April 28, 2020, the Company received a Paycheck Protection Program (PPP) loan in the amount of $1,500,000.

As a result of management's cost reduction plans, the Company's potential sources of liquidity and management's most recent cash flow forecasts, management believes that the Company has sufficient liquidity to satisfy its anticipated cash requirements for at least the next twelve months. However, there can be no assurance that management's cost reduction efforts will be effective, the forecasted cash flows will be achieved, or that external sources of financing, including the issuance of debt and/or equity securities, will be available at times and on terms acceptable to the Company, or at all.

The following table summarizes our cash flows forthe three month periods ended March 31, 2020 and 2019.

	For the Three Months Ended March 31,	
Cash flows:	**2020**	**2019**
Net cash used in operating activities	$ (721,773)	$ (200,017)
Net cash used in investing activities	$ (198,507)	$ (802,193)
Net cash used in financing activities	$ (1,214,119)	$ (817,272)

Operating Activities

During the three month period ended March 31, 2020 weused $721,773 in cash from operating activities, a decrease in cash of $521,756 when compared to the cash used in operating activities of $200,017 during the same period in 2019. The increase in cash used in operating activities was primarily a result of a reduction in working capital of $1,145,361, an increase in net loss of $151,303, which was offset by an increase in non-cash adjustments of $774,908. Non-cash adjustments include increases of $977,611 comprised of deferred benefit for income taxes, warranty reserves, depreciation, and debt discount, inventory reserves and stock-based compensation expense. These increases were offset by $(202,703) in decreases in non-cash adjustments attributable to gain on disposal of property and equipment, provision for bad debt, amortization of deferred gain and amortization of intangibles.

Working capital decreased overall by $1,145,361. The sources of working capital of $1,535,078 are attributable to reductions in accounts receivable and inventories for the comparable period. These sources were offset by uses of working capital due to increases in prepaids and other assets, and reduced accounts payable and accrued expenses and other liabilities of $2,680,439.

Our ability to generate cash from operations in future periods will depend in large part on our profitability, the rate and timing of collections of our accounts receivable, our inventory turns and our ability to manage other areas of working capital including accounts payable.

Investing Activities

During the three month period ended March 31, 2020, we used cash of $198,507 in investing activities as compared to $802,193 used during the same period in 2019, a decrease of $603,686. In the prior reporting period, the Company was expanding and remodeling its facility for increased capacity. Such costs were not incurred in the current period. Additionally, in the prior year, the Company was implementing phase I of its ERP system which included a team of external resources for which the costs were capitalized. Though phase II is currently in process, the implementation team is significantly smaller and as a result we are not incurring comparable costs. We do not anticipate any other significant purchases of equipment beyond that which is anticipated for use in the normal course of our core business activity.

Financing Activities

During the three month period ended March 31, 2020, we used $1,214,119 in financing activities as compared to the cash used of $817,272 during the same period in 2019. During the three month period ended March 31, 2020, in addition to payments on term loans and outstanding lines of credit, the Company received proceeds of $57,000 through the exercise of stock options which was offset by a payment for taxes of $656,845 that was paid on behalf of those that exercised options and RSU's on a net cashless basis.

For the three month period ended March 31, 2019, the Company received proceeds from the exercise of options of $14,201and paid net $831,473 on the outstanding debt obligations.

Contractual obligations and commitments

The following table sets forth our non-cancellable contractual obligations as of March 31, 2020.

Contractual Obligations:	Total	Less than 1 year	1-3 years	3-5 years	More than 5 Years
Notes payable	$ 1,689,977	$ 1,622,316	$ 67,661		$ -
Operating leases	1,740,468	635,693	972,442	132,333	-
Total	$ 3,430,445	$ 2,258,009	$ 1,040,103	$ 132,333	$ -

We have made certain indemnities, under which the Company may be required to make payments to an indemnified party, in relation to certain transactions. We indemnify our directors, officers, employees and agents to the maximum extent permitted under the laws of the State of Delaware. In connection with our facilities leases, we indemnify our lessors for certain claims arising from the use of our facilities. The duration of the indemnities varies, and in many cases is indefinite. These indemnities do not provide for any limitation of the maximum potential future payments we could be obligated to make. Historically, we have not been obligated to make any payments for these obligations and no liabilities have been recorded for these indemnities.

Off balance sheet arrangements

Other than lease commitments incurred in the normal course of business and certain indemnification provisions, we do not have any off-balance sheet financing arrangements or liabilities, guarantee contracts, retained or contingent interests in transferred assets, or any obligation arising out of a material variable interest in an unconsolidated entity.

We do not have any majority-owned subsidiaries that are not consolidated in the financial statements. Additionally, we do not have an interest in, or relationships with, any special purpose entities.

Stockholder transactions

In April 2019, certain members of the Company's Board of Directors executed definitive agreements to commit funds of up to $4,000,000 as a credit facility. The Company initially borrowed $1,150,000 from members of the Board of Directors and $350,000 from other shareholders for a two year period at an interest rate of 9.5% which requires the Company to make monthly principal and interest payment of $69,000 per month. In connection with these loans, the Company issued the note holders warrants to purchase shares of the Company's common stock equal to 10% of the original principal at a price per share equal to $2.15 per share. Accordingly, the Company issued to the note holders warrants to purchase 69,766 shares of the Company's common stock. The relative fair value of the warrants issued was $60,158.

Critical accounting policies and estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates. The critical accounting estimates, assumptions and judgments that we believe have the most significant impact on our consolidated financial statements are described below.

Revenue Recognition

On January 1, 2019, the Company adopted the new accounting standard update ASC 606, Revenue from Contracts with Customers, which superseded nearly all existing revenue recognition guidance under GAAP, to all contracts using the modified retrospective method. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The Company's performance obligations are satisfied over time as work is performed or at a point in time. The majority of the Company's revenue is recognized at a point in time when products ship and control is transferred to the customer. The Company determines revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, a performance obligation is satisfied.

The Company's contracts are executed through a combination of written agreements along with purchase orders with all customers including certain general terms and conditions. Generally, purchase orders entail products, quantities and prices, which define the performance obligations of each party and are approved and accepted by the Company. The Company's contracts with customers do not include extended payment terms. Payment terms vary by contract type and type of customer and generally range from 30 to 60 days from invoice. Additionally, taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer and deposited with the relevant government authority, are excluded from revenue.

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer adjusted for estimated variable consideration, if any. Variable consideration may include discounts, rights of return, refunds, and other similar obligations. The Company allocates the transaction price to each distinct product and service based on its relative standalone selling price. The standalone selling price for products primarily involves the cost to produce the deliverable plus the anticipated margin and for services is estimated based on the Company's approved list price.

In the normal course of business, the Company does not accept product returns unless the items are defective as manufactured. The Company establishes provisions for estimated returns and warranties. In addition, the Company does not typically provide customers with the right to a refund and does not transact for noncash consideration.

Customer agreements include one vendor managed inventory program. The Company recognizes revenue under this arrangement when all of the following criteria are met: (i) the goods have been identified separately as belonging to the customer; (ii) the goods are ready for physical shipment to the customer; (iii) the Company does not have the ability to direct the goods to another customer; and (iv) the arrangement was requested by the customer and the customer has sufficiently explained a substantial business purpose for the arrangement. Management also considers whether the customer's custodial risks are insured and whether modifications to the Company's normal billing and credit terms were required.

Revenues on certain fixed-price contracts where we provide engineering services, prototypes and completed products are recognized based upon percentage of completion or based upon milestones delivered that are provided during the period and compared to milestone goals to be provided over the entire contract. These services require that we perform significant, extensive and complex design, development, modification or implementation of our customers' systems. Performance will often extend over long periods of time, and our right to receive future payment depends on our future performance in accordance with the agreement.

The percentage-of-completion methodology involves recognizing probable and reasonably estimable revenue using the percentage of services completed, on a current cumulative cost to estimated total cost basis, using a reasonably consistent profit margin over the performance period. Due to the long-term nature of these projects, developing the estimates of costs often requires significant judgment. Factors that must be considered in estimating the progress of work completed and ultimate cost of the projects include, but are not limited to, the availability of labor and labor productivity, the nature and complexity of the work to be performed and the impact of delayed performance. If changes occur in delivery, productivity or other factors used in developing the estimates of costs or revenues, we revise our cost and revenue estimates, which may result in increases or decreases in revenues and costs, and such revisions are reflected in earnings in the period in which the revision becomes known.

On certain contracts with several of the Company's significant customers, the Company receives payments in advance of manufacturing. Advanced payments are recorded as deferred revenue until the revenue recognition criteria described above has been met.

Related billings that are in excess of revenue earned are deferred and recorded as a liability on the consolidated balance sheet until the related services are provided.

Stock-Based Compensation

We measure and recognize compensation expense for all stock-based awards granted to our employees and other service providers, including stock options granted under the 2017 Plan and 2015 Stock Option Plan that was approved in December 2015 (the "2015 Plan"), based on the estimated fair value of the award. We use the Black-Scholes option pricing model to estimate the fair value of stock option awards granted under the 2017 Plan and 2015 Plan. We recognize the fair value of stock options granted under the 2017 Plan and 2015 Plan as stock-based compensation on a straight line basis over the requisite service period. We record expense net of anticipated forfeitures and adjust the annual expense based upon actual experience.

Compensation cost for stock awards, which include restricted stock units ("RSUs") is measured at the fair value on the grant date and recognized as expense, net of estimated forfeitures, over the related service period. The fair value of stock awards is based on the quoted price of our common stock on the grant date less the present value of expected dividends not received during the vesting period.

Our use of the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the fair value of the underlying common stock, expected term of the option, expected volatility of the price of our common stock, risk-free interest rates and the expected dividend yield of our common stock. The assumptions used in our option pricing model represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

These assumptions and estimates are as follows:

- Fair Value of Common Stock. Since the completion of our IPO, we use the closing quoted price of our common stock on the date of grant.
- Expected Term. The expected term represents the period that our stock-based awards are expected to be outstanding. The expected term assumptions were determined based on the vesting terms and contractual lives of the options, using the simplified method.
- Expected Volatility. Since we do not have sufficient trading history of our common stock, the expected volatility was determined based on the historical stock volatilities of comparable companies. Comparable companies consist of public companies in our industry that is similar in size, stage of life cycle and financial leverage. We intend to continue to apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of our own share price becomes available, or unless circumstances change such that the identified companies are no longer similar to us, in which case, more suitable companies whose share prices are publicly available would be used in the calculation.

- Risk-Free Interest Rate. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options.
- Dividend Rate. We have never declared or paid any cash dividends and do not plan to pay cash dividends in the foreseeable future, and, therefore, use an expected dividend yield of zero.

We will continue to use judgment in evaluating the assumptions related to our stock-based compensation on a prospective basis. As we continue to accumulate additional data related to our common stock, we may refine our estimation process, which could materially impact our future stock-based compensation expense.

Inventory Valuation

We value our inventory at the lower of cost or its estimated net realizable value. We use the average cost method for purposes of determining cost, which approximates the first-in, first-out method. We write down inventory for excess and obsolescence based upon a review of historical usage and assumptions about future demand, product mix and possible alternative uses. Actual demand, product mix and alternative usage may be lower than those that we project and this difference could have a material adverse effect on our gross margin if inventory write-downs beyond those initially recorded become necessary. Alternatively, if actual demand, product mix and alternative usage are more favorable than those we estimated at the time of such a write-down, our gross margin could be favorably impacted in future periods.

Goodwill, Intangible Assets and Long-lived Assets

We evaluate our goodwill, intangible and long-lived assets for impairment when events or circumstances arise that indicate our goodwill, intangible and long–assets may be impaired. Indicators of impairment include, but are not limited to, a significant deterioration in overall economic conditions, a decline in our market capitalization, the loss of significant business, significant decreases in funding for our contracts, or other significant adverse changes in industry or market conditions. Regardless, goodwill is tested for potential impairment at least annually.

Income Taxes

The determination of income tax expense requires us to make certain estimates and judgments concerning the calculation of deferred tax assets and liabilities, as well as the deductions and credits that are available to reduce taxable income. We recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in our consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates for the year in which the differences are expected to reverse.

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results, our forecast of future earnings, future taxable income, and tax planning strategies. The assumptions utilized in determining future taxable income require significant judgment. We record a valuation allowance against deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. If it becomes more likely than not that a tax asset will be used for which a reserve has been provided, we reverse the related valuation allowance. If our actual future taxable income by tax jurisdiction differs from estimates, additional allowances or reversals of reserves may be necessary.

We use a two-step approach to recognize and measure uncertain tax positions. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. We reevaluate our uncertain tax positions on a quarterly basis and any changes to these positions as a result of tax audits, tax laws or other facts and circumstances could result in additional charges to operations.

Business Combinations

We utilize the acquisition method of accounting for business combinations and allocate the purchase price of an acquisition to the various tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. We primarily establish fair value using the income approach based upon a discounted cash flow model. The income approach requires the use of many assumptions and estimates including future revenues and expenses, as well as discount factors and income tax rates. Other estimates include:

- Estimated step-ups or write-downs for fixed assets and inventory;
- Estimated fair values of intangible assets; and
- Estimated income tax assets and liabilities assumed from the target

While we use our best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business acquisition date, our estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price allocation period, which is generally no longer than one year from the business acquisition date, we record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill.

For changes in the valuation of intangible assets between preliminary and final purchase price allocation, the related amortization is adjusted in the period it occurs. Subsequent to the purchase price allocation period any adjustment to assets acquired or liabilities assumed is included in operating results in the period in which the adjustment is determined. Should we issue shares of our common stock in an acquisition, we will be required to estimate the fair value of the shares issued.

Recently implemented accounting pronouncements

Per the Company's consolidated financial statements Note 2 – Significant Accounting Policies, we have implemented a number of changes, as required by FASB. See Note 2 for further details.

Recent accounting pronouncements

Per the Company's consolidated financial statements Note 2 – Significant Accounting Policies, we may be implementing a number of changes, as required by FASB. See Note 2 for further details.

Interest rate risk

Our exposure to interest rate risk is primarily associated with borrowing on revolving lines of credit denominated in both U.S. dollars and Euros. We are exposed to the impact of interest rate changes primarily through our borrowing activities for our variable rate borrowings.

Concentration of credit risk

Financial instruments that potentially expose us to concentrations of credit risk consist principally of cash, cash equivalents and accounts receivable. We place our cash and cash equivalents with financial institutions with high credit quality. At March 31, 2020 and December 31, 2019, we had $2,658,777 and $5,185,321, respectively, of cash and cash equivalents on deposit or invested with our financial and lending institutions.

We provide credit to our customers in the normal course of business. We perform ongoing credit evaluations of our customers' financial condition and limit the amount of credit extended when deemed necessary.

Foreign currency risk

We operate primarily in the United States. Foreign sales of products and services are primarily denominated in U.S. dollars. We also conduct business outside the United States through our foreign subsidiary in Germany, where business is largely transacted in non-U.S. dollar currencies particularly the Euro, which is subject to fluctuations due to changes in foreign currency exchange rates. Accordingly, we are subject to exposure from changes in the exchange rates of local currencies. Foreign currency transaction gains and losses are recorded in other income (expense), net in the consolidated statements of operations.

OSS GmbH operates as an extension of OSS' domestic operations and acquired Bressner Technology GmbH in October 2018. The functional currency of OSS GmbH is the Euro. Transactions denominated in currencies other than the functional currency are remeasured to the functional currency at the average exchange rate in effect during the period. At the end of each reporting period, monetary assets and liabilities are translated using exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical exchange rates. Consequently, changes in the exchange rates of the currencies may impact the translation of the foreign subsidiaries' statements of operations into U.S. dollars, which may in turn affect our consolidated statement of operations. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income in the consolidated statement of comprehensive income.

Derivative Financial Instruments

We employ derivatives on a periodic basis to manage certain market risks through the use of foreign exchange forward contracts. We do not use derivatives for trading or speculative purposes. Our derivatives are designated as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). We hedge a portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions. In anticipation of these transactions, we may enter into foreign exchange contracts to provide currency at a fixed rate.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not Applicable.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic and current reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Limitation on Effectiveness of Controls

Any control system, no matter how well designed and operated, can provide only reasonable assurance as to the tested objectives. The design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. The inherent limitations in any control system include the realities that judgments related to decision-making can be faulty, and that reduced effectiveness in controls can occur because of simple errors or mistakes. Due to the inherent limitations in a cost-effective control system, misstatements due to error may occur and may not be detected.

Evaluation of Disclosure Controls and Procedures

Management is required to evaluate our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective at a reasonable assurance level as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2020, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are subject to litigation, claims, investigations and audits arising from time to time in the ordinary course of our business. However, at this time, we are not aware of any pending, threatened, or unasserted claims.

Item 1A. Risk Factors.

Please carefully consider the information set forth in this Quarterly Report on Form 10-Q and the risk factors discussed in Part I, Item I A. of our Annual Report on Form 10-K for the year ended December 31, 2019, which could materially affect our business, financial condition or future results. In evaluating our business, you should carefully consider the risk factors discussed in our Annual Report on Form 10-K, as updated by our subsequent filings under the Exchange Act. The occurrence of any of the risks discussed in such filings, or other events that we do not currently anticipate or that we currently deem immaterial, could harm our business, prospects, financial condition and results of operations. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Our business may be subject to risks arising from pandemic, epidemic, or an outbreak of diseases, such as the recent outbreak of the novel strain of coronavirus, COVID-19.

The recent outbreak of the novel strain of coronavirus, or COVID-19, which has been declared by the World Health Organization to be a "public health emergency of international concern," has spread across the globe and is impacting worldwide economic activity. A public health pandemic, including COVID-19, poses the risk that we or our employees, contractors, suppliers, and other partners may be prevented from conducting business activities for an indefinite period of time, including due to shutdowns that may be requested or mandated by governmental authorities. While it is not possible at this time to estimate the impact that COVID-19 could have on our business, the continued spread of COVID-19 and the measures taken by the governments of countries affected could disrupt the supply chain and adversely impact our business, financial condition or results of operations. The COVID-19 outbreak and mitigation measures may also have an adverse impact on global economic conditions which could have an adverse effect on our business and financial condition. The extent to which the COVID-19 outbreak impacts our results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus and the actions to contain its impact.

We may not be able to obtain the supplies and materials that we need from our suppliers due to COVID-19.

As a result of the recent outbreak of the novel strain of coronavirus, COVID-19, there have been numerous factory closures. While many factories were closed for a few days because of the Chinese New Year holiday, the Chinese government ordered that businesses in various areas extend the Chinese New Year holiday due to the Coronavirus outbreak and it is possible that the Chinese government will announce additional closures in the future.

Some of our suppliers in China as well as other locations throughout the world have similarly been affected and experienced closures and risks of labor shortages. If our suppliers experience additional closures in the future, we may have difficulty sourcing materials necessary to fulfill production requirements and meet scheduled shipments, which will negatively affect our revenues. Even if we are able to find alternate sources for such materials, they may cost more, which will affect our profitability. If our suppliers in China and other Asian markets experience additional closures in the future and are not able to accept orders or if they delay or cancel such orders, our revenues will be negatively affected. At this point in time, there is significant uncertainty relating to the potential effect of the coronavirus on our business. Infections may become more widespread and there might be additional factory closures in the future, all of which will have a negative impact on our business, financial condition and operating results.

Additionally, as a result of significant changes in the worldwide capital markets and general business climate, the impact on the future demand for our products is unknown at this time.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
31.1**	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 **.
31.2**	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 **.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **.
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Company Name

Date: May 14, 2020

By: /s/ David Raun

David Raun
Interim Chief Executive Officer
(Principal Executive Officer)

Date: May 14, 2020

By: /s/ John W. Morrison Jr.

John W. Morrison Jr.
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David Raun, certify that:

1. I have reviewed this quarterly report on Form 10-Q of One Stop Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2020

By: /s/ David Raun

David Raun
Interim Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John W. Morrison Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of One Stop Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

   (c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2020

By: /s/ John W. Morrison Jr.
John W. Morrison Jr.
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of One Stop Systems, Inc. (the “Company”) on Form 10-Q for the period ending March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David Raun, Interim Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 14, 2020

By: /s/ David Raun
David Raun
Interim Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of One Stop Systems, Inc. (the “Company”) on Form 10-Q for the period ending March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John W. Morrison Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 14, 2020

By: /s/ John W. Morrison Jr.

John W. Morrison Jr.
Chief Financial Officer
(Principal Accounting and Financial Officer)