

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 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
(State or other jurisdiction of
incorporation or organization)

33-0885351
(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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	OSS	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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, a 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

As of June 30, 2020, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$22,794,553, based on the closing price of the registrant's common stock on The Nasdaq Capital Market of \$1.97 per share.

As of March 15, 2021, the registrant had 18,409,318 shares of common stock (par value \$0.0001) outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

One Stop Systems, Inc.
FORM 10-K
For the Fiscal Year Ended December 31, 2020
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (“Annual Report”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact contained in this Annual Report, including statements regarding our future operating results, financial position and cash flows, our business strategy and plans and our objectives for future operations, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. This Annual Report also contains estimates and other statistical data made by independent parties and by us relating to market size and growth and other data about our industry. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions and estimates of our future performance and the future performance of the markets in which we operate are necessarily subject to a high degree of uncertainty and risk. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “would,” “could,” “should,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential” or “continue” or the negative of these terms or other similar expressions. The forward-looking statements in this Annual Report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, operating results, business strategy, short-term and long-term business operations and objectives. These forward-looking statements speak only as of the date of this Annual Report and are subject to a number of risks, uncertainties and assumptions, including those described in Part I, Item 1A, “Risk Factors.” The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

One Stop Systems, the One Stop Systems logo, and other trademarks or service marks of One Stop Systems appearing in this Annual Report are the property of One Stop Systems, Inc. This Annual Report also includes trademarks, tradenames and service marks that are the property of other organizations. Solely for convenience, trademarks and tradenames referred to in this Annual Report appear without the ® and ™ symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights, or that the applicable owner will not assert its rights, to these trademarks and tradenames.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information required by the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), with the Securities and Exchange Commission (the “SEC”). You may read and copy any document we file with the SEC at the SEC’s public reference room located at 100 F Street, N.E. Washington D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC’s internet site at <http://www.sec.gov>.

On our internet website, <http://www.onestopsystems.com>, we post the following recent filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. The information in or accessible through the SEC and our website are not incorporated into, and are not considered part of, this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

ITEM 1. BUSINESS.**Overview**

One Stop Systems (OSS) designs, manufactures, and markets specialized high-performance computing modules and systems targeting edge deployments. These specialized computers and storage products incorporate state-of-the-art components and allow our customers to offer high-end computing capabilities (often embedded within their equipment) to their target markets. Edge computing is when data is processed/analyzed on devices, that is, at the edge of the network, rather than in the cloud itself. Factors such as increase in load on the cloud infrastructure globally and rises in artificial intelligence (AI) applications, are the major factors driving the growth of the edge computing market. Our customer applications often require connection to a wide array of data sources and sensors, ultra-fast processing power and the ability to quickly access and store large and ever-growing data sets at their location not in the cloud. This equipment requires datacenter class performance optimized for deployment at the edge in challenging environments. Unlike the controlled air-conditioned data center, many of these edge applications have unique requirements including special and compact form factors ruggedized for harsh conditions. We are uniquely positioned as a specialized provider for the high-end of this marketplace providing custom servers, data acquisition platforms, compute accelerators, solid-state storage arrays, system IO expansion systems as well as edge optimized industrial and panel PCs, tablets and handheld compute devices. We deliver this high-end technology to our customers through the sale of equipment and embedded software.

The worldwide high-performance computing (HPC) market is expected to grow from \$39 billion in 2019 to \$50 billion by 2023, representing a compound annual growth rate (CAGR) of 7% while the overall edge computing market is forecasted to grow to \$28.8 billion by 2025 with a compound annual growth rate of over 50% (Grandview research, "Edge Computing Market Size," June 2019). We are establishing a leading position as a provider of specialized servers, compute accelerators and flash storage arrays to the high-end of this growing marketplace targeting edge deployments. OSS estimates the high-performance specialized segment at the intersection of HPC and the edge computing market will be greater than \$2 billion in 2023. It is OSS' objective to be the leading vendor and technology innovator in this targeted market segment.

Through our *AI on the Fly*® initiative, we are delivering innovative specialized high-performance edge computing building blocks and platforms used by our customers to develop products for scientists, engineers, creators and other professionals. These mission critical applications capture and store data and quickly, securely, and cost effectively transform it into actionable intelligence at the edge.

High-performance computing applications are moving beyond the traditional academic and scientific realms to broad application across the spectrum of vertical markets. These applications include computationally intense areas like artificial intelligence (AI), deep learning, media and entertainment, test and measurement, medical imaging, genomics, cyber security, automotive, aerospace and defense. We are well positioned to leverage these market trends and capitalize on our unique core competencies in high-speed system design, switch fabrics, and edge system optimization. We have a proven track record of delivering first-to-market advanced technologies and have continued to do so with next generation PCI Express (PCIe) based input/output expansion systems, compute acceleration systems and high-performance flash array storage systems. PCIe offers the highest performance and lowest latency which is critical for our target applications. Edge optimizations include rugged chassis design with light-weight removable high-capacity canisters. These products fit solidly into the emerging markets for specialized high-performance computing at the edge.

The more data input, GPU compute acceleration and flash-based storage resources available to a server, the faster it can acquire, process, store, and retrieve data. In cases where the amount of these resources does not fit within the constraints of a conventional server, PCIe is used to disaggregate the resources into a multi-chassis solution. We have built leading edge expertise in PCIe expansion technology and leverage it to design and build systems that offer a high quantity and density of GPU compute acceleration, flash storage and data I/O interfaces.

A key element of our product strategy is technological leadership. We believe a first-to-market strategy is key to our ability to continue to win significant OEM opportunities. As a result, we continue to develop new state-of-the-art products providing first-to-market next-generation PCIe based building blocks and systems. Our ability to drive the leading edge of technology is enabled by our strong relationships with strategic component manufactures, including NVIDIA (for GPUs), Western Digital and Micron (for flash memory); Broadcom (for PCIe switch components), Mellanox (for networking) and Intel, AMD and Marvel (for CPUs). In many of these cases, OSS has access to product roadmaps and other technical information relating to future technology. Access to this information allows us to begin our design process well before the

future components we are designing for even exist. This accelerates our time-to-market and allows us to produce and release state-of-the-art designs well ahead of our competitors.

OSS sells its products worldwide to industry leading customers. We service over 1,800 customers per year worldwide, with major repeat customers including disguise, National Instruments, Raytheon, Thales, and Alcon. We anticipate continued market growth in our target markets and sustaining the ability to increase market share through our leading technology, engineering expertise, supply chain management and go-to-market innovation.

We were originally organized as One Stop Systems, LLC, a California limited liability company in 1998 before converting into One Stop Systems, Inc., a California corporation in 1999. On July 6, 2016, we entered into a Merger Agreement and Plan of Reorganization with Mission Technology Group, Inc. (“Magma”) whereby Magma merged with and into OSS with OSS continuing as the surviving corporation. We reincorporated as a Delaware corporation on December 14, 2017 and began trading as a public company on the Nasdaq Capital Markets on February 1, 2018. On August 31, 2018, we acquired Concept Development Inc., a provider of specialty in-flight entertainment, networking and other aerospace technology located in Irvine, California. On October 31, 2018, we acquired Bressner Technology GmbH located near Munich, Germany. Bressner is a valued-added reseller of high technology hardware which expanded the company’s high-performance computing product lines to include industrial and panel PCs, tablets and handheld compute devices while also opening up new markets in Europe. Our principal executive offices are located at 2235 Enterprise Street, Suite 110, Escondido, California 92029 and our telephone number is (760) 745-9883. Our website address is www.onestopsystems.com. Information contained in, or accessible through, our website is for reference purposes only.

Industry Background and Market Opportunity

High performance computing refers to computing solutions capable of ingesting and processing large amounts of data, and storing and retrieving that data at speeds 10-100 times faster than a typical corporate computer. Increasingly, commercial companies, financial entities, governmental agencies, including the Department of Defense, and academic institutions are turning to high-performance computing solutions to analyze vast amounts of data to obtain meaningful and actionable insights. Three technologies are fundamental: GPU compute accelerators, flash memory based storage, and high speed data acquisition I/O. These technologies enable systems to ingest, process and store data at significantly higher rates than traditional systems. By harnessing large quantities of these components, companies can receive necessary data analyses much more quickly, turning raw data to actionable intelligence. Industry experts typically divide the high-performance computing market into the following categories:

- **Servers** – This market represents all high-end servers, which is composed of supercomputers, divisional servers, departmental servers, and workgroup servers.
- **Storage** – This includes both traditional hard disc drive and flash-based storage devices.
- **Middleware** – A broad category of software encompassing programming environments, schedulers, and other tools outside the operating system.
- **Applications** – Specific software applications for high performance computing.
- **Services** – All services associated with high performance computing.

Intersect360 Research categorizes and projects sales in the total high-performance computing market, as follows:

High Performance Computing Market by Product Category — Total Market Forecast by Economic Sectors (\$B)

	2021	2022	2023	CAGR
Servers	\$ 16.2	\$ 17.2	\$ 18.2	5.73 %
Storage	7.0	7.2	8.0	8.87 %
Services	3.0	3.4	3.4	4.26 %
Software	10.0	10.4	10.6	4.09 %
Networks	3.0	3.6	3.8	5.90 %
Cloud	1.8	2.6	3.2	21.14 %
Other	3.2	2.8	3.0	2.33 %
Total	\$ 44.2	\$ 47.2	\$ 50.2	6.29 %

Source:

Intersect360 Research, High Performance Computing (HPC) Revenue: Worldwide Market and Forecast Series, June 7, 2019.

The markets for these products are large and growing. The industry sectors that are currently or anticipated to require high-performance computing systems include:

- Artificial Intelligence
- Computer Aided Engineering
- Test and Measurement
- Media and Entertainment
- Economics/Financial
- Environmental Data Acquisition
- Geosciences
- Mechanical Design
- Defense – Intelligence, Surveillance and Reconnaissance
- Government Laboratories
- Medical Imaging
- Aerospace
- Automotive

These industry sectors expect to deploy increasingly faster computing systems to meet industry and competitive goals. GPU computer acceleration, high-performance flash storage and data acquisition are key subsets of the high-performance computing market.

GPU Compute Acceleration

The capabilities and speed of GPU accelerated computers are driving significant advances in AI and machine learning. Massive amounts of data are being collected, stored and analyzed by today's sophisticated algorithms. AI and machine learning are poised to transform worldwide business, as advances in computing speed and storage come together to enable businesses to solve complex problems. OSS is enabling the move of this AI capability from centralized datacenters to deployments closer to the data sources at the edge.

High Density Solid-State Storage

The market for flash memory based on solid-state storage systems is large and growing. According to a study by Markets and Markets, the all-flash storage server market is growing at 25% per year, and is expected to reach \$18 billion by 2023. The proliferation of larger and larger data sets used in HPC and AI are feeding the need for higher capacity and higher performance storage devices.

Traditionally, companies have used hard disk drives for their primary storage. Hard drive-based systems are being replaced by flash memory based systems which offer higher capacity, performance, reliability and ruggedness. Flash-based storage systems also consume significantly less power.

Flash-based storage systems are especially useful for high performance computing applications, which deal with large amounts of data and the need for complex calculations to be completed in real time. In these applications, speed and efficiency are paramount. Military systems, for example, collect vast amounts of data using sensor systems, cameras, radar systems, and a myriad of other real-world inputs. This data needs to be collected, stored, analyzed and acted upon in a real-time environment.

High Speed Data Acquisition

At the front end of these systems is high speed data acquisition technology. Depending on the application, the data can be generated from a wide array of sensors. In the case of autonomous vehicles, data is generated through arrays of video, LIDAR and radar sensors. In battlefield applications cameras, radar, sonar, FLIR (infrared), and RF sensors are deployed. Medical applications use MRI or CT sensors. In security applications, networks of security cameras produce high volumes of video data. Industrial automation includes telemetry data from Internet of Things (IoT) sensors and video feeds at a wide spectrum of frame rates.

Although data rates vary for all of these applications based on the sensors or array of sensors deployed, the fundamental requirements for the ingest subsystem is that it supports high speed data rates, does not allow loss of data, and does not impose flow control on the sensor data stream. For many *AI on the Fly* applications, local data rates can be extremely high, requiring specialized PCIe data capture hardware. As part of the capture process, the data is often processed in real time to be formatted in a useable form prior to movement to the storage devices. Capture hardware can be in the form of PCIe FPGAs, video capture, frame grabbers, or smart NICs performing a range of functions including tagging, encoding, sorting, and analog to digital conversion, filtering, time stamping, and channel synchronization.

Key Components of Our Business

Product Development

Our systems are built using the latest GPU and flash storage technologies and draw upon years of expertise in designing and manufacturing semi-custom systems for OEMs. We have a history of being first-to-market with many solutions for emerging technologies. When PCIe was introduced in 2005, we were the first company to produce PCIe over cable adapters allowing system-to-system communication at same speed as internal I/O expansion. Similarly, in 2018, we introduced the first PCIe Gen 4.0 cable adapters, and in 2019, introduced the first PCIe Gen 4.0 system building blocks and platforms. PCIe Gen 4.0's ultra-high performance 16.0 GT/s (giga-transfers/second) and signal integrity challenges limits the number of players in this market and creates barriers of entry. Today, we are one of the largest providers of PCIe adapters and expansion components used worldwide.

When GPU technology and solid-state flash were first introduced, we began designing systems that maximized the effectiveness of these technologies. We now produce compute systems with large numbers of GPUs and flash memory communicating over PCIe to allow faster processing and data storage and retrieval. The more GPUs and flash devices available to a server, the faster that system can process and store data.

We use leading edge, state-of-the art components from major technology providers to design purpose-built systems that solve customer problems in an efficient, cost-effective manner. We apply the component technology provided by Intel, NVIDIA, Western Digital, Broadcom and others to deliver customer driven designs to provide true value to our customers.

Worldwide Sales

We provide our products on a worldwide basis and are supported through a network of reseller and distribution partners. Sales in North America and Europe are predominately driven by our direct sales force, whereas Asian sales are driven through distributors.

In October 2018, OSS GmbH acquired 100% of the outstanding stock of Bressner Technology GmbH, (Bressner) located in Gröbenzell, Germany. This acquisition provides a base for European operations for sales, marketing, engineering, manufacturing and support capabilities.

Recent Business Initiatives

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 payments 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 share of the Company's common stock. The relative fair value of the warrants issued was \$60,158.

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.

In July 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.

Coronavirus, COVID-19, continues to impact worldwide economic activity since it first surfaced around December 2019. A public health pandemic, including COVID-19, poses the risk that we or our employees, contractors, customers, 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.

On February 15, 2020, Steve Cooper was terminated as President and CEO of the Company, and was replaced by David Raun, who is now the current President and CEO of the Company.

On April 7, 2020, the Company implemented a cost reduction plan which included the termination of certain employees and elimination of certain costs. Savings from this effort are estimated to be approximately \$2.5 million on an annual basis.

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 on 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 which have been satisfied. The note is repayable in twenty-two installments beginning three months after closing in cash or shares of the Company's common stock.

On March 1, 2021, the Company entered into a Securities Purchase Agreement with an accredited investor, pursuant to which the Company agreed to issue and sell, in a registered direct offering, 1,497,006 shares of the Company's common stock, par value \$0.0001 per share, to the purchaser at an offering price of \$6.68 per share. The registered offering was conducted pursuant to the Company's effective shelf registration statement on Form S-3 (Registration No. 333-231513), which was initially filed with the Securities and Exchange Commission on May 15, 2019, and was declared effective on June 19, 2019. The Company filed the final prospectus supplement for the registered offering on March 3, 2021. In connection with the Securities Purchase Agreement, the Company also entered into a Placement Agency Agreement, pursuant to which A.G.P./Alliance Global Partners agreed to serve as lead placement agent for the registered offering and The Benchmark Company, LLC agreed to serve as co-placement agent for such offering. As compensation for their services, the Company paid to the placement agents a fee equal to 7% of the gross proceeds received by the Company as a result of the registered offering, and reimbursed the placement agents for certain expenses incurred in connection with such offering. The Company estimates that the net proceeds from the registered offering will be approximately \$9.25 million after deducting certain fees due to the placement agents' and the Company's estimated transaction expenses. The net proceeds received by the Company will be used for general corporate and working capital purposes.

What Sets OSS Apart

Several factors differentiate OSS from other suppliers of high-performance computing solutions:

- Our expertise in PCIe expansion and building custom systems allows us to design reliable systems using this challenging high-performance technology with a greater quantity of GPUs and flash storage devices than other suppliers.
- We design systems that both attach to existing servers through high-performance PCIe over cable leveraging our customer's existing network as well as all-in-one systems with the server, GPU computing, and flash storage devices all included in a single package.
- We design the software required to operate high-capacity, low-latency storage systems used by defense systems and commercial applications.
- We ruggedize and harden systems to operate within mobile or harsh environments, including full mil-spec systems.

Our business model consists of developing specialized computing solutions that our customers utilize as a key component of the equipment that they sell to end users. Our niche is to provide reliable purpose-built platforms with the latest high-performance computing technology focused on challenging edge deployments.

Business Strategy

We have traditionally followed a strategy of being first-to-market in leading edge technologies by designing and developing products that are delivered before our competitors. This market leadership strategy is accomplished through what we term a “Catch the Wave” approach to the market. We currently have products spanning the spectrum of high-performance computing including servers, flash storage, GPU acceleration, networking and PCIe data acquisition I/O expansion. Within these product areas the OSS “Catch the Wave” approach implies that we:

- anticipate trends in these markets;
- continuously deploy resources in engineering and sales to bring innovative products to market before our competitors;
- work closely and leverage strategic vendor relationships to get early access to future products and technologies;
- seek to procure early design wins; and
- continually monitor the market for next generation technologies for which a new “Wave” may be forming.

Earnings Growth Strategy

OSS intends to continue its growth with a focus on growing earnings. The earnings growth will be accomplished by:

Revenue growth driven by existing OEM and new design wins:

- Participate in high-growth unique market segments
- Demonstrate technology leadership in specific verticals
- Target OEMs needing specialized solutions
- Focus on repeat business
- Maintain highly-skilled direct sales force
- Expand worldwide sales and marketing

Higher Margins:

- OSS-designed technical content
- Increased proprietary content, software and “stickiness”
- Focus on highest return programs/markets
- Maximizing military and other high value applications
- Leverage economies of scale
- Lower material costs
- Increased operational efficiencies through automation, discipline and process improvements

Manage Expenses:

- Reduced spending and higher efficiency per employee
- Utilize technology to increase efficiency
- Leverage efficiencies of scale
- Manage portfolio of products and business units, consolidate where efficient

Our Opportunity

The worldwide high-performance computing market is expected to grow from \$39 billion in 2019 to \$50 billion by 2023. (Grandview research, “Edge Computing Market Size” June 2019) Within this market, OSS is positioned in the highest performance and fastest growing portions of the specialized edge computing market including the customer server, GPU accelerators, storage (flash arrays) and PCIe data acquisition and expansion sectors.

Custom Built Servers

Within the server sector, OSS has secured a niche position of building purpose-built specialty servers, which the major server suppliers choose not to supply as they require custom tuning and special features that major OEMs cannot easily provide. Such flexibility is difficult to maintain for major suppliers because their systems are not designed to reflect specific customer specifications. OSS on the other hand has continued to find efficient ways to service this market. For example, OSS designs and builds a custom server with custom connectors and 16 high-definition video media outputs that are used in the entertainment industry to provide multimedia at live performances.

GPU Compute Accelerators

GPU computing uses hardware components that are optimized to perform mathematical calculations in a rapid fashion. NVIDIA is the market leader in the design and manufacturing of these components. OSS works closely with NVIDIA to design and build systems which use multiple GPUs to accelerate applications.

Markets and applications such as artificial intelligence, image rendering and processing, autonomous vehicles, deep learning, molecular modeling, genomics, advanced visualization, machine learning, and image processing, all benefit from the ability to use GPUs to accelerate the application. OSS builds specialized compute accelerators, using the latest GPU technology, to attach to traditional servers used in these emerging growth markets. We estimate these markets to be very large and growing. Because our strategy has been to be first-to-market with the fastest and densest compute accelerator appliances, we anticipate our addressable market to be in the hundreds of millions of dollars.

We also have a strong position in the government market which, according to Intersect360, constitutes 25% of the market resulting in projected revenue of \$13 billion by 2023. OSS products can form a basis for companies who wish to participate in the hyper-scale market, which includes deep learning and AI. This is a major technology trend that OSS is addressing. Intersect360 estimates the deep learning market was worth more than \$8 billion in 2018 with projections to grow to over \$28 billion by 2023, according to Kenneth Research dated August 2019.

All Flash Arrays

We build standard and custom flash storage arrays to customer specifications utilizing our unique know-how in PCIe device fan-out, packaging, cooling, and PCIe-over-cable. We deliver dense, high-performance systems that provide customers with high value and utility in the most demanding, data-intensive operations.

Through a strategic agreement with Western Digital, we acquired the software engineering team several years back and the appropriate source code license for the Ion flash array software. This provides OSS flash arrays with a high level of differentiation relating to storage management, latency and throughput. We provide standard flash array products and have the in-house hardware and software expertise to provide customized systems for demanding applications that are not suitable for standard offerings.

For example, we provide products to a large military contractor for integration into military aircraft that required us to design and manufacture a highly ruggedized mil-spec flash array. The resulting product provides high data density with low weight and a high degree of portability and security for the data. We believe our experience and capability in high speed, low-latency, digital signaling via PCIe gives us an edge in providing these custom designs to OEMs, military programs and other special purpose applications.

The overall market for flash arrays is growing rapidly. According to Markets and Markets All-Flash Array Market – Global Forecast to 2023 published in February 2019, the flash storage market totaled \$6 billion in 2018 and is expected to grow to reach \$18 billion by 2023. According to Intersect360 about 80% of the total sales in 2018 were attributed to traditional large OEMs, like Dell EMC, NetApp, HPE, Hitachi, Lenovo, DDN and IBM. The remaining 20% is addressed by many smaller flash storage providers, including OSS. We believe that because our products are positively differentiated by speed, density, and management features for challenging edge applications, our offerings compete favorably in this market and provide a substantial growth opportunity.

Since we develop custom flash storage arrays, we work closely with both OEMs and end users to insure they receive the product they want in the specific configuration, size and weight required for their application. We believe this gives OSS an advantageous position in a market that is growing rapidly and allows us to favorably compete in the market.

PCIe Data Acquisition Expansion and Adaptors

PCIe is the high-speed standard for communications within a computer. This standard defines the signals and connectors (i.e. slots) that are used for computer add-in cards (such as Ethernet or graphics). Traditionally, communication between computers in the network is done via Ethernet. Although Ethernet is great for large networks, this introduces delays and latency challenges. To keep performance at the highest level, PCIe signaling can also be routed over a cable, allowing expansion input/output slots to be physically located in a separate chassis. This provides for the high performance and low latency which are essential in this market.

Being able to separate the server from the I/O expansion, using PCIe over a cable, facilitates disaggregation of server functionality. That is, with PCIe, server I/O functions no longer need to be contained in the physical server chassis, but can instead be separated into a separate chassis and continue to operate at full speed. This offers many advantages over higher latency and power consuming traditional networking communications like Ethernet. From a practical perspective, servers can be connected directly to larger storage arrays or other peripheral devices, with the resulting group of chassis operating as if they were all in the same physical chassis.

We began developing our first PCIe-over-cable adaptor in 2006, and were one of the early providers of PCIe adaptors. We recognized this as prime opportunity to utilize our core strengths, such as:

- High-speed board design and layout
- Signal integrity masters
- Hardware tuning to improve signal integrity
- Design optimization for low cost
- Rapid design capability
- Manufacturing and supply chain management

This technology has now become a standard within the computer industry, and OSS customers have used our adaptors to connect their custom input/output chassis and achieve performance equivalence as if the input/output was integrated into the server box. This gives designers and integrators a degree of flexibility and utility in architecting computer systems that is unprecedented. For example, one of our customers has utilized PCIe-over-cable to connect its high-performance video editing systems to a host computer, providing a system that is optimized for an application using standard servers. We have expanded our PCIe adaptor market in breadth and depth, including making adaptors for many OEM customers. To date, we have shipped more than 100,000 PCIe adaptor cards to customers globally.

With our expertise developed in designing adaptor cards, the logical extension of our capability led us to develop a method for expanding the PCIe bus into an external chassis containing one or many expansion slots. This allowed a customer to install multiple standard PCIe boards into a chassis and expand their system without having to add additional servers. A user could now connect a multiplicity of PCIe devices to a single server, and achieve performance throughput and low latency that was not possible prior to the introduction of PCIe.

We have been a leader in PCIe expansion backplanes and chassis through generations 1, 2, 3, and 4. As PCIe evolves through generations 5 and 6, we are uniquely positioned to continue our leadership role in this market. We have introduced a full line of PCIe Gen 4.0 products and will once again take a leadership role with PCIe Gen 5.0 when the specification is complete which is anticipated in 2021. We currently offer what we believe to be the largest PCIe expansion product line breadth, with chassis and backplanes that offer expansion from one to 64 slots. Due to its greater data throughput and flexibility of design, we believe this is a growing market, and we intend to maintain our leadership role.

Our Technology

We design and manufacture high performance computing systems for use on the edge that increase compute performance while reducing cost and impact to the infrastructure. Our high-density compute accelerators connect directly to a server's PCIe bus, delivering substantial compute performance. Our flash storage arrays support hundreds of terabytes of high-speed storage that can also be accessed by multiple servers.

Technology Drivers for OSS High-Performance Computing Business

OSS has developed expertise and core competencies in the three fundamental technology drivers of today's high-performance edge computing market. Namely, high-speed serial interconnect technology, compute acceleration utilizing GPUs, and low latency flash storage. In combination, these technologies are changing the economics of computing, bringing high-performance computing within the grasp of a wide range of new industries and commercial applications on the edge. Simultaneously the emergence of massive data being generated in each of these industries is pushing the requirement for state-of-the-art technology. OSS is enabling this technology to be deployed at the edge by merging these fundamental technologies with our expertise in providing the system level customization for meeting requirements for ruggedization and SWAP constraints (space, weight and power).

The opportunity is not only to provide competitive advantage for corporations, but also address some of the most fundamental challenges in life science, energy and security. OSS is well situated to leverage these major industry forces. By exploiting its unique set of expertise in the underpinning technologies of high-performance computing, OSS will continue to deliver world leading solutions, with the opportunity to capture a growing market share of this rapidly expanding marketplace.

Switched Serial Interconnect

Switched serial interconnects are the data highways connecting many elements of today's high-performance computing platforms. At ever increasing speeds, these pathways move data between system's processing units, storage, networking, and peripheral elements. For high performance computing the primary processing, storage and peripheral interconnect is PCIe Gen 4.0. PCIe Gen 4.0 has an ability to run up to 16 lanes in parallel, which allows up to 64 gigabytes (full duplex) per second bandwidth between system elements.

Serial switches incorporated in system design allow many system elements to be connected together in a non-blocking interconnect fabric at PCIe Gen 4 speeds. This switch fabric capability allows systems to scale internally avoiding bottlenecks. The serial interconnect can be embedded directly in the computer printed circuit boards, across connectors board-to-board, or traverse across copper or optical cables for chassis-to-chassis connection. Due to the extremely high speeds, the design considerations around signal integrity are rigorous and with unforgiving tolerances. PCIe Gen 5 will begin deployment in 2021, doubling the interconnect speed once again.

Compute Acceleration with GPUs

GPUs have evolved from graphics display acceleration to becoming general-purpose processing workhorses for high-performance computing systems. Today, the majority of the fastest supercomputers in the world utilize GPUs as their primary compute engines. GPUs are ideal for high-performance computing workloads because of their ability to do massively parallel processing. While traditional CPUs today may have dozens of processing cores, GPUs have thousands of cores that are able to execute calculations simultaneously.

For many high-performance applications, fundamental pieces of the code can be optimized to run in parallel and therefore experience significant performance enhancements. NVIDIA, a key supplier of GPUs to the market, has done extensive benchmarking showing the ability of single GPU based machines to exceed the performance of dozens or even thousands of traditional CPU-only computers. NVIDIA has worked extensively with the software development community, and hundreds of applications have been tuned and developed to run on GPUs.

The current NVIDIA GPU Applications catalog lists more than 400 such applications across a broad set of market spaces including:

- Computational Finance
- Climate, Weather and Ocean Modeling
- Computational Chemistry and Biology
- Data Science and Analytics
- Deep Learning and Machine Learning
- Federal Defense and Intelligence
- Genomics
- Manufacturing
- Media and Entertainment
- Medical Imaging
- Oil and Gas
- Safety and Security

While NVIDIA is focused on the deployment of their GPUs in the Data Center and for gaming, OSS is focused on taking this capability to the edge. Many of these applications also scale performance based on the number of GPU components utilized. OSS has designed multi-GPU systems including up to 16 GPUs in a single system. Current state-of-the-art GPUs provide over 7 teraflops of performance, with future products set to dramatically increase overall processing capabilities in the years to come.

GPUs also pose significant system design challenges due to their high-power requirements. High-end GPUs can require as much as 350 watts of power, which generates a tremendous amount of heat. Sophisticated power distribution and cooling designs are required, especially for large scale systems with multiple GPUs per chassis.

PCI Express Flash Storage – NVMe protocol

The use of flash memory technology for system storage has gained traction over the last several years, as the cost per gigabyte has continued to drop. Flash memory is now becoming the ubiquitous storage technology in high-performance systems.

Combined with the move away from traditional rotating hard drive technology has been the trend toward eliminating traditional storage protocols in favor of low latency flash memory protocols. Newer flash memory modules utilize a protocol known as NVMe, which connects the flash memory directly to the system's PCIe interconnect. This direct connection allows for very high bandwidth between the storage and the other system elements and eliminates the need for protocol translation as data is moved from storage subsystems to and from the compute complex.

Today, flash memory modules with capacities up to 8 terabytes and PCIe Gen 4 interfaces are becoming available. OSS flash storage arrays with hundreds of terabytes of capacity are available, enabling the scaling of high-speed storage to meet the full range of high-performance edge application requirements.

Core Technical Capabilities

OSS has developed unique expertise and core competency across the fundamental technologies of today's rapidly expanding specialized high-performance edge computing marketplace. These valuable assets are embedded in the leading-edge engineering capabilities of our engineers, the proprietary intellectual property residing in our vast library of designs, and our brand equity based on our reputation as a high-quality producer of state-of-the-art custom and standard solutions across a broad array of markets.

Our electrical engineers are experts in high-speed digital signaling design. They have continually designed at the leading edge of the state-of-the-art signaling speeds, as semiconductor technology has driven up the clock rate of digital transmission. We have consistently been among a small handful of companies able to come to market first with the latest technology. In fact, we delivered the industry's first PCIe over cable solutions for PCIe Gen 1, Gen 2, Gen 3, and Gen 4 and are currently on track to accomplish this again in Gen 5. The expertise required includes circuit design, PCB (printed circuit board) layout and routing optimizations all with a focus on achieving the highest levels of signal integrity. In our current systems, PCIe Gen 4 signals are propagated across multiple PCBs, connectors, and copper cabling while maintaining the ability to recognize digital signal transitions at 16 billion times per second.

In high-performance computing systems, especially on the edge, the trajectory of ever-increasing signaling speeds is continuing. An ever-shrinking set of companies have the capability to design robust, highly-reliable systems at speeds that can tolerate the harsh conditions on the edge. We believe our core competency in large-scale, high-speed design and layout will allow us to remain on the forefront of this growing industry.

Complex System Design

In addition to low-level signal integrity design expertise, we have amassed expertise and intellectual property in high-performance system architecture design. This expertise allows us to develop extremely sophisticated systems with massive scaling, while meeting customer demands for reliability, cost, and flexibility.

We have developed the deep knowledge for high-capacity input/output systems and operating system adjustments and configuration tuning required. Our engineers are often called upon to co-design with OEM designers to create the perfect fit solution for their customers.

For highly scalable systems, a deep understanding and experience with switching topologies and interconnect fabric design is required. We have worked with serial switching technology starting with the first generation of PCIe and have been an innovator in creating unique and flexible topologies to meet the specific needs of the customers. Creating custom solutions for unique customer solutions is a core competency and relies on this deep knowledge of switch capabilities and limitations.

For maximum system performance, design for optimizing data transfer speeds is also an important consideration. OSS has developed expertise in system design to leverage peer-to-peer data flows between GPUs and pioneering techniques for optimized data flows between flash storage and GPU compute engines. Our systems optimize switch and GPU configuration topologies to optimize GPU-to-GPU communication without requiring latency-inducing data transfer between host dual processors. Our platforms feature RDMA (remote direct memory access) across compute nodes, which support data transfer without burdening the host CPU.

OSS has pioneered the ability to extend the PCIe bus beyond the confines of a single enclosure, opening the possibility of flexible system expansion options. We believe we are one of the leading designers and suppliers of PCIe host bus adapters that extend PCIe signals from the host motherboard across copper or optical cables to expansion enclosures. OSS adapters provide both ends of the external cable connection. Our expertise in high-speed signal design in printed circuit boards, connectors and cables is essential to successful expansion designs. We also hold expertise in incorporating clustering and rack scale expansion into our system designs, including 100/200 gigabit Ethernet, 100/200 gigabit InfiniBand, and emerging PCIe top-of-rack switch technology.

Expertise in power, cooling, and mechanical design are required to address the requirements of the high-performance computing customers especially while meeting the constrained time requirements of edge deployments. We have developed leadership design capability in high-power design and distribution within large rack enclosures as well as edge optimized configurations. High-end GPUs today require 350 watts or above, and in our high-end systems, up to 16 of these can reside in a single chassis. Thousands of kilowatts of redundant power are required. Power stability and huge thermal loads are some of the critical design issues that must be addressed.

We have expertise in power distribution, redundant power, and complex chassis cooling design, including materials selection, airflow simulation, fan technology and cable routing. We have also developed extensive intellectual property in regulatory compliance of complex high-performance computing system design across emission, shock, vibration, thermal, humidity and other environmental requirements that are required for highly reliable and highly available solutions. OSS engineers are experts in design for regulatory testing for FCC (Federal Communications Commission), CE (European

Conformity), UL (Underwriters Laboratories), and Mil-Spec (Military Standard) standards. Additionally, we have expertise in rapid prototyping, design for manufacturability, and design for serviceability.

Storage Management Software

Given our hardware design and integration expertise, we see the next natural step is to add a robust software capability that will allow us to offer more optimized and customized systems. Our Ion software design team provides the expertise to deliver full server and storage solutions that produce the highest performance from today's leading-edge flash storage devices.

The Ion software allows flash-based modules to be put into a variety of storage and network configurations which can then be accessed by multiple servers. The Ion software can do this cost-effectively, while preserving the low latency that is vital for many business and mission-critical enterprise applications, from database and transaction processing to massive data collection programs. Ion also has a full high-availability option to ensure complete data integrity.

In-house mature and established foundational storage software allows OSS to add new products and capabilities to its product portfolio. Possibilities range from increasing data efficiency with snapshot, de-duplication and compression, to improving system manageability and adding NVMe over Fabrics storage scale out capabilities to our products.

Benefits of Technology and Core Capabilities to our Customers

Due to our core capabilities, we can provide our high-performance computing customers with platforms possessing high reliability and cost effectiveness. Such performance allows our customers to solve bigger problems faster, and save the cost and time of highly-paid engineers, data scientists, and other human resources. Our technology enhances innovation by allowing more 'what-if' analysis in a finite amount of time. Our price/performance leadership enhances our customers' competitiveness, and lowers capital expense and total cost of ownership. We work with our OEM customers to develop custom 'perfect fit solutions' for their unique requirements.

Our Products

OSS has developed a complete line of products that have been customized for the benefit of our customers.

GPU Appliances – high-density, fully integrated computer clusters that are purpose-built for user applications. They provide thousands of cores and hundreds of teraflops of computing performance.

GPU Expansion – expansion units can add hundreds or thousands of computing cores with hundreds of teraflops of computing performance to virtually any OEM server.

Flash Storage and Network Appliances – networked storage appliances optimized for the environment and system software of our customers. These offer flexible and powerful turnkey, customer-driven solutions for the HPC market.

Flash Storage Arrays – arrays that provide hundreds of terabytes of storage and millions of input/output operations per second with flash memory. They are flexible, powerful, and configurable for customers in the HPC market.

Servers – OSS designs servers optimized for PCIe-over-cable expansion. Available in various turn-key and custom configurations, they provide simple, reliable and cost-effective server solutions. These servers are optimized to work seamlessly with other OSS systems and appliances.

Desktop Computing Appliances – OSS designs and builds desktop expansion appliances in many configurations that add input/output flexibility to any user's desktop system. These appliances come pre-configured with many combinations of flash memory, GPUs, and other add-in boards.

PCIe Expansion – PCIe is the standard for high-speed connectivity from a server to a PCIe device. It provides vastly faster throughput compared to USB or Ethernet in a simple, cost-effective connection. It requires no special software, which adds no overhead to the system, and improves latency of throughput. OSS provides cables, kits, backplanes, enclosures, switches, and adaptor cards for this market.

Industrial and Panel PCs – OSS provides small form factor high-performance compute platforms customizable to meet needs in industrial applications on the edge where space constraint is a fundamental consideration.

Tablets and Handhelds – OSS provides ruggedized mobile high-performance compute devices that meet the specialized requirement for devices deployed at the edge in a diverse set of environmental conditions.

Customers

OSS serves a global clientele consisting of multinational companies, governmental agencies, and leading technology providers. Some of our key customers are set forth below, including case studies illustrating how we provide custom solutions.

Raytheon – OSS worked closely with Raytheon to build a customized flash storage array, with flash drives installed in removable canisters. Raytheon has installed these storage arrays on a current military aircraft equipped with multiple sensors, encryption devices and data recorders. These devices are fully compliant with appropriate military specifications, including shock and vibration. Each canister has the capacity to save 100 terabytes of data and weighs only 6.5 pounds, a fraction of the weight of the previous spinning hard drive design. Data is captured onto the compact OSS flash array canisters, which can be easily removed at the end of the mission for analysis. Our expertise in designing and manufacturing high-density flash arrays in the lightest, most compact package allows military aircraft to realize faster turnarounds during critical missions. These systems are being incorporated into new aircraft and retrofitted into the existing fleet. In addition to these storage arrays, OSS has also expanded into designing and manufacturing compute platforms for Raytheon, adding AI on the fly capabilities to aircrafts.

disguise– disguise is the leading provider of hardware and software that allows their customers to produce live events, television broadcasts, theater effects, and special effects for concert tours. In addition to its live event products, disguise is becoming a leader in the virtual world by leveraging the same technology and OSS' products to create realistic 3D backdrops in studios around the world. OSS has worked with disguise to design purpose-built, custom servers that act as video controllers for special effects at these events. These edge servers work seamlessly with disguise software applications, providing up to 16 simultaneous video outputs that supports a rich array of special effects and extended reality experiences. Events like the Super Bowl halftime show, sporting events, feature films and numerous musical concerts rely upon disguise controllers, designed and produced by OSS to deliver a lasting impression on audiences.

National Instruments – National Instruments is a market leader and multinational company that produces automated test equipment and virtual instrumentation software. OSS provides several PXI/PXIe/PCIe interface cards that are branded by National Instruments. OSS acts as an extension to National Instruments' engineering group, allowing National Instruments to complete their product roadmap in a timely and cost-effective manner.

Sales and Marketing

Our sales and marketing efforts are focused on promoting sales, producing expert content, and brand awareness.

Sales

Our sales efforts entail three main areas:

- *General Sales* – OSS maintains a web site, web store and direct sales team that sell directly to end-users. This includes e-commerce sales via typical web store functionality, and direct calling of potential customers to provide unique solutions that fits their needs. The OSS direct sales team interfaces with new potential customers at live events and virtual industry tradeshows, directly interacts with potential customers, and presents solutions for their high-performance edge needs.
- *OEM Focused Sales* – Our direct sales team is organized to best identify and develop the top potential commercial OEM and government program customers. These OEM and government programs form the largest and fastest growing parts of our business.
 - *Our Commercial Sales Team* focuses on OEM customers where we sell standard or design and build customer specified systems based on OSS technology expertise that are branded with the OEM's name and label. These companies, many market leaders, then resell the products through their own sales channels. We actively seek this type of relationship, which is leveraged as a sales multiplier, allowing us to grow sales at a faster rate without adding as many dedicated sales resources.
 - *Our Government Sales Team* focuses on this large (~30%) and growing portion of the OSS business which provides systems to US Federal Department of Defense programs. Our government sales team has the knowledge and expertise to identify major program opportunities and provide the extensive technical and business documentation to bring these programs from concept to successful completion. The growing part of our business is a focus and provides higher contribution of profit margin.

- *Channels* – We have a dedicated sales resource that manages our worldwide network of resellers and distributors. We sell a large breadth of standard products through these channels, which allow us to achieve global customer touch without requiring a physical presence in all geographies. The master distributors in several countries have dedicated sales expertise to capture additional OEM business with both Fortune 500 and second tier OEM firms extending our international footprint. With the acquisition of Bressner, we have a greater direct presence in Europe which allows greater access to those markets.

Marketing

Our marketing department is responsible for defining our vision and product road map while also producing the highest return on our investments. They primarily focus on positioning OSS as an expert and visionary in the field of high-performance computing in edge applications utilizing PCI Express. We generate expert content to support our market leading products while also building cost effective brand/product awareness in several ways. We use traditional and non-traditional marketing as well as partnerships and word of mouth to convey the uniqueness and compelling value of our products and services. The markets and applications we target include machine learning, deep learning, finance, medical equipment, in-flight entertainment, manufacturing automation, defense/government, oil and gas exploration, media and entertainment. Among the many channels utilized are:

- *Trade Shows* – We participate in several live and virtual tradeshows and events during the year to generate new relationships and foster existing relationships with customers and partners. These engagements allow us to showcase our standard and custom product expertise to our target markets. The target trade shows include AUSA (US Army), Sea-Air-Space (Navy/NASA), National Association of Broadcasters and IBC (media & entertainment), GPU Technology Conferences globally, DSEI (International Military), AI World and AI Summit, Supercomputing and International Supercomputing, Flash Memory Summit, Airline Passenger Expo and AIX (in-flight entertainment), Medica (medical) and Embedded World. OSS evaluates the ROI and costs of each show on an annual basis so participation may change from year to year.
- *Electronic Media* – We use various forms of electronic advertising media to market both the products and capabilities of OSS. Electronic media includes internal direct email campaigns such as monthly newsletters and various press releases for new products, technology developments, partnerships and significant application design wins. In addition, we use media companies relevant to our target markets to disseminate information about OSS to a larger set of potential customers. The format of the electronic advertising varies but with the common focus on content advertising with a secondary focus on brand awareness. The various electronic media formats include search engine ads and keyword campaigns, digital ads, display ads, datasheet emails, e-newsletters and text ads. Our web site is very key at leveraging our leadership content, positioning and SEO capabilities. We will continue to invest on this front.
- *Social Media* – We regularly use Facebook, Linked-in and Twitter to instantly alert the followers of OSS to new events, products, services, and customer stories.
- *Publications* – We periodically publish white papers, customer success stories, and other demand generation technology articles in printed and electronic periodicals and newsletters that include InsideHPC, Military Embedded Systems, Storage Newsletter and HPC wire. We also carefully purchase some print ads with the highest ROI in select industry magazines for brand awareness.

As we grow, it is anticipated our marketing efforts will likewise continue to increase in size and diversity.

Competition

OSS' core business is to provide specialized high-performance edge computing building blocks and platforms to OEMs who incorporate these products in their complete solutions which they sell to end users in specific vertical markets. Due to the nature of OSS' business there are a number of categories of potential competitors of our products.

Customer in-house design resources

Many of OSS' target OEM customers have in-house engineering design resources which could be used as an alternative to engaging with OSS. Examples of current OSS customers who have significant in-house resources include National Instruments, Raytheon, and Lockheed Martin. This potential competition is mitigated by the technical specialization OSS has especially in high end and large scale PCI Express switch fabrics and PCI Express over cable capabilities. OEMs can invest their in-house resources on value-add capabilities within their specific vertical market and outsource these horizontal technology capabilities to OSS. OSS has also developed a trusted partner relationship with many of these OEMs

and has established a market reputation for technical expertise and a responsive and cost-effective engagement model. We win when our customers realize that together we can produce better products faster and more cost-effectively than they can themselves. This has proven to be particularly evident when customers require state-of-the-art products that are constructed of parts available commercially. This has resulted in several design wins that demonstrate our flexibility and how we can work closely with large OEM and government customers. Interestingly, it appears that when these large companies cut back on their workforce or have more limited budgets, such events may actually help our position as we may become these companies' only option to get their desired product or service deployed within a reasonable period of time.

Major Tier 1 & 2 Mainstream Computer and Storage Vendors

These vendors offer mainstream high-performance computing platforms including servers and storage systems that can address some applications at the edge in OSS target markets. They do not; however, offer 'specialized' platforms or customization capabilities that OSS specializes in to meet unique form factor or ruggedization or scale out requirements sought by OEM customers. For the most part these vendors focus on the large air-conditioned data centers and compete on price/volume. OSS' strategy is specifically designed to avoid head-to-head competition with this class of vendors. In some scenarios OSS can provide a complementary specialized component or building block which interface to one of these vendors mainstream products. Examples of companies in this space include HP, Dell/EMC, IBM, Pure Storage, and NetApp.

Chip Vendors with vertical integration offerings

Third party competitive products include cases where the manufacturers of the underlying chip or board-level products decide to also offer system-level products. This is the case with Intel, NVIDIA, Western Digital and others. These offerings tend to be tactical, short-term products that are intended to demonstrate a new technology, rather than long-term forays into the systems business. In addition, these "technology demonstration systems" tend to be priced at high levels, making them less competitive once the newness factor wears off.

Specialized Horizontal HPC Vendors

There are a handful of fragmented competitors who offer specialized products in the same categories as OSS. These companies are small and tend to focus in specific geographic area or with an established set of long-term customers. They have limited bandwidth to take on many simultaneous projects and are rarely seen in direct competitive situations. Examples of companies in this space include Trenton and Cyclone.

Multi GPU Platform Vendors

A significant area of focus for OSS is in specialized multi-GPU platforms for edge applications. Due to the tremendous interest in AI solutions using GPUs there are many vendors offering products in this space. Similar to the mainstream computer and storage vendors mentioned above these vendors offer standard solutions without the options for specialization and customization that OSS offers. As the primary GPU vendor, NVIDIA is a safe choice as a system provider for many customers who do not need or desire a level of specialization in their products. OSS has a strong and positive relationship with NVIDIA which includes receiving leads from them for specialized solutions not addressed by their mainstream system offering. Other companies such as SuperMicro and Tyan who offer their own system products directly are also happy to work with OSS to resell their products when customers need a combination of standard and specialized products. OSS offers its EOS server based on SuperMicro motherboards. Examples of companies in this space include NVIDIA, SuperMicro and Tyan.

Vertical HPC Vendors – Military/Aerospace

In certain vertical markets, there are competitors who focus primarily in that market. The military and aerospace markets are prime examples. These vendors often provide complete solutions including both hardware and software and some specialization in terms of form factor and ruggedization. In these markets, OSS provides unique capability in terms of scaling of PCI Express components over cable (copper and fiber) that can address unique requirements of specific military or government programs. OSS has also established good relationships with prime contractors or agencies (Raytheon, Lockheed, Boeing, NASA, ONR, and others) which can be important influencers or decision makers on technology selection. Competitors in this space include companies such as Mercury, Crystal, Curtiss Wright, and Systel. In the past, we have been able to offer the latest technology normally only deployed in commercial applications well before our competitors by leveraging our "performance, without compromise" strategy.

Another vertical market with different competitors is the media and entertainment and visualization markets. These companies focus on understanding and tuning their hardware systems to the specific application and data types of these markets. This focus provides those benefits in terms of brand awareness in the vertical, but often they are limited in ability to meet specialized and customized requirements of OEMs in this space. Examples of companies in this space include Boxx, Cubix and Sonnet.

Manufacturing and Operations

OSS is certified under ISO 9001-2015 for “design, manufacture, and supply of industrial computers.” This means OSS has demonstrated its ability to consistently provide products that meet both customer requirements and applicable regulatory or statutory requirements. It also indicates that we have programs and processes in place to ensure a high level of customer satisfaction, as well as a continuous improvement program that ensures OSS gets better over time.

We utilize lean principles to drive our manufacturing and assembly process. One of the key aspects of this is our application of just-in-time principles that ensure effective ordering and utilization of inventory, and this helps optimize cash flow throughout the manufacturing cycle. Within the manufacturing process, our operations encompass three categories of “builds:”

- *Standard Builds* – These are builds of standard products that are sold with little or no customization or non-standard features. These are products that are ready to be installed or integrated by the customer upon receipt.
- *Custom Builds* – Custom builds involve a product built to a customer specification. Upon receipt, the customer has a unique product that performs all the functions and has the physical dimensions that match their specifications.
- *Engineering Project Builds* – OSS supports the product development process by building models and prototypes of products. Developed by the OSS engineering group, the prototypes can be of standard or custom products.

OSS is dedicated to quality and customer satisfaction. Within the manufacturing operations function at OSS, our processes begin with the end goal in mind. This means we start with the customer. All our business processes begin with the idea that the customer is the essence of why we exist. Our continuous improvement efforts require us to review products, services, and processes with the idea that minor changes can lead to greater outcomes for our customers.

While we are cognizant of the additive nature of small improvements, we believe a disciplined approach to improvement sometime leads to extraordinary, large, and positive advances in our products and services. This is extremely important to OSS, as our goal is to bring the most advanced leading-edge technologies to our customers before our competitors can. Our operations strategy supports our overall mission of being first-to-market with customized, leading-edge products that are best-in-market in terms of speed and overall performance.

Although we serve the high end of the edge computing space, we are constantly looking for ways to become more efficient and drive down costs while driving up margins.

Research and Development

Our ability to compete successfully in our industry is heavily dependent upon our ability to ensure a continual and timely flow of competitive products, services, and technologies to the marketplace. We continue to develop new products and technologies and to enhance existing products in order to drive further commercialization. We may also expand the range of our product offerings and intellectual property through licensing and/or acquisition of third-party business and technology.

Intellectual property research and development at OSS is centered on the exploitation of key technologies as they evolve in the marketplace. Our product roadmap reflects new technologies for CPUs, GPUs, flash storage, and advanced PCIe switches. We design first-to-market, custom implementations utilizing market leading component technologies. Accordingly, our focus lies not in the capital-intensive development of silicon implementations of technologies (i.e., chips, processors, GPUs, or storage devices), but rather leverages leading-edge technologies and building first-to-market products that fully exploit those technologies for solving customer problems.

The OSS research and development strategy can be summarized as follows: *OSS drives design wins by utilizing key new technologies to develop products that are leading edge and first-to-market while solving challenging problems working closely with our customers.*

Some examples of OSS developments:

- GPU compute accelerators with the most GPUs per rack unit
- Networking of GPUs
- Broad range of solutions, due to specific customer design
- Capability to expand existing servers from virtually any OEM
- First-to-market products as new GPUs are introduced by NVIDIA, Intel, Western Digital and Broadcom
- Complete customization per the needs of our OEM customers
- Integration of multiple new technologies (servers, GPUs, flash drives, and PCIe) into optimized products for our OEM customers

Intellectual Property

The primary intellectual property value of OSS emanates from the more than 600 individual design projects we have undertaken over the decades since our founding. These designs are archived and cataloged, so we rarely begin a new design from scratch. In general, we maintain the rights to the product to use elsewhere.

Over the years, our team has developed and maintained expertise in high-speed signal design and analysis, electronic and mechanical packaging, PCIe-over-cable, fiber optics transmission, high-speed/density flash arrays, and integration and deployment of GPUs in compute accelerators and servers. This extensive expertise positions us to expand and rationalize our product line to meet the growing and ever-changing HPC market.

Working Capital Items

Our inventory levels are currently adequate for our short-term needs based upon present levels of demand. We consider the component parts of our different products to be generally available and current suppliers to be reliable and capable of satisfying anticipated needs.

Markets, Seasonality, and Major Customers

The Company's products and services serve a global clientele consisting of multinational companies, governmental agencies, and leading technology providers. Based on recent market experience, it appears there may be some seasonality with deliveries decreasing in January and February each year, likely as a result of Asia's holiday season and as a result of varied customer appropriation cycles; however, we believe these market factors will continue to evolve and the Company's insight to these trends will improve with continued commercial success and time.

For the year ended December 31, 2020 and 2019, respectively, 24.1% and 41.0% of our total consolidated revenues were associated primarily with two customers. A loss or decline in business with these customers could have an adverse impact on our business, financial condition, and results of operations.

We typically provide our products under contract supply agreements or purchase orders. We provide our products, software, and services from our offices located in California, Utah, and Germany.

Distribution, Marketing, and Strategic Relationships

We have developed strategic relationships with well-established companies in key areas including distribution and manufacturing. We sell our products worldwide, with a primary focus on North America, Europe and Asia markets, through our direct product sales force, and partner networks.

Materials and Suppliers

Although most components essential to our business are generally available from multiple sources, we believe there are component suppliers and manufacturing vendors whose loss to us could have a material adverse effect upon our business and financial condition.

Historically, we have not experienced significant delays in the supply or availability of our key materials or components provided by our suppliers, nor have we experienced a significant price increase for materials or components. We do not anticipate any such delays or significant price increases in our fiscal year 2021.

Human Capital Resources, Employees, and Personnel

We believe that our future success will depend, in part, on our ability to continue to attract, hire, and retain qualified personnel. To achieve this objective the Company provides competitive compensation, benefits, stock participation and a success driven work environment.

As of December 31, 2020, we had approximately 99 employees, of which 97 are full-time and 2 are part-time employees. Seventy-three of our employees are domestic and twenty-six are international. Our employees include highly skilled engineers, technicians, assemblers, and support staff. They are housed in multiple facilities, and are led by a management team that is supportive but expects a lot. We are proud of our low turnover of personnel where we keep the team challenged and encourage input and creative thinking by all. The management team provides transparency to its employees through regular communication meetings designed to update employees on current metric driven results and future expectations. None of our employees are covered by a collective bargaining agreement or represented by a labor union. We consider our relationship with our employees to be strong.

Environmental Matters

No significant pollution or other types of hazardous emission result from the Company's operations and it is not anticipated that our operations will be materially affected by federal, state or local provisions concerning environmental controls. Our costs of complying with environmental, health and safety requirements have not been material.

Furthermore, we do not believe that compliance with existing or pending climate change legislation, regulation, or international treaties or accords are reasonably likely to have a material effect in the foreseeable future on our business or markets that we serve, nor on our results of operations, capital expenditures, earnings, competitive position, financial position, or any of our operations. However, we will continue to monitor emerging developments in this area.

Government Approval and Effect of Government Regulations

Because our core business is to provide specialized high performance edge computing building blocks and platforms to OEMs who incorporate these products in their complete solutions which they sell to end users in specific vertical markets, we do not believe that any government agency approval is required for the products and services that we provide to our customers.

However, governmental regulations, including but not limited to import and export law, customer, and trade regulations, may affect our business. For more information, see the section titled, "Risk Factors" found on Part I, Item 1A, to this Annual Report.

Company Website

We maintain a corporate Internet website at: <http://www.onestopsystems.com>

The contents of our website are not incorporated in or otherwise to be regarded as part of this Annual Report. We file reports with the SEC which are available on our website free of charge. These reports include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, "Section 16" filings on Form 3, Form 4, and Form 5, and other related filings, each of which is provided on our website as soon as reasonably practical after we electronically file such materials with or furnish them to the SEC. In addition, the SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the Company.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below, as well as the other information in this Annual Report, including our financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," before deciding whether to invest in our common stock. The occurrence of any of the events or developments described below could harm our business, financial condition, operating results, and growth prospects. In such an event, the market price of our common stock could decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

Risks Related to Our Business and Industry

Navigating the demand, supply and operational challenges associated with the ongoing coronavirus (COVID-19) pandemic unsuccessfully may affect our financial condition and results of operations.

COVID-19 has spread worldwide, resulting in shutdowns of manufacturing and commerce. COVID-19 has resulted in government authorities implementing numerous measures to try to contain it, such as travel bans and restrictions, quarantines, shelter-in-place orders and shutdowns. These measures have impacted, and may further impact, our workforce and operations, the operations of our customers and our partners, and those of our respective vendors and suppliers. Our critical business operations, including our headquarters, most of our finished goods inventory and many of our key suppliers, are located in regions which have been impacted by COVID-19. Our customers and suppliers worldwide have also been affected and may continue to be affected by COVID-19 related restrictions and closures.

The COVID-19 pandemic has increased economic and demand uncertainty. In the fourth quarter of fiscal year 2020, the Company experienced protracted timelines and shortages for delivery of product as well as delays in the ability to transact business due to remotely accessing customer representatives and their decision makers.

The manufacture of product components, the final assembly of our products and other critical operations are concentrated in certain geographic locations that have been impacted by COVID-19, and local governments continue to take measures to try to contain the pandemic. There is considerable uncertainty regarding the impact of such measures and potential future measures, including restrictions on manufacturing facilities, on our support operations or workforce, or on our customers, partners, vendors and suppliers. Such measures, as well as restrictions or disruptions of transportation, such as reduced availability or increased cost of air transport, port closures and increased border controls or closures, could limit our capacity to meet customer demand and have a material adverse effect on our financial condition and results of operations.

The spread of COVID-19 has caused us to modify our business practices as the Company complies with state mandated requirements for safety in the workplace to ensure the health, safety and welling-being of our employees. These measures include personal protective equipment, social distancing, cleanliness of the facilities and daily monitoring of the health of employees in our facilities, as well as modifying our policies on employee travel and the cancellation of physical participation in meetings, events and conferences. We may take further actions as required by government authorities or that we determine are in the best interests of our employees, customers, partners and suppliers. However, we have not developed a specific and comprehensive contingency plan designed to address the challenges and risks presented by the COVID-19 pandemic and, even if and when we do develop such a plan, there can be no assurance that such plan will be effective in mitigating the potential adverse effects on our business, financial condition and results of operations.

In addition, while the extent and duration of the COVID-19 pandemic on the global economy and our business in particular is difficult to assess or predict, the pandemic has resulted in, and may continue to result in, significant disruption of global financial markets, which may reduce our ability to access capital or our customers' ability to pay us for past or future purchases, which could negatively affect our liquidity. A recession or financial market correction resulting from the lack of containment and spread of COVID-19 could impact overall technology spending, adversely affecting demand for our products, our business and the value of our common stock.

The ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and subject to change. The extent of the impact of the COVID-19 pandemic on our operational and financial performance, including our ability to execute our business strategies and initiatives in the expected time frame, will depend on future developments, including, but not limited to, the duration and continued spread of the pandemic, its severity, the actions to contain the disease or treat its impact, further related restrictions on travel, and the duration, timing and severity of the impact on customer spending, including any recession resulting from the pandemic, all of which are uncertain and cannot be predicted. An extended period of global supply chain and economic disruption as a result of the COVID-19 pandemic could have a material negative impact on our business, results of operations, access to sources of liquidity and financial condition, though the full extent and duration is uncertain.

The COVID-19 pandemic continues to impact our business and could materially adversely affect our financial condition and results of operations.

Our business has begun to be negatively affected by a range of external factors related to COVID-19 that are not within our control. For example, numerous measures have been implemented by governmental authorities across the globe to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, restrictions and limitations of public gatherings, and business limitations and shutdowns. Many of our customers' businesses have been severely impacted by these measures and some have been required to reduce employee headcount as a result. If a significant number of our customers are unable to continue as a going concern, this would have an adverse impact on our business and financial condition. In addition, many of our customers are working remotely, which may delay the timing of new business and implementations of our services. If COVID-19 continues to have a substantial impact on our partners, customers, or suppliers, our results of operations and overall financial performance will be harmed.

The impacts of COVID-19 on our business, customers, partners, suppliers, employees, markets and financial results and condition are uncertain, evolving and dependent on numerous unpredictable factors outside of our control, including:

- the spread, duration and severity of COVID-19 as a public health matter and its impact on governments, businesses and society generally and our clients, partners, suppliers and our business more specifically;
- the measures being taken by governments, businesses and society in response to COVID-19 and the effectiveness of those measures, including our suppliers in China experiencing delays due to the Chinese government's response to COVID-19;
- the scope and effectiveness of fiscal and monetary stimulus programs and other legislative and regulatory measures being implemented by federal, state and local governments in response to COVID-19;
- the duration and impact of the numerous measures implemented by governmental authorities throughout the country to contain COVID-19, including travel bans and restrictions, quarantines, shelter-in-place orders, restrictions and limitations on public gatherings, and business limitations and shutdowns;
- the increase in business failures or slowdowns among our customers, suppliers, and other businesses;
- the pace and extent to which our customers and other businesses are able to operate and/or reduce their number of employees and other compensated individual; the willingness of current and prospective clients to invest in our products and services; and
- the satisfaction of customers with product and service remote delivery and support

If we are not able to respond to and manage the impact of such events effectively, our business will be harmed.

At present, it is clear the global economy has been negatively impacted by COVID-19, and demand for some of our products and services has been reduced due to uncertainty and the economic impact of COVID-19. For example, during the year, a customer in certain of the industries most impacted by COVID-19, requested, and we expect will continue to request, relief to existing contracts or the timing of payment obligations. For example, some customers are delaying payments owed to the Company while they address immediate financial crises in their operations due to COVID-19. In particular, in the media and entertainment and commercial airlines industries, demand for the use of outdoor media equipment has been impacted due to restrictions on public gatherings and the airlines industry has been impacted by reduced travel. Until such restrictions improve, we expect that demand for certain of our clients' products and services will be limited, and thus, may impact our financial results and operations.

More generally, COVID-19 raises the possibility of an extended global economic downturn, which could affect demand for our products and services and impact our results and financial condition even after the pandemic is contained and remediation/restriction measures are lifted. For example, we may be unable to collect receivables from customers that are significantly impacted by COVID-19. Also, a decrease in orders in a given period could negatively affect our revenues in future periods.

Though management has been proactively 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 2021 and beyond will be negatively impacted. Neither the length of time nor the magnitude of the negative impacts can be presently determined.

The longer the COVID-19 pandemic persists, the greater the potential for significant adverse impact to our business operations. Quarantines, travel restrictions, prohibitions on non-essential gatherings, shelter-in-place orders and other similar directives and policies intended to reduce the spread of the disease, may reduce our productivity and that of the third parties on which we rely and may disrupt and delay many aspects of our business.

Business disruptions could harm our business, lead to a decline in revenues and increase our costs.

Our worldwide operations could be disrupted by earthquakes, telecommunications failures, power or water shortages, outages at cloud service providers, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, cyber-attacks, terrorist attacks, medical epidemics or pandemics (including, but not limited to, COVID-19) and other natural or man-made disasters, catastrophic events or climate change. The occurrence of any of these disruptions could harm our business and result in significant losses, a decline in revenue and an increase in our costs and expenses. Any of these business disruptions could require substantial expenditures and recovery time in order to fully resume operations. Our corporate headquarters, and a portion of our research and development activities, are located in California, and other critical business operations, finished goods inventory, and some of our suppliers are located in Europe and Asia, near major earthquake faults known for seismic activity. The manufacture of product components, the final assembly of our products and other critical operations are concentrated in certain geographic locations, including California, Germany, and China. Geopolitical change or changes in government regulations and policies in the United States or abroad may result in changing regulatory requirements, trade policies, import duties and economic disruptions that could impact our operating strategies, product demand, access to global markets, hiring, and profitability. In particular, revisions to laws or regulations or their interpretation and enforcement could result in increased taxation, trade sanctions, the imposition of import duties or tariffs, restrictions and controls on imports or exports, or other retaliatory actions, which could have an adverse effect on our business plans. For example, regulations to implement the Export Control Reform Act of 2018 could have an adverse effect on our business plans. Catastrophic events can also have an impact on third-party vendors who provide us with critical infrastructure services for IT and research and development systems and personnel. In addition, geopolitical and domestic political developments, such as existing and potential trade wars, political or social unrest, elections and post-election developments, and other events beyond our control, can increase levels of political and economic unpredictability globally and increase the volatility of global financial markets. Political instability or adverse political developments in or around any of the major countries in which we do business would also likely harm our business, financial condition and results of operations. Our operations could be harmed if manufacturing, logistics or other operations in these locations are disrupted for any reason, including natural disasters, high heat events or water shortages, information technology system failures, military actions or economic, business, labor, environmental, public health, regulatory or political issues. The ultimate impact on us, our third-party vendors and other suppliers and our general infrastructure of being located near major earthquake faults and being consolidated in certain geographical areas is unknown. In the event a major earthquake or other disaster or catastrophic event affects us or the third-party systems on which we rely, our business could be harmed as a result of declines in revenue, increases in expenses, substantial expenditures and time spent to fully resume operations. All of these risks and conditions could materially adversely affect our future sales and operating results.

A reversal of the U.S. economic recovery and a return to volatile or recessionary conditions in the United States or abroad could adversely affect our business or our access to capital markets in a material manner.

Worsening economic and market conditions, downside shocks, or a return to recessionary economic conditions could severely reduce demand for our products and adversely affect our operating results. These economic conditions may also impact the financial condition of one or more of our key suppliers, which could affect our ability to secure product to meet our customers' demand. Our results of operations and the implementation of our business strategy could be adversely affected by general conditions in the global economy. An economic downturn may cause uncertainty in the capital and credit markets and could have a material adverse effect on us. We could also be adversely affected by such factors as changes in foreign currency rates, weak economies, and political conditions in each of the countries in which we sell our products.

The market for our products is developing and may not develop as we expect.

The market for cutting-edge, high performance computing products is characterized by rapid advances in technologies. We believe our future success will depend in large part on our ability to develop products, new business initiatives and creating innovative and custom designs for our customers. The growth of server clusters, specialized or high-performance applications, and hosted software solutions which require fast and efficient data processing, is crucial to our success. It is difficult to predict the development of the demand for high performance computing, supercomputers, and related hardware solutions, the size and growth rate for this market, the entry of competitive products, or the success of existing competitive products. Any expansion in our market depends on several factors, including the demand, cost, performance, and perceived value associated with our products. If our products are not adopted or there is a reduction in demand for our products caused by a lack of customer acceptance, a slowdown in demand for computational power, an overabundance of unused computational power, technological challenges, competing technologies and products, decreases in corporate spending, weakening economic conditions, or otherwise, it could result in reduced customer orders, early order cancellations, the loss of customers, or decreased sales, any of which would adversely affect our business, operating results, and financial condition.

Our operating results may fluctuate significantly, which makes our future operating results difficult to predict and could cause our operating results to fall below expectations or our guidance.

Our quarterly and annual operating results have fluctuated in the past and may fluctuate significantly in the future, which makes it difficult for us to predict our future operating results. The timing and size of sales of our products are variable and difficult to predict and can result in fluctuations in our net sales from period to period. In addition, our budgeted expense levels depend in part on our expectation of future sales. Any substantial adjustment to expenses to account for lower levels of sales is difficult and takes time, thus we may not be able to reduce our costs sufficiently to compensate for a shortfall in net sales, and even a small shortfall in net sales could disproportionately and adversely affect our operating margin and operating results for a given quarter.

Our operating results may also fluctuate due to a variety of other factors, many of which are outside our control, including the changing and volatile local, national, and international economic environments, any of which may cause our stock price to fluctuate. Besides the other risks in this “Risk Factors” section, factors that may affect our operations include:

- fluctuations in demand for our products and services;
- the inherent complexity, length, and associated unpredictability of product development windows and product lifecycles;
- changes in customers’ budgets for technology purchases and delays in their purchasing cycles;
- changing market conditions;
- any significant changes in the competitive dynamics of our markets, including new entrants, or further consolidation;
- our ability to continue to broaden our customer base beyond our traditional customers;
- the timing of product releases or upgrades by us or our competitors; and
- our ability to develop, introduce, and ship in a timely manner new products and product enhancements and anticipate future market demands that meet our customers’ requirements.

Each of these factors individually, or the cumulative effect of two or more of these factors, could result in large fluctuations in our quarterly and annual operating results. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of future performance.

Our products are subject to competition, including competition from the customers to whom we sell.

Servers, computer accelerators, flash storage arrays, PCIe expansion products, and other products that we design, manufacture, and sell or license are subject to competition. The computer hardware and technology fields are well established with limited, and in many cases no, intellectual property and technological barriers to entry. The markets in which we operate are competitive and we expect competition to increase in the future from established competitors and new market entrants. The markets are influenced by, among others, brand awareness and reputation, price, strength and scale of sales and marketing efforts, professional services and customer support, product features, reliability and performance, scalability of products, and breadth of product offerings. Due to the nature of our products, competition occurs at the design, performance, and sales stages. A design or sales win by us does not limit further competition and our customers may purchase competitive products from third parties at any time. This competition could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses and failure to increase, or the loss of, market share, any of which would likely seriously harm our business, operating results or financial condition. From a cost and control perspective, our products are specialized and thus generally cost more than our competitors’ products. If our ability to design specialized solutions is deemed to be on par or of lesser value than competing solutions, we could lose our customers and prospects.

Many of our customers and competitors, often with substantially more resources or larger economies of scale, produce products that are competitive with our products. Many of these third parties mass-produce hardware solutions and have not heavily invested in or allocated resources to the smaller scale specialized products and solutions we design. A decrease in the cost of general mass-produced hardware solutions, which can serve as a substitute for our products, or the entrance of or additional allocation of resources by one of these customers or competitors into the production of specialized systems which compete with our products could create increased pricing pressure, reduced profit margins, increased sales and marketing expenses, or the loss of market share or expected market share, any of which may significantly harm our business, operating results and financial condition.

New entrants and the introduction of other distribution models in our markets may harm our competitive position.

The markets for development, distribution, and sale of our high-performance computing solutions are rapidly evolving. New entrants seeking to gain market share by introducing new technology, new products and new server configurations may make it more difficult for us to sell our products and earn design wins which could create increased pricing pressure, reduced profit margins, increased sales and marketing expenses, or the loss of market share or expected market share, any of which may significantly harm our business, operating results and financial condition.

Large computer hardware and equipment manufacturers and suppliers have traditionally designed, produced, and sold general purpose servers, and storage arrays and related products and equipment. Our customers supplement these general purpose systems by purchasing our specialized or customized systems or supplemental products which improve the speed, efficiency, or performance of such systems. If the speed, efficiency, or computational power of such general purpose systems increases such that supplemental or specialized products become unnecessary, or the cost of such general purpose systems declines such that it is more cost effective for prospective customers to add general-purpose equipment rather than specialized or supplemental equipment, we could experience a significant decline in demand for the products which may significantly harm to our business, operating results and financial condition.

Our products compete with and supplement general purpose servers, storage systems and related equipment. If the producers of general purpose equipment implement proprietary standards, software, interfaces, or other interoperability restrictions, including controls which restrict the equipment's compatibility with third party systems, we could experience a significant decline in sales because our products would not be interoperable with such systems, resulting in significant harm to our business, operating results and financial condition.

In our marketplace, general-purpose equipment is traditionally mass-produced and available to order while specialized equipment and custom bulk-order equipment is subject to a bid-based purchase system. If one or more large manufacturers of general or standard servers storage arrays, or related products and equipment provide specialized, customized, or supplementary equipment on a made-to-order or generally available basis, we could be forced to reduce our prices or change our selling model to remain competitive which would significantly harm to our business, operating results and financial condition.

If we are unable to manage our growth and expand our operations successfully, our business and operating results will be harmed, and our reputation may be damaged.

We have expanded our operations significantly since inception and anticipate that further significant expansion will be required to achieve our business objectives. The growth and expansion of our business and product offerings places a continuous and significant strain on our management, operational and financial resources. Any such future growth would also add complexity to and require effective coordination throughout our organization. To manage any future growth effectively, we must continue to improve and expand our information technology and financial infrastructure, our operating and administrative systems and controls, and our ability to manage headcount, capital and processes in an efficient manner. We may not be able to successfully implement improvements to these systems and processes in a timely or efficient manner, which could result in additional operating inefficiencies and could cause our costs to increase more than planned. If we do increase our operating expenses in anticipation of the growth of our business and this growth does not meet our expectations, our operating results may be negatively impacted. If we are unable to manage future expansion, our ability to provide high quality products and services could be harmed, which could damage our reputation and brand, and may have a material adverse effect on our business, operating results and financial condition.

A limited number of customers represent a significant portion of our sales. If we were to lose any of these customers, our sales could decrease significantly.

In the years ended December 31, 2020 and December 31, 2019, approximately 24.1%, and 41.0% of net sales represent customers which are greater than 10% of our consolidated annual revenue. This concentration is with two customers, disguise and Raytheon.

In addition, a few products comprise a significant amount of our sales, and the discontinuation, modification, or obsolescence of such products may materially and adversely affect our sales and results of operations. Any loss of, or a significant reduction in purchases by, these other significant customers or a decrease in the high performance applications that drive the use of our products, or the modification, discontinuation, or obsolescence of a device which constitutes a significant portion of our sales could have an adverse effect on our financial condition and operating results.

Some of our contracts allow our customers to have access to the design drawings for products which we have designed and manufacture for them.

Some of our contracts allow our customers to have access to the design drawings for products which we have designed and manufactured for them. In some cases, these drawings are included as a deliverable in conjunction with their non-recurring engineering fee, and in other cases, an additional fee is required to obtain the drawings package. Since these customers have access to the drawings, there is no guarantee that they will continue to purchase the manufactured products from OSS. This arrangement applies to our large media and entertainment customer, several of CDI's customers, and other customers of OSS as well. Neither our media and entertainment customer, nor our current CDI customers have had any of the OSS-designed products manufactured by anyone other than OSS, but they may have the capability to do so in the future.

We rely on a limited number of parts suppliers to support our manufacturing and design processes.

We rely on a limited number of suppliers to provide us with the necessary devices, parts and systems to allow us to build, design and manufacture our products, and the failure to manage our relationships with these parties successfully could adversely affect our ability to market and sell our products. In the years ended December 31, 2020 and December 31, 2019, suppliers for which purchases represent greater than 10% of our total parts purchases accounted for approximately 18.3%, and 11%, of materials purchased respectively. This concentration is with one supplier, Concisys Inc.

Although we do believe we could locate additional suppliers to fulfill our needs, any significant change in our relationship with these suppliers could have a material adverse effect on our business, operating results, and financial condition unless and until we are able to find suitable replacements. We make substantially all of our purchases from our contract suppliers on a purchase order basis. Our suppliers are not required to supply our raw materials for any specific period or in any specific quantity or price.

Global pandemics or other disasters or public health concerns in regions of the world where we have operations or source material or sell products, such as outbreaks of novel coronavirus or H1N1 flu could result in the disruption of our business. Specifically, the ongoing COVID-19 pandemic has resulted in increased travel restrictions and extended shutdowns of certain businesses in the region. These or any governmental developments or health concerns in countries in which we operate could result in social, economic, or labor instability. Although we are monitoring the situation regularly, it is currently unknown whether the outbreak will continue to disrupt our product shipments or impact manufacturing in the region over a prolonged period. If such disruption were to extend over a prolonged period, it could have a material adverse impact on our business and our financial results. Any disruption resulting from similar events could also cause significant delays in shipments of our products until we are able to resume normalized operations and this could have a material negative impact on our results of operations and cash flows.

Our future success depends on our ability to develop and successfully introduce new and enhanced products that meet the needs of our customers.

Our sales depend on our ability to anticipate our existing and prospective customers' needs and develop products that address those needs. Our future success will depend on our ability to design new products, anticipate technological improvements and enhancements, and to develop products that are competitive in the rapidly changing computer hardware and software industry. Introduction of new products and product enhancements will require coordination of our efforts with those of our customers, suppliers, and manufacturers to develop products that offer performance features desired by our customers and performance and functionality superior or more cost effective than solutions offered by our competitors. If we fail to coordinate these efforts, develop product enhancements or introduce new products that meet the needs of our customers as scheduled, our operating results will be materially and adversely affected, and our business and prospects will be harmed. We cannot assure that product introductions will meet our anticipated release schedules or that our products will be competitive in the market. Furthermore, given the rapidly changing nature of the computer equipment market, there can be no assurance our products and technology will not be rendered obsolete by alternative or competing technologies.

Delays in our production cycle could result in outdated equipment or decreased purchases of our products.

The design and manufacture of our products can take several months to several years. The length of such process depends on the complexity and purpose of the system or equipment being designed, and may be affected by factors such as: the development and design of unique or specialized systems, the fabrication, availability, and supply of parts, the customization of parts as applicable, the manufacture and/or assembly of the units, quality control testing, and the development and incorporation of new technologies. If our products are outdated upon completion of this process our sales could materially decline and it may be necessary to sell products at a loss.

Unsuccessful government programs or OEM contracts could lead to reduced revenues.

We design and manufacture certain products to fit the specifications of government programs or OEM contracts. These programs may take months or years to complete and involve significant investment of our time, money and resources. We generally receive upfront fees for these programs but there is often no or little obligation on the part of our customer to purchase large volumes of products at the time of final product launch. Unsuccessful product launches could lead to reduced revenues, potential returns of products and have a material adverse effect on our financial condition and operating results. We may be forced to sell products at a loss or spend a significant amount of resources to find additional customers for these products if these programs do not fit the future needs of our intended customers.

Our inventory may rapidly become obsolete.

Sales cycles for some of our products can take several months or longer. In addition, it can take time from the bid to the development and manufacture of the equipment. We maintain inventory based in large part on our forecasts of the volume and timing of orders. The varying length of the sales cycles makes accurate forecasting difficult. The delays inherent in our sales cycles raise the risk that the inventory we have on hand will become obsolete or impaired prior to its use or sale. If our forecasted demand does not materialize into purchase orders, we may be required to write off our inventory balances or reduce the value of our inventory, based on a reduced sales price. A write off of the inventory, or a reduction in the inventory value due to a sales price reduction, could have an adverse effect on our financial condition and operating results.

If our products contain significant defects, we could incur significant expenses to remediate such defects, our reputation could be damaged, and we could lose market share.

Our products are complex and may contain defects or security vulnerabilities, or experience failures or unsatisfactory performance due to any number of issues in design, fabrication, packaging, materials and/or use within a system. These risks may increase as our products are introduced into new devices, markets, technologies and applications, or as new versions are released. Some errors in our products or services may only be discovered after a product or service has been shipped or used by customers or the end users of such product. Undiscovered vulnerabilities in our products or services could expose our customers or end users to hackers or other unscrupulous third parties who develop and deploy viruses, worms and other malicious software programs that could attack our products or services. Failure of our products to perform to specifications, or other product defects, could lead to substantial damage to the products we sell directly to customers, the end product in which our device has been integrated by OEMs and to the user of such end product. Any such defect may cause us to incur significant warranty, support and repair or replacement costs, write off the value of related inventory, cause us to lose market share, and divert the attention of our personnel from our product development efforts to find and correct the issue. In addition, an error or defect in new products or releases or related software drivers after commencement of commercial shipments could result in failure to achieve market acceptance or loss of design wins, harm our relationships with customers and partners and harm consumers' perceptions of our brand. Also, we may be required to reimburse our customers, partners or consumers, including costs to repair or replace products in the field. A product recall, including a recall due to a bug in our products, or a significant number of product returns could be expensive, damage our reputation, harm our ability to attract new customers, result in the shifting of business to our competitors and result in litigation against us, such as product liability suits. If a product liability claim is brought against us, the cost of defending the claim could be significant and would divert the efforts of our technical and management personnel, and harm our business. Further, our business liability insurance may be inadequate or future coverage may be unavailable on acceptable terms, which could adversely impact our financial results.

We offer an extended product warranty to cover defective products at no cost to the customer. An unexpected change in failure rates of our products could have a material adverse impact on our business.

We offer product warranties that generally extend for one or two years from date of sale that requires us to repair or replace defective products returned by the customer during the warranty period at no cost to the customer. Our product warranties are in addition to warranties we receive from our vendors. We record an estimate for anticipated warranty-related costs based on historical and estimated future product return rates and expected repair or replacement costs. While such costs have historically been within management's expectations and the provisions established and we receive warranty coverage from our vendors, unexpected changes in failure rates could have a material adverse impact on our business requiring additional warranty reserves. These failures could adversely impact our operating results.

If we fail to achieve design wins for our products, our business will be harmed.

Achieving design wins is an important success factor for our business. We work closely with OEM's and end users to ensure the customer gets the product they want in the specific configuration, size and weight required for the application. We have participated in many design wins based upon our ability to interpret technical specifications and proceed rapidly through prototyping, development, and delivery. This approach and expertise are two of the factors driving our growth. Failure to maintain our expertise and ability to deliver custom, specific design systems could harm our business. In order to achieve design wins, we must:

- anticipate the features and functionality that OEMs, customers and consumers will demand;
- incorporate those features and functionalities into products that meet the exacting design requirements of our customers; and
- price our products competitively.

Unanticipated changes in industry standards could render our products incompatible with products developed by major hardware manufacturers and software developers. Further, if our products are not in compliance with prevailing industry standards, our customers may not incorporate our products into their design strategies.

If we cannot retain, attract and motivate key personnel, we may be unable to effectively implement our business plan.

Our success depends in large part upon our ability to retain, attract and motivate highly skilled management, development, marketing, sales and service personnel. The loss of and failure to replace key technical management and personnel could adversely affect multiple development efforts. Recruitment and retention of senior management and skilled technical, sales and other personnel is very competitive, and we may not be successful in either attracting or retaining such personnel. We have lost key personnel to other high technology companies, and many larger companies with significantly greater resources than us having aggressively recruited, and continue to aggressively recruit, key personnel. As part of our strategy to attract and retain key personnel, we may offer equity compensation through grants of stock options, restricted stock awards or restricted stock units. Potential employees, however, may not perceive our equity incentives as attractive enough. In addition, due to the intense competition for qualified employees, we may be required to, and have had to, increase the level of compensation paid to existing and new employees, which could materially increase our operating expenses.

We have made in the past, and may make in the future, acquisitions which could require significant management attention, disrupt our business, result in dilution to our stockholders, deplete our cash reserves and adversely affect our financial results.

Acquisitions involve numerous risks, including the following:

- difficulties in successfully integrating the operations, systems, technologies, products, offerings and personnel of the acquired company or companies;
- insufficient revenue to offset increased expenses associated with acquisitions;
- diversion of management's attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from acquisitions;
- potential difficulties in completing projects associated with in-process research and development intangibles;
- difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- initial dependence on unfamiliar supply chains or relatively small supply partners; and
- the potential loss of key employees, customers, distributors, vendors and other business partners of the companies we acquire following and continuing after announcement of acquisition plans.

Acquisitions may also cause us to:

- use a substantial portion of our cash reserves or incur debt;
- issue equity securities or grant equity incentives to acquired employees that would dilute our current stockholders' percentage ownership;

- assume liabilities, including potentially unknown liabilities;
- record goodwill and non-amortizable intangible assets that are subject to impairment testing on a regular basis and potential periodic impairment charges;
- incur amortization expenses related to certain intangible assets;
- incur large and immediate write-offs and restructuring and other related expenses; or
- become subject to intellectual property litigation or other litigation.

Acquisitions of high-technology companies and assets are inherently risky and subject to many factors outside of our control and no assurance can be given that our recently completed or future acquisitions will be successful and will not materially adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions could materially harm our business and operating results.

The continuing commoditization of HPC hardware and software has resulted in increased pricing pressure and may adversely affect our operating results.

The continuing commoditization of HPC hardware, such as processors, interconnects, flash storage and other infrastructure, and the growing commoditization of software, including plentiful building blocks and more capable open source software, as well as the potential for integration of differentiated technology into already-commoditized components, has resulted in, and may result in increased pricing pressure that may cause us to reduce our pricing in order to remain competitive, which can negatively impact our gross margins and adversely affect our operating results.

Risks Relating to Intellectual Property

If we are unable to protect our proprietary design and intellectual property rights, our competitive position could be harmed, or we could be required to incur significant expenses to enforce our rights.

Our ability to compete effectively is dependent in part upon our ability to protect our proprietary technology. We rely on patents, trademarks, trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights. There can be no assurance these protections will be available in all cases or will be adequate to prevent our competitors from copying, reverse engineering or otherwise obtaining and using our technology, proprietary rights or products. For example, the laws of certain countries in which our products are manufactured or licensed do not protect our proprietary rights to the same extent as the laws of the United States. In addition, third parties may seek to challenge, invalidate or circumvent our patents, trademarks, copyrights and trade secrets, or applications for any of the foregoing. There can be no assurance that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology or design around our proprietary rights. In each case, our ability to compete could be significantly impaired. To prevent substantial unauthorized use of our intellectual property rights, it may be necessary to prosecute actions for infringement and/or misappropriation of our trade secrets and/or proprietary rights against third parties. Any such action could result in significant costs and diversion of our resources and management's attention, and there can be no assurance we will be successful in such action. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce their intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our trade secrets and/or intellectual property.

Many of our proprietary designs are in digital form and the breach of our computer systems could result in these designs being stolen.

If our cybersecurity measures are breached or unauthorized access to private or proprietary data is otherwise obtained, our proprietary designs could be stolen. Because we hold many of these designs in digital form on our servers, there exists an inherent risk that an unauthorized third party could conduct a cybersecurity breach resulting in the theft of our proprietary information. While we have taken cybersecurity steps to protect our proprietary information, because techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any or all of these issues could negatively impact our competitive edge and our ability to obtain new customers thereby adversely affecting our financial results.

Our proprietary designs are susceptible to reverse engineering by our competitors.

Much of the value of our proprietary rights is derived from our vast library of design specifications. While we consider our design specifications to be protected by various proprietary, trade secret and intellectual property laws, such information is susceptible to reverse engineering by our competitors. We may not be able to prevent our competitors from developing competing design specifications and the cost of enforcing these rights may be significant. If we are unable to adequately protect our proprietary designs our financial condition and operating results could suffer.

If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed.

We consider trade secrets, including confidential and unpatented know-how and designs important to the maintenance of our competitive position. We protect trade secrets and confidential and unpatented know-how, in part, by customarily entering into non-disclosure and confidentiality agreements with parties who have access to such knowledge, such as our employees, outside technical and commercial collaborators, consultants, advisors and other third parties. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants that obligate them to maintain confidentiality and assign their inventions to us. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches.

Claims by others that we infringe their intellectual property or trade secret rights could harm our business.

Our industry is characterized by vigorous protection and pursuit of intellectual property rights, which has resulted in protracted and expensive litigation for many companies. Third parties may in the future assert claims of infringement of intellectual property rights against us or against our customers or channel partners for which we may be liable. As the number of products and competitors in our market increases and overlaps occur, infringement claims may increase.

Intellectual property or trade secret claims against us, and any resulting lawsuits, may result in us incurring significant expenses and could subject us to significant liability for damages and invalidate what we currently believe are our proprietary rights. Our involvement in any patent dispute or other intellectual property dispute or action to protect trade secrets and know-how could have a material adverse effect on our business. Adverse determinations in any litigation could subject us to significant liabilities to third parties, require us to seek licenses from third parties and prevent us from manufacturing and selling our products. Any of these situations could have a material adverse effect on our business. These claims, regardless of their merits or outcome, would likely be time consuming and expensive to resolve and could divert management's time and attention.

We are generally obligated to indemnify our channel partners and end-customers for certain expenses and liabilities resulting from intellectual property infringement claims regarding our products, which could force us to incur substantial costs.

We have agreed, and expect to continue to agree, to indemnify our channel partners and end-customers for certain intellectual property infringement claims regarding our products. As a result, in the case of infringement claims against these channel partners and end-customers, we could be required to indemnify them for losses resulting from such claims or to refund amounts they have paid to us. Our channel partners and other end-customers in the future may seek indemnification from us in connection with infringement claims brought.

Privacy concerns relating to our products and services could damage our reputation, deter current and potential users from using our products and services, result in liability, or result in legal or regulatory proceedings.

Our products and services may provide us with access to sensitive, confidential or personal data or information that is subject to privacy and security laws and regulations. Concerns about our practices with regard to the collection, use, retention, security or disclosure of personal information or other privacy-related matters, even if unfounded, could damage our reputation and adversely affect our operating results. The theft, loss, or misuse of personal data collected, used, stored, or transferred by us to run our business or by one of our partners could result in significantly increased security costs, damage to our reputation, regulatory proceedings, disruption of our business activities or increased costs related to defending legal claims.

Worldwide regulatory authorities are considering and have approved various legislative proposals concerning data protection, which continue to evolve and apply to our business. For example, the European Union adopted the General Data Protection Regulation, or GDPR, which requires companies to meet new requirements effective as of May 2018 regarding the handling of personal data, including its use, protection and the ability of persons whose data is stored to correct or delete such data about themselves. Failure to meet GDPR requirements could result in penalties of up to 4% of worldwide revenue. In addition, the interpretation and application of consumer and data protection laws in the United States, Europe and elsewhere are often uncertain and fluid, and may be interpreted and applied in a manner that is inconsistent with our data practices. If so, we may be ordered to change our data practices and/or be fined. Complying with these changing laws has caused, and could continue to cause, us to incur substantial costs, which could have an adverse effect on our business and results of operations. Further, failure to comply with existing or new rules may result in significant penalties or orders to stop the alleged noncompliant activity.

Risks Related to Our International Operations

Our international sales and operations subject us to additional risks that can adversely affect our operating results and financial condition.

Our international operations subject us to a variety of risks and challenges, including: exposure to fluctuations in foreign currency exchange rates, increased management, travel, infrastructure and legal compliance costs associated with having international operations; reliance on channel partners; increased financial accounting and reporting burdens and complexities; compliance with foreign laws and regulations; compliance with U.S. laws and regulations for foreign operations; and reduced protection for intellectual property rights in some countries and practical difficulties of enforcing rights abroad. Any of these risks could adversely affect our international operations, reduce our international sales or increase our operating costs, adversely affecting our business, operating results and financial condition and growth prospects.

We are subject to governmental export and import controls that could impair our ability to compete in international markets due to licensing requirements and subject us to liability if we are not in compliance with applicable laws.

Our products are subject to export control and import laws and regulations, including the U.S. Export Administration Regulations, U.S. Customs regulations and various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls. Exports of our products must be made in compliance with these laws and regulations. If we violate these laws and regulations, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges, fines, which may be imposed on us and responsible employees or managers and, in extreme cases, the incarceration of responsible employees or managers. In addition, if our channel partners, agents or consultants fail to obtain appropriate import, export or re-export licenses or authorizations, we may also be adversely affected through reputational harm and penalties. Obtaining the necessary authorizations, including any required license, for a particular sale may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities. Changes in our products or changes in applicable export or import laws and regulations may also create delays in the introduction and sale of our products in international markets, prevent our end-customers with international operations from deploying our products or, in some cases, prevent the export or import of our products to certain countries, governments or persons altogether. Any change in export or import laws and regulations, shift in the enforcement or scope of existing laws and regulations, or change in the countries, governments, persons or technologies targeted by such laws and regulations, could also result in decreased use of our products, or in our decreased ability to export or sell our products to existing or potential end-customers with international operations. Any decreased use of our products or limitation on our ability to export or sell our products would likely adversely affect our business, financial condition and operating results.

New regulations or standards or changes in existing regulations or standards in the United States or internationally related to our suppliers products may result in unanticipated costs or liabilities, which could have a material adverse effect on our business, operating results and future sales, and could place additional burdens on the operations of our business.

Our suppliers' products are subject to governmental regulations in many jurisdictions. To achieve and maintain market acceptance, our suppliers' products must continue to comply with these regulations and many industry standards. As these regulations and standards evolve, and if new regulations or standards are implemented, our suppliers may have to modify their products. The failure of their products to comply, or delays in compliance, with the existing and evolving industry regulations and standards could prevent or delay introduction of our products, which could harm our business. Supplier uncertainty regarding future policies may also affect demand for HPC products, including our products. Moreover, channel partners or customers may require us, or we may otherwise deem it necessary or advisable, to alter our products to address actual or anticipated changes in the regulatory environment. Our inability to alter our products to address these requirements and any regulatory changes may have a material adverse effect on our business, operating results and financial condition.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.

We have international operations. The U.S. Foreign Corrupt Practices Act and similar anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to foreign government officials for the purpose of obtaining or retaining business. Practices in the local business communities of many countries outside the United States have a level of government corruption that is greater than that found in the developed world. Our policies mandate compliance with these anti-bribery laws and we have established policies and procedures designed to monitor compliance with these anti-bribery law requirements; however, we cannot assure that our policies and procedures will protect us from potential reckless or criminal acts committed by individual employees or agents. If we are found to be liable for anti-bribery law violations, we could suffer from criminal or civil penalties or other sanctions that could have a material adverse effect on our business.

Risks Related to Our Common Stock

The price of our common stock may be volatile, and you could lose all or part of your investment.

The trading price of our common stock may fluctuate substantially. The trading price of our common stock will depend on several factors, including those described in this “Risk Factors” section, many of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock since you might be unable to sell your shares at or above the price you paid. Factors that could cause fluctuations in the trading price of our common stock include:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- sales of shares of our common stock by us or our stockholders;
- failure of financial analysts to maintain coverage of us, changes in financial estimates by any analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new products or new or terminated significant contracts, commercial relationships or capital commitments;
- the public’s reaction to our press releases, other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- actual or anticipated developments in our business or our competitors’ businesses or the competitive landscape generally;
- litigation involving us, our industry or both or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- any major change in our management;
- general economic conditions and slow or negative growth of our markets; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors, as well as general economic, political and market conditions such as recessions or interest rate changes, may seriously affect the market price of our common stock, regardless of our actual operating performance.

In the past, following periods of volatility in the overall market and the market prices of particular companies' securities, securities class action litigations have often been instituted against these companies. Litigation of this type, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources. Any adverse determination in any such litigation or any amounts paid to settle any such actual or threatened litigation could require that we make significant payments.

Our directors and principal stockholders own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.

Our directors, executive officers and significant stockholders have substantial control over the Company and could delay or prevent a change in corporate control. Our directors, executive officers and holders of more than 5% of our common stock, together with their affiliates, beneficially own, in the aggregate, 36.0% of our outstanding common stock, based on the number of shares outstanding as of February 28, 2021. As a result, these stockholders, acting together, would have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, would have the ability to control the management and affairs of our company. Accordingly, this concentration of ownership might adversely affect the market price of our common stock by:

- delaying, deferring or preventing a change in control of the Company;
- impeding a merger, consolidation, takeover, or other business combination involving us; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of the company.

If securities or industry analysts issue an adverse opinion regarding our stock or do not publish research or reports about our company, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that equity research analysts publish about us and our business. We anticipate having limited analyst coverage and we may continue to have inadequate analyst coverage in the future. Even if we obtain adequate analyst coverage, we would have no control over such analysts or the content and opinions in their reports. Securities analysts may elect not to provide research coverage of our company and such lack of research coverage may adversely affect the market price of our common stock. The price of our common stock could also decline if one or more equity research analysts downgrade our common stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business. If one or more equity research analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.

Substantial future sales of shares of our common stock could cause the market price of our common stock to decline.

The market price of shares of our common stock could decline as a result of substantial sales of our common stock, particularly sales by our directors, executive officers and significant stockholders, a large number of shares of our common stock becoming available for sale or the perception in the market that holders of a large number of shares intend to sell their shares. As of February 28, 2021, we have 16,912,312 shares of our common stock outstanding.

Moreover, certain holders of our common stock will have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or our stockholders.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a change of control or changes in our management. Some of these provisions:

- authorize our board of directors to issue, without further action by the stockholders, up to 10,000,000 shares of undesignated preferred stock and up to 50,000,000 shares of authorized common stock;
- require that any action to be taken by our stockholders be affected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the chairman of the board of directors, the chief executive officer or the president;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;
- provide that our directors may be removed only for cause; and,
- provide that vacancies on our board of directors may, except as otherwise required by law, be filled only by a majority of directors then in office, even if less than a quorum.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us. Furthermore, our certificate of incorporation specifies that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for most legal actions involving actions brought against us by stockholders. We believe this provision benefits us by providing increased consistency in the application of Delaware law by chancellors particularly experienced in resolving corporate disputes, efficient administration of cases on a more expedited schedule relative to other forums and protection against the burdens of multi-forum litigation. However, the provision may have the effect of discouraging lawsuits against our directors and officers. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that, in connection with any applicable action brought against us, a court could find the choice of forum provisions contained in our certificate of incorporation to be inapplicable or unenforceable in such action.

These anti-takeover provisions and other provisions in our certificate of incorporation and amended and restated bylaws make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors and could also delay or impede a merger, tender offer or proxy contest involving our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing or cause us to take other corporate actions you desire. Any delay or prevention of a change of control transaction or changes in our board of directors could cause the market price of our common stock to decline.

Our inability to raise additional capital on acceptable terms in the future may limit our ability to develop and commercialize new solutions and technologies and expand our operations.

If our available cash balances and anticipated cash flow from operations are insufficient to satisfy our liquidity requirements, due to lower demand for our products as a result of other risks described in this "Risk Factors" section, we may seek to raise additional capital through equity offerings, debt financings, collaborations or licensing arrangements. We may also consider raising additional capital in the future to expand our business, pursue strategic investments, take advantage of financing opportunities, or other reasons.

Additional funding may not be available to us on acceptable terms, or at all. If we raise funds by issuing equity securities, dilution to our stockholders could result. Any equity securities issued also may provide for rights, preferences or privileges senior to those of holders of our common stock. The terms of debt securities issued or borrowings could impose significant restrictions on our operations. The incurrence of indebtedness or the issuance of certain equity securities could result in increased fixed payment obligations and could also result in restrictive covenants, such as limitations on our ability to incur additional debt or issue additional equity, limitations on our ability to acquire or license intellectual property rights, and other operating restrictions that could adversely affect our ability to conduct our business. In addition, the issuance of additional equity securities by us, or the possibility of such issuance, may cause the market price of our common stock to decline. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish some rights to our technologies or our products, or to grant licenses on terms that are not favorable to us. If we are unable to raise adequate funds, we may have to liquidate some or all of our assets, or delay or reduce the scope of our development programs. We also may have to reduce marketing, customer support or other resources devoted to our products or cease operations. Any of these actions could harm our business, operating results and financial condition.

We are an “emerging growth company” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an “emerging growth company” as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may choose to take advantage of certain exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, which includes, among other things:

- exemption from the auditor attestation requirements under Section 404(b) of the Sarbanes-Oxley Act of 2002;
- reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements; and
- exemption from the requirements of holding non-binding stockholder votes on executive compensation arrangements.

We could be an emerging growth company until the last day of the fiscal year following the fifth anniversary after our initial public offering (December 31, 2023), or until the earliest of (i) the last day of the fiscal year in which we have annual gross revenue of \$1.07 billion or more; (ii) the date on which we have, during the previous three year period, issued more than \$1.07 billion in non-convertible debt; or (iii) the date on which we are deemed to be a large accelerated filer under the federal securities laws. We will qualify as a large accelerated filer as of the first day of the first fiscal year after we have (i) more than \$700 million in outstanding common equity held by our non-affiliates, and (ii) been public for at least 12 months. The value of our outstanding common equity will be measured each year on the last day of our second fiscal quarter.

We cannot predict if investors will find our common stock less attractive if we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

Our corporate headquarters are in a leased space comprising approximately 29,342 square feet in Escondido, California under a lease that was modified in February 2019 and expires in August 2024. We also lease a 3,208 square foot facility in Salt Lake City, Utah that houses our Ion software development team that is a month-to-month lease. CDI is the lessee of 12,880 square feet located in Irvine, California with the lease expiring in June 2021. Bressner Technology leases space comprising 8,073 square feet on a month-to-month lease.

The Company believes its existing facilities and equipment are in good operating condition and are suitable for the conduct of its business.

ITEM 3. LEGAL PROCEEDINGS.

We are subject to litigation, claims, investigations, and audits arising from time to time in the ordinary course of our business.

On September 29, 2020, the Company's former Chief Executive Officer, Stephen D. Cooper, commenced an action entitled Stephen D. Cooper v. One Stop Systems, Inc. et al. in San Diego County Superior Court, Case No. 37-2020-00034492-CU-BC-CTL. Mr. Cooper alleges claims for (1) breach of written contract and (2) violation of California Labor Code Sections 201 and 203 in connection with the Company's alleged failure to pay unpaid wages and an earned bonus following the Company's termination of Mr. Cooper's employment with the Company back in February 2020. Mr. Cooper seeks unspecified compensatory damages and statutory penalties.

The Company has denied Mr. Cooper's allegations. On December 8, 2020, the Company filed a cross-complaint ("Cross Complaint") against Mr. Cooper for (1) breach of contract (in connection with a binding commitment letter and Mr. Cooper's employment agreement), (2) intentional misrepresentation, (3) negligent misrepresentation, and (4) breach of fiduciary duty. The Company is seeking compensatory damages, punitive damages, pre-judgment interest, attorneys' fees, and the cost of suit incurred in connection with Mr. Cooper's complaint and the Cross Complaint. The Company intends to vigorously defend all allegations.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our common stock, par value \$0.0001, has been publicly traded on The Nasdaq Capital Market under the symbol "OSS". Below is our quarterly information with respect to the high and low sale prices for our common stock for such time periods.

	High	Low	
First Quarter (through March 15, 2021)	\$ 9.50	\$ 3.61	*

* On March 15, 2021, the closing price was \$8.40

Year ended December 31, 2020 and 2019	2020		2019	
	High	Low	High	Low
First Quarter	\$ 3.01	\$ 0.59	\$ 3.09	\$ 1.78
Second Quarter	\$ 2.63	\$ 1.15	\$ 2.75	\$ 1.52
Third Quarter	\$ 3.14	\$ 1.80	\$ 3.04	\$ 1.32
Fourth Quarter	\$ 5.33	\$ 2.08	\$ 3.25	\$ 1.62

Holders

As of February 28, 2021, there were 16,912,312 shares of our common stock outstanding held by approximately 62 holders of record of our common stock. This number was derived from our stockholder records and does not include beneficial holders of our common stock whose shares are held in "street name" with various dealers, clearing agencies, banks, brokers and other fiduciaries.

Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future. We may enter into credit agreements or other borrowing arrangements in the future that will restrict our ability to declare or pay cash dividends on our common stock. Any future determination to declare dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

Equity Compensation Plan Information

See Part III, Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for information regarding securities authorized for issuance under equity compensation plans.

Unregistered Sales of Equity Securities

None.

Issuer Repurchases of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA.

Not Applicable.

ITEM 7. 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 Annual 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 Annual Report.

Overview

OSS designs, manufactures and sells specialized high-performance edge computing (HPC) systems to customers world-wide. We differentiate ourselves from other suppliers of HPC solutions by utilizing our high-performance 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. 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.

Our systems offer industry leading capabilities that occupy less physical space and power consumption. 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.

Recent Developments

CDI has been fully integrated into the core operations of OSS as of June 1, 2020.

In March 2020, the World Health Organization declared the outbreak of Coronavirus, or COVID-19, a global pandemic and the United States federal government declared it a national emergency. COVID-19 continues to impact worldwide economic activity. A public health pandemic, including COVID-19, poses the risk that we or our employees, contractors, customers, 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.

More generally, COVID-19 raises the possibility of an extended global economic downturn, which could affect demand for our products and services and impact our results and financial condition even after the pandemic is contained and remediation/restriction measures are lifted. For example, we may be unable to collect receivables from customers that are significantly impacted by COVID-19. Also, a decrease in orders in a given period could negatively affect our revenues in future periods. COVID-19 may also have the effect of heightening many of the other risks described in the "Risk Factors" section of our Annual Report on Form 10-K, including risks associated with our customers and supply chain. We will continue to evaluate the nature and extent of the impact of COVID-19 to our business.

At present, it is clear the global economy has been negatively impacted by COVID-19, and demand for some of our products and services have been reduced due to uncertainty and the economic impact of COVID-19. For example, customers in certain of the industries most impacted by COVID-19, have requested, and we expect will continue to request, relief to existing contracts or payment obligations, and the impact of those is uncertain. Furthermore, some customers are delaying payments owed to the Company while they address immediate financial crises in their operations due to COVID-19. In particular, in the media and entertainment industry, demand for the use of outdoor media equipment has been impacted due to restrictions on public gatherings. Until such restrictions improve, we expect that demand for certain of our clients' products and services will be limited, and may not return to prior levels, and thus, may impact our financial results and operations.

Specifically, our business has also begun to be negatively affected by a range of external factors related to COVID-19 that are not within our control. For example, numerous measures have been implemented by governmental authorities across the globe to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, restrictions and limitations of public gatherings, and business limitations and shutdowns. Many of our customers' businesses have been severely impacted by these measures and some have been required to reduce employee headcount as a result. If a significant

number of our customers are unable to continue as a going concern, this would have an adverse impact on our business and financial condition. In addition, many of our customers are working remotely, which may delay the timing of new business and implementations of our services. If COVID-19 continues to have a substantial impact on our partners, customers, or suppliers, our results of operations and overall financial performance will be harmed.

Though management has been proactively 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 2021 and beyond will be negatively impacted. Neither the length of time nor the magnitude of the negative impacts can be presently determined.

The longer the COVID-19 pandemic persists, the greater the potential for significant adverse impact to our business operations. Quarantines, travel restrictions, prohibitions on non-essential gatherings, shelter-in-place orders and other similar directives and policies intended to reduce the spread of the disease, may reduce our productivity and that of the third parties on which we rely and may disrupt and delay many aspects of our business.

The Company is complying with state mandated requirements for safety in the workplace to ensure the health, safety and well-being of our employees. These measures included personal protective equipment, social distancing, cleanliness of the facilities and daily monitoring of the health of employees in our facilities. We have not developed a specific and comprehensive contingency plan designed to address the challenges and risks presented by the COVID-19 pandemic and, even if and when we do develop such a plan, there can be no assurance that such plan will be effective in mitigating the potential adverse effects on our business, financial condition and results of operations.

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

On April 7, 2020, the Company implemented a cost reduction plan which included the termination of certain employees and elimination of certain costs. Savings from this effort are estimated to be approximately \$2.5 million on an annual basis.

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 on 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 which have been satisfied. The note is repayable in twenty-two installments beginning three months after closing in cash or shares of the Company's common stock.

On March 1, 2021, the Company entered into a Securities Purchase Agreement with an accredited investor, pursuant to which the Company agreed to issue and sell, in a registered direct offering, 1,497,006 shares of the Company's common stock, par value \$0.0001 per share, to the purchaser at an offering price of \$6.68 per share. The registered offering was conducted pursuant to the Company's effective shelf registration statement on Form S-3 (Registration No. 333-231513), which was initially filed with the Securities and Exchange Commission on May 15, 2019, and was declared effective on June 19, 2019. As compensation for their services, the Company paid to the placement agents a fee equal to 7% of the gross proceeds received by the Company as a result of the registered offering, and reimbursed the placement agents for certain expenses incurred in connection with such offering. The Company estimates that the net proceeds from the registered offering will be approximately \$9.25 million after deducting certain fees due to the placement agents' and the Company's estimated transaction expenses. The net proceeds received by the Company will be used for general corporate and working capital purposes.

Components of Results of Operations

Revenue

The Company recognizes revenue under accounting standard ASC 606. Revenue is primarily generated from the sale of computer hardware and engineering services and to some extent the sale of software, and sales of software maintenance and support contracts. 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.

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 with an improvement in margin, 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. We expect our general and administrative expense to increase in absolute dollars as we continue to invest in growing the business.

Marketing and Sales - Marketing and Sales 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 marketing and sales 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 miscellaneous income and income received for activities outside of our core business. Other expense includes expenses for activities outside of our core business.

Provision for Income Taxes

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

Results of Operations

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

	For the Year Ended December 31,	
	2020	2019
Revenue	\$ 51,895,388	\$ 58,308,019
Cost of revenue	35,460,774	38,905,756
Gross profit	16,434,614	19,402,263
Operating expenses:		
General and administrative	8,418,358	8,501,572
Impairment of goodwill	-	1,697,394
Marketing and selling	4,120,778	5,138,762
Research and development	4,319,759	4,843,554
Total operating expenses	16,858,895	20,181,282
Loss from operations	(424,281)	(779,019)
Other (expense) income:		
Interest income	418,379	151,113
Interest expense	(550,774)	(165,560)
Other (expense) income, net	(53,612)	130,381
Total other (expense) income, net	(186,007)	115,934
Loss before income taxes	(610,288)	(663,085)
(Benefit) provision for income taxes	(603,744)	237,252
Net loss	\$ (6,544)	\$ (900,337)

	For the Year Ended December 31,	
	2020	2019
Revenue	100.0 %	100.0 %
Cost of revenue	68.3 %	66.7 %
Gross profit	31.7 %	33.3 %
Operating expenses:		
General and administrative	16.2 %	14.6 %
Impairment of goodwill	0.0 %	2.9 %
Marketing and selling	7.9 %	8.8 %
Research and development	8.3 %	8.3 %
Total operating expenses	32.5 %	34.6 %
Loss from operations	-0.8 %	-1.3 %
Other (expense) income:		
Interest income	0.8 %	0.3 %
Interest expense	-1.1 %	-0.3 %
Other (expense) income, net	-0.1 %	0.2 %
Total other (expense) income, net	-0.4 %	0.2 %
Loss before income taxes	-1.2 %	-1.1 %
(Benefit) provision for income taxes	-1.2 %	0.4 %
Net loss	0.0 %	-1.5 %

Comparison of the Years Ended December 31, 2020 and 2019

Entity:	For The Year Ended December 31, 2020				For The Year Ended December 31, 2019			
	Revenue	Cost of Revenue	Gross Margin	Gross Margin %	Revenue	Cost of Revenue	Gross Margin	Gross Margin %
OSS	\$ 33,650,019	\$ (21,081,787)	\$ 12,568,232	37.3 %	\$ 40,055,408	\$ (24,762,812)	\$ 15,292,596	38.2 %
Bressner Technology GmbH	18,245,369	(14,378,987)	3,866,382	21.2 %	18,252,611	(14,142,944)	4,109,667	22.5 %
	<u>\$ 51,895,388</u>	<u>\$ (35,460,774)</u>	<u>\$ 16,434,614</u>	<u>31.7 %</u>	<u>\$ 58,308,019</u>	<u>\$ (38,905,756)</u>	<u>\$ 19,402,263</u>	<u>33.3 %</u>

Revenue

For the year ended December 31, 2020, total revenue decreased \$6,412,631 or 11.0%, as compared to the same period in 2019. OSS saw a decrease in revenue of \$6,405,389 or 16.0 percentage points as compared to the prior year. The majority of this decrease is attributable to a reduction in shipments of \$10,978,121 to our two largest customers of which \$8,057,289 is attributable to our media and entertainment customer which saw a significant reduction in business resulting from COVID-19 restrictions. Reductions in revenue were offset by new business of which \$6,621,676 was from four customers for which the incremental revenue was more than one million dollars from each customer. There was also a small decrease of \$7,242 or a decrease of 0.04 percentage points attributable to Bressner.

Cost of revenue and gross profit

Cost of revenue decreased by \$3,444,982 or 8.9%, for the year ended December 31, 2020 as compared to the prior year 2019. The decrease in cost of revenue was mainly attributable to our reduced sales and changes in product mix. OSS saw a decrease in cost of revenue of \$3,681,025 or 9.5 percentage points as compared to the prior year. Bressner's cost of revenue increased \$236,043 or 0.6 percentage points.

The overall gross margin percentage decreased from 33.3% for the year ended December 31, 2019 to 31.7% for the year ended December 31, 2020, a decrease of 1.6 percentage points. OSS' gross margin percentage for the year ended December 31, 2020 was 37.3%, a decrease of 0.9 percentage points as compared to the prior year of 38.2% attributable to changes in product mix. Bressner contributed gross margin at a rate of 21.2% as compared to the prior year 2019 of 22.5%, a decrease of 1.3 percentage points which was attributable to a change in product mix.

Operating expenses

General and administrative expense

General and administrative expense decreased \$83,214 or 1.0%, for the year ended December 31, 2020 as compared to the prior year 2019. OSS experienced an increase of \$10,434 which was offset by a decrease at Bressner of \$93,648. The decrease in general and administrative expense was primarily attributable to cost containment efforts implemented in April 2020. Much of the current year benefit derived from this cost containment effort was offset by increased costs associated with the termination benefits for employees released in April 2020 and the termination of our previous president and CEO. Overall, total general and administrative expense increased as a percentage of revenue to 16.2% during the year ended December 31, 2020 as compared to 14.6% during the same period in 2019, which is attributable to the lower revenue in 2020.

Impairment of goodwill

During the prior year 2019, the Company recognized a write-down of \$1,697,394 attributable to impairment of goodwill of CDI due to 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 overall Company's stock price. There was no such impairment charge in 2020.

Marketing and selling expense

Marketing and selling expense decreased \$1,017,984 or 19.8% during the year ended December 31, 2020 as compared to the prior year 2019. OSS had a decrease of \$1,025,309 or 100.7% of the total decrease attributable to reductions in travel, advertising and tradeshows associated with constraints imposed by COVID-19 restrictions. Bressner saw a modest increase of \$7,325 or 0.7%. Overall, total marketing and selling expense decreased as a percentage of revenue to 7.9% during the year ended December 31, 2020 as compared to 8.8% during the same period in 2019.

Research and development expense

Research and development expense decreased \$523,795 or 10.8% during the year ended December 31, 2020 as compared to the prior year. OSS saw a decrease of \$534,461 or 102% of the decrease. The decrease was largely driven by cost reduction efforts implemented in quarter two of the current year. This reduction was offset by an increase of \$10,666 or 0.2% at Bressner. Overall, there was no change to the total research and development expense as a percentage of revenue as compared to the prior year with both years at 8.3% of revenue.

Interest income

Interest income increased \$267,266 for the year ended December 31, 2020 as compared to the prior year 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 \$385,214 for the year ended December 31, 2020 as compared to same period in 2019. On April 24, 2020, the Company borrowed \$3,000,000 through a senior secured convertible debt offering issued with a 10% original issue discount and incurred legal costs associated with this debt offering. The interest and the professional fees incurred on securing the debt are being amortized on an effective interest rate basis to interest expense.

Other income (expense), net

Other income (expense), for the year ended December 31, 2020 resulted in net expenses of \$53,612 as compared to net other income of \$130,381 in the prior year 2019, for a net change of \$183,993. The majority of the decrease is a reduction in foreign currency transactions gains and losses.

(Benefit) provision for income taxes

We have recorded an income tax (benefit) provision of \$(603,744) and \$237,252, respectively, for the years ended December 31, 2020 and 2019. The effective tax rate for the years ended December 31, 2020 and 2019 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 for 2019 only, deductions related to expenses of OSS stock options, as

well as projecting federal, foreign and state tax liabilities for the year. The effective tax rate for 2020 is 98.9% as compared to 35.7% in the prior year.

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 July 2019 sale of 1,554,546 shares of the Company's common stock for net cash proceeds of \$2,488,148; (iv) the April 24, 2020 sale of \$3,000,000 of Senior Secured Convertible Promissory Notes issued at a 10% original issue discount; (v) receipt of approximately \$1,500,000 on April 28, 2020 of government loan proceeds under the Paycheck Protection Program; and (vi) a receipt of approximately \$9,250,000 on March 3, 2021 in a registered direct offering.

As of December 31, 2020, the Company's cash and cash equivalents were \$6,316,921 and working capital was \$16,266,293. Cash and cash equivalents held by Bressner totaled \$1,062,818 (USD) at December 31, 2020, and Bressner's debt covenants do not permit the use of those funds by its parent company. During the year ended December 31, 2020, the Company experienced an operating loss of \$424,281, with cash used in operating activities of \$250,173. During the year, our largest customer, engaged in the media and entertainment industry, was having significant financial hardships attributable to the COVID-19 pandemic and as a result had been slow in paying their outstanding account receivables. The Company formulated a plan whereby extended payment terms were made available, and our customer is now current, having paid down their past-due outstanding account receivables and are presently honoring their credit terms.

Our sources of liquidity and cash flows are used to fund ongoing operations, research and development projects for new products and technologies, and provide ongoing support services for our customers. Over the next two fiscal years, we anticipate that we will use our liquidity and cash flows from our operations to fund our growth. In addition, as part of our business strategy, we occasionally evaluate potential acquisitions of businesses and products and technologies. Accordingly, a portion of our available cash may be used at any time for the acquisition of complementary products or businesses. Such potential transactions may require substantial capital resources, which may require us to seek additional debt or equity financing. We cannot assure you that we will be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into our current operations, or expand into new markets. Furthermore, we cannot provide assurances that additional financing will be available to us in any required time frame and on commercially reasonable terms, if at all.

The Company's revenue growth during the year has slowed due to the effects of COVID-19. However, resulting from a reduction in force and strict cost containment, the Company has been able to mitigate the effects, to some degree, of the reduced revenue. For a further description and risk factors associated with COVID-19, please see Part 1A of this Annual Report on Form 10-K.

Management's plans are to continue its efforts towards responding to the changing economic landscape attributable to COVID-19, 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 a reduction in force, a limited freeze on hiring, reduced work week, 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.

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 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 or 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 on 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 which have been satisfied. The note is repayable in twenty-two installments beginning three months after closing in cash or shares of the Company's common stock.
- On March 1, 2021, the Company entered into a definitive agreement with an institutional investor for the purchase and sale of 1,497,006 shares of common stock at a purchase price of \$6.68 in a registered direct offering priced At-The-Market under Nasdaq rules. Total estimated proceeds are \$9,250,000 after commissions and offering costs.

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 working capital requirements for its ongoing operations and obligations for at least the next twelve months. However, there can be no assurance that management's cost reduction efforts will be effective or the forecasted cash flows will be achieved. Furthermore, the Company shall continue to evaluate its capital expenditure needs based upon factors including but not limited to the Company's sales from operations, growth rate, the timing and extent of spending to support development efforts, the expansion of the Company's sales and marketing, the timing of new product introductions, and the continuing market acceptance of the Company's products and services. If cash generated from operations is insufficient to satisfy the Company's capital requirements, the Company may open a revolving line of credit with a bank, or it may have to sell additional equity or debt securities or obtain expanded credit facilities to fund its operating expenses, pay its obligations, diversify its geographical reach, and grow the Company. In the event such financing is needed in the future, there can be no assurance that such financing will be available to the Company, or, if available, that it will be in amounts and on terms acceptable to the Company. If the Company cannot raise additional funds when it needs or wants them, the Company's operations and prospects could be negatively affected. However, if cash flows from operations become insufficient to continue operations at the current level, and if no additional financing were obtained, then management would restructure the Company in a way to preserve its business while maintaining expenses within operating cash flows.

The following table summarizes our cash flows for the years ended December 31, 2020 and 2019:

Cash flows:	For the Year Ended December 31,	
	2020	2019
Net cash (used in) provided by operating activities	\$ (250,173)	\$ 2,374,868
Net cash used in investing activities	\$ (818,794)	\$ (2,385,177)
Net cash provided by financing activities	\$ 2,109,235	\$ 2,922,101

Operating Activities

During the year ended December 31, 2020, we used \$250,173 in cash from operating activities, a decrease of \$2,625,041 when compared to the cash generated in operating activities of \$2,374,868 during the year 2019. This use of operating cash and the change from the prior year is mostly attributable to a decrease in revenue attributable to a COVID-19 economic environment. The economic effect from COVID-19 directly affected our revenue with our largest customer and caused an increase in the use of working capital in the financing of inventory due to longer lead-times.

The decrease in cash generated by operating activities was primarily a result of an increase in working capital requirements of \$1,936,267, an improvement in net loss of \$893,793, offset by a decrease in non-cash adjustments of \$1,582,567. Non-cash adjustments include increases of \$1,033,653 loss on disposal of property and equipment, the provision for bad debt, depreciation, inventory reserves, amortization of debt discount and stock-based compensation expense. These increases were offset by \$2,616,218 in decreases in non-cash adjustments attributable to deferred taxes, impairment of goodwill, warranty reserves, amortization of deferred gain, and amortization.

Working capital requirements increase overall by \$1,936,267. The source of working capital of \$5,451,890 was attributable to reductions in accounts receivable for the comparable period. This source was offset by uses of working capital of \$7,388,157 due to increased inventory levels, and prepaid expense and other current assets and reductions in accounts payable and accrued expenses and other liabilities.

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 year ended December 31, 2020, the Company used cash of \$818,794 in investing activities as compared to \$2,385,177 used during the prior year 2019, a decrease of \$1,566,383. The main projects for the year 2020, were the continued enhancement of our ERP system, the purchase of test equipment for the engineering department, and demo equipment for the sales and marketing department. The expenditures in the prior year 2019 are primarily due to tenant improvements to our headquarter facility and software costs and external consulting costs associated with the implementation of our ERP system for which phase one of the project was substantially completed in 2020. We currently do not anticipate any other significant purchases of equipment or expansion of our ERP system beyond completion of phase II of the project, which is the integration of certain sales functions.

Financing Activities

Given the economic and financial hardships operating in a COVID-19 environment, the Company believed it to be imperative to secure additional financial resources to ensure financial stability during trying economic times. Therefore, during the year ended December 31, 2020, the Company obtained liquidity through two new debt instruments. During the year ended December 31, 2020 we generated \$2,109,235 from financing activities as compared to the cash generated of \$2,922,101 during the year 2019. During 2020, the Company entered into a \$3.0 million, two-year senior secured convertible debt offering with a 10% original issue discount and received net proceeds of \$2,383,726 after payment of professional fees. The Company also received proceeds from a federal Paycheck Protection Program of \$1,499,360, and proceeds of \$181,892 from the exercise of warrants and stock options.

During the year ended December 31, 2019, the Company raised \$1,500,000 from individuals and related parties through the issuance of notes payable that bear interest at an annual rate of 9.5% and are repaid through 24 months monthly installments. Additionally, during the third quarter of the year, the Company sold 1,554,832 shares of common stock for total gross proceeds of \$2,700,714, which after commissions to brokers and other expenses resulted in net proceeds to the Company of \$2,488,148. The Company also received proceeds of \$47,334 from the exercise of warrants and stock options.

Contractual obligations and commitments

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

Contractual Obligations:	Total	Less than 1 year	1-3 years	3-5 years	More than 5 Years
Notes payable	\$ 5,664,188	\$ 3,619,374	\$ 2,044,814	\$ -	\$ -
Operating leases	1,351,868	526,339	825,529	-	-
Total	<u>\$ 7,016,056</u>	<u>\$ 4,145,713</u>	<u>\$ 2,870,343</u>	<u>\$ -</u>	<u>\$ -</u>

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.

Known trends or uncertainties

Although we have not seen any significant reduction in revenues to date due to consolidations, we have seen some consolidation in our industry during economic downturns. These consolidations have not had a negative effect on our total sales; however, should consolidations and downsizing in the industry continue to occur, those events could adversely impact our revenues and earnings going forward.

As discussed in this Annual Report on Form 10-K, the world has been affected due to the COVID-19 pandemic. Until the pandemic has passed, there remains uncertainty as to the effect of COVID-19 on our business in both the short and long-term.

We believe that the need for improved productivity in the research and development activities directed toward developing new products and/or software will continue to result in increasing adoption of high-performance computers and interconnect technologies such as those we produce. New product and/or software developments in the specialized compute business segment could result in increased revenues and earnings if they are accepted by our markets; however, there can be no assurances that new products and/or software will result in significant improvements to revenues or earnings. For competitive reasons, we do not disclose all of our new product development activities.

Also, the potential for growth in new markets is uncertain. We will continue to explore these opportunities until such time as we either generate sales or determine that resources would be more efficiently used elsewhere.

Inflation

We have not been affected materially by inflation during the periods presented, but we may experience some effect in the near future due to trade tariffs imposed on certain products from China and increased product pricing due to semiconductor product shortages.

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 2016, we entered into a management services agreement with a company owned by the former Chief Executive Officer of Magma. Payments for the years ended December 31, 2020 and 2019 were \$0 and \$21,875, respectively. Such management services agreement has been now fully completed.

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 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 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: (i) identification of the contract with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) 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.

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.

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.

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-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. 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 December 31, 2020 and 2019, we had \$6,316,921 and \$5,185,321, respectively, of cash and cash equivalents on deposit or invested with our financial and lending institutions. In Germany, the deposit insurance is €100,000 per bank, per customer. Bressner has funds on deposit in both Euro and U.S. dollar denominations of €669,160 (US\$818,256) with banks in excess of the insurance limits.

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 which 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 (loss) in the consolidated statement of comprehensive income (loss).

Derivative financial instruments

We employ derivatives to manage certain currency 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.

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 expense, 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 and 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 Year Ended December 31,	
	2020	2019
Net loss attributable to common stockholders	\$ (6,544)	\$ (900,337)
Depreciation and amortization	1,606,532	1,655,288
Amortization of deferred gain	(53,838)	(28,555)
Impairment of goodwill	-	1,697,394
Stock-based compensation expense	724,378	649,469
Interest income	(418,379)	(151,113)
Interest expense	550,774	165,560
Costs resulting from dissolution of SkyScale	-	(146,150)
Acquisition expenses (1)	-	4,075
(Benefit) provision for income taxes	(603,744)	237,252
Adjusted EBITDA	<u>\$ 1,799,179</u>	<u>\$ 3,182,883</u>

(1) Expenses incurred in the acquisition of Bressner.

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, and 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 reconciles net loss attributable to common stockholders and diluted earnings per share:

	For the Year Ended December 31,	
	2020	2019
Net loss attributable to common stockholders	\$ (6,544)	\$ (900,337)
Amortization of intangibles	683,935	984,065
Impairment of goodwill	-	1,697,394
Stock-based compensation expense	724,378	649,469
Cost resulting from dissolution of SkyScale	-	(146,150)
Acquisition expenses	-	4,075
Non-GAAP net income attributable to common stockholders	<u>\$ 1,401,769</u>	<u>\$ 2,288,516</u>
Non-GAAP net income per share attributable to common stockholders:		
Basic	<u>\$ 0.08</u>	<u>\$ 0.15</u>
Diluted	<u>\$ 0.08</u>	<u>\$ 0.14</u>
Weighted average common shares outstanding:		
Basic	<u>16,512,203</u>	<u>15,148,613</u>
Diluted	<u>16,752,434</u>	<u>16,158,627</u>

Free cash flow, a non-GAAP measure for reporting cash flow, is defined as cash provided by 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 operating activities, the most directly comparable GAAP financial measure, to free cash flow:

	For the Year Ended December 31,		Change
	2020	2019	
Cash flow:			
Cash (used in) provided by operating activities	\$ (250,173)	\$ 2,374,868	\$ (2,625,041)
Capital expenditures	(820,336)	(2,386,227)	1,565,891
Free cash flow	<u>\$ (1,070,509)</u>	<u>\$ (11,359)</u>	<u>\$ (1,059,150)</u>

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See the financial statements included elsewhere in this report beginning at page F-1, which are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.**Conclusion Regarding the Effectiveness of Disclosure 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 not be detected.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this Annual Report. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. We have conducted an evaluation of the effectiveness of our internal control over financial reporting. Based on our evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2020.

Attestation Report of the Independent Registered Public Accounting Firm

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm due to an exemption established by the JOBS Act for "emerging growth companies."

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's goal is to continue to improve upon our internal control environment as we refine our processes and procedures to address our growing business and operations in other geographies. As we continue to evaluate and take actions to improve our internal control over financial reporting, we may determine to take additional actions to address control deficiencies or determine to modify our plan based upon changes in our internal control environment.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Executive Officers and Directors

The following table sets forth the names, ages, and positions of our executive officers and directors as of February 28, 2021. There are no arrangements, agreements or understandings between non-management security holders and management under which non-management security holders may directly or indirectly participate in or influence the management of our affairs. There are no arrangements or understandings between any director and any other person pursuant to which any director or executive officer was or is to be selected as a director or executive officer, as applicable. There currently are no legal proceedings, and during the past ten years there have been no legal proceedings that are material to the evaluation of the ability or integrity of any of our directors or director nominees.

Name	Age	Position
Executive Officers:		
David Raun	59	President and Chief Executive Officer
John W. Morrison, Jr.	63	Chief Financial Officer, Treasurer and Secretary
Jim Ison	51	Chief Sales & Marketing Officer
Non-Employee Directors:		
Kenneth Potashner (1)(2)	63	Chairman
Jack Harrison (1)(4)	65	Director
Kimberly Sentovich (2)(3)	53	Director
Sita Lowman(3)(4)	55	Director
Gioia Messinger(2)(3)	58	Director
Greg Matz (1)(3)(4)	61	Director

- (1) Member of the Nominating and Corporate Governance Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Audit Committee.
- (4) Member of the Risk Oversight Committee.

Executive Officers

David Raun served as our interim chief executive officer since his appointment on February 15, 2020 until June 24, 2021, when he was appointed as the Company's president and chief executive officer. Mr. Raun formerly served as the audit chair on the One Stop Systems board of directors and serves as a director. Mr. Raun was with PLX Technology, Inc., a publicly traded company on Nasdaq, from 2004-2014 where he eventually became president, chief executive officer and a director. In this role, he led the company to an acquisition by Avago (now Broadcom) after driving the company to large PCI Express market share, record revenues and profits. This PCIe switch leadership position at PLX makes him very familiar with the OSS markets and the components he defined and marketed to many of OSS products. Mr. Raun also served as chief operations officer at Home Bay Technologies, an on-line technology based real estate company in 2019. Prior to Home Bay, he was the president, COO and interim chief financial officer at ASSIA, Inc. a Silicon Valley-based SaaS providers from 2016-2018. Here he led a turnaround driving to record revenues and sizable operating margins. Prior to these roles he had multiple VP of marketing, business development, corporate development and sales roles. He was chairman of the board at Kilopass, a semiconductor IP supplier until they were acquired by Synopsys in 2019. Mr. Raun holds a B.S. in computer and electrical engineering from University of California, Santa Barbara. David Raun has more than 24 years of experience at senior management and board levels in public and private companies including over 10 M&A/fund raising events which is a great benefit to OSS.

John W. Morrison, Jr. has served as our chief financial officer since September 1, 2017. Mr. Morrison is a CPA with more than 30 years' experience in public accounting and all aspects of financial reporting and financing. From June 2014 to September 2017, he served as the chief financial and operations officer for Carol Cole Company. Prior to Carol Cole, he served as a consultant to various private companies regarding their financial and operational affairs. From January 2013 to September 2013 he served as the chief financial officer of Gen-E, an information technology and services company. Mr. Morrison also served as the executive vice president and chief financial officer for the Kelley Blue Book Company for 11 years. He began his career working 15 years for the public accounting firm PricewaterhouseCoopers (now PwC) both in the U.S. and Asia. Mr. Morrison holds a B.S. in accounting and business management and MACC in Accounting from Brigham Young University.

Jim Ison, has been with OSS since 2004 and currently serves as the Chief Sales and Marketing Officer. Mr. Ison has 28 years' combined sales, product management and marketing management experience in leading-edge large-scale electronic systems using breakthrough technologies. His expertise covers government, communications and HPC markets with particular focus on AI applications in unique environments. Prior to OSS, Mr. Ison held senior sales and marketing positions for Ziatech and Rittal. During the 15 years in OSS management, he has led the technological evolution and integration of OSS' many mergers and acquisitions. Mr. Ison holds a bachelor's degree in Aeronautical Engineering from CalPoly SLO and an MBA from University of Florida.

Board of Directors

Kenneth Potashner has served as Chairman of our board of directors since May 2019. Mr. Potashner has extensive BOD experience in high growth, high technology global organizations. He has served as Chairman of Newport Corporation where he provided 18 years of service culminating in the sale of Newport in 2016 for \$980 million. Mr. Potashner was Chairman of Maxwell Technologies and directed it through a period of rapid expansion. He has also served on the BOD of California Micro Devices, SonicBlue Inc, and Singapore Technologies, all publicly traded companies. Mr. Potashner is currently serving as the Executive Chairman of Home Bay Technologies. He has also served on the Board of many private companies as well including DynaOptics, MyOffice.com, Underground Elephant, Lumedyne, Events.com, and several others. Several of the private companies that Mr. Potashner has had affiliations with have achieved successful exits or significant financings. Mr. Potashner has a BSEE from Lafayette College and an MSEE from SMU, Executive certifications from Columbia and INSEAD in Lausanne, Switzerland. He also has an Advanced Professional Director certification from American Board of Directors.

Jack Harrison has served on our board of directors since December 2016. He was founder, president and chief executive officer of Aspen Integrated Technologies, a microelectronics and MEMS company, which he sold in 2011. Mr. Harrison is currently the president of Integrity Energy, an oil and gas company, and also serves as the chairman of the board of Reach Beyond: a non-profit charitable organization of which he has been affiliated for more than 20 years. Mr. Harrison holds a BME degree from Wheaton College. He brings decades of experience in the microelectronics space and his business and technical expertise represent important assets to OSS.

Kimberly Sentovich joined the board in February 2019 and is a seasoned merchandising, operations, IT and supply chain executive with 30 years of experience with multi-billion-dollar profit and loss responsibility. From 2017 to 2019, Ms. Sentovich served as the Senior Vice President of Operations for Torrid, an apparel retailer. From 2015 to 2017, Ms. Sentovich was Executive Vice President of Stores and Logistics at Gymboree, responsible for all 1300 company owned stores in North America. Ms. Sentovich previously spent seven years (2008-2015) at Walmart rising from Regional Vice President of Operations – California to Divisional Senior Vice President of Operations – Pacific Division and fifteen years at The Home Depot (1993-2008) rising to the level of Regional Vice President of Operations. Ms. Sentovich obtained her MBA from The Paul Merage School of Business, University of California, Irvine and her B.A. in Philosophy and Political Science with a Minor in economics from Bryn Mawr College. Ms. Sentovich's extensive executive and operations experience, as well as her independence, judgment and exceptional leadership experience makes her a valuable addition to the Board.

Sita Lowman, joined the board in July 2020 and is a Fortune 500 executive that drives enterprise business transformation. Her expertise for identifying market trends, for organizing multi-national diverse teams to quickly react to these trends, and for leveraging partnerships to expand globally make her frequently called upon to lead new business ventures. Currently, Ms. Lowman serves as Vice President and General Manager for the Platform Services business of DXC Technologies, a multi-billion-dollar IT services Fortune 500 Company. At DXC, she is actively engaging in strategic partnerships with the world's largest public cloud providers and Enterprise application providers, with responsibilities including P&L financial management, GTM and operations activities. From 2013 to 2017, Ms. Lowman was Senior Director, Enterprise Solutions on Demand Service Offering Management, Workload and Cloud for Hewlett Packard Enterprise. She has also held General Manager roles at Nortel Networks and Texas Instruments (TI) Defense Group (acquired by Raytheon). Ms. Lowman holds a BSS of Electrical Engineering from Auburn University. Ms. Lowman's extensive Fortune 500 experience, including in the IT services, cloud enterprise and defense industries makes her well suited to serve in a director role with the Company.

Gioia Messinger, joined the board in July 2020 and is an accomplished venture-backed executive and founder focused on innovation and market disruption. She has years of experience in consumer electronics, Internet of Things (IoT), robotics/AI and digital health as Founder/CEO, board member, consultant and venture capital advisor. From 2012 to present, Ms. Messinger has been the founder and principal of LinkedObjects, Inc. a strategic advisory services business focused on digital transformation brought about by AI and IoT. She is the past founder and CEO of Avaak, Inc. (NYSE:ARLO) that created Arlo, the award-winning smart video security system for home or business that defined the category and is now the market leader. She is a past founder and CEO of an early stage healthcare IT company and an early contributor to the development of the PillCam™ (NASDAQ:GIVN). Ms. Messinger served on the Board of Vicon Industries (NYSE:VII), a manufacturer of commercial video surveillance systems. She currently serves on the board of Kelzal (Qelzal Corporation), a venture backed company in the AI space, and on the Council of Advisors of the UC San Diego Jacobs School of Engineering. Ms. Messinger obtained her MBA from the Paul Merage School of Business at the University of California, Irvine and her B.S. in Computer Engineering from University of California, San Diego. Ms. Messinger's technical skills and understanding, thought leadership and industry relationships make her an invaluable addition to the Board.

Greg Matz, CPA, joined the board in July 2020 and is an experienced financial executive serving in controller, Vice President and CFO roles for over 20 years. Now retired, Mr. Matz is currently serving as a member of the board of directors and audit committee chair for Dare Bioscience, Inc. (NASDAQ:DARE), a public clinical-stage biopharmaceutical company. Mr. Matz also chairs the Dean's Council for the University of San Francisco's School of Management. From 2011 to 2016, he worked for The Cooper Companies, Inc. (NYSE:COO) holding roles as the Senior Vice President and Chief Financial Officer and Chief Risk Officer. From 2010 to 2011 Mr. Matz was the Chief Financial Officer for CooperVision, a business unit of The Cooper Companies, Inc. Prior to joining The Cooper Companies, Inc., he held key management roles in finance and marketing at Agilent Technologies and Hewlett Packard. He began his career at KPMG and is a CPA with an active certification. Mr. Matz graduated from the University of San Francisco with a B.S. in Business Administration and completed the University of Pennsylvania, The Wharton School's Advanced Management Program. Mr. Matz is also a National Association of Corporate Directors (NACD) Board Leadership Fellow. Our board of directors believes Mr. Matz's experience as a chief financial officer and chief risk officer of a public company and his corporate experience in financial functions, risk management, capital markets and corporate strategy qualifies him to serve as a member of the board of directors.

Board Composition and Election of Directors

Director Independence

Our board of directors currently consists of seven (7) members. Our board of directors has determined that Kenneth Potashner, Jack Harrison, Kim Sentovich, Sita Lowman, Gioia Messinger and Greg Matz are all independent directors in accordance with the listing requirements of The Nasdaq Capital Market. The Nasdaq independence definition includes a series of objective tests, including that the director is not, and has not been for at least three years, one of our employees and that neither the director nor any of his family members has engaged in various types of business dealings with us. In addition, as required by Nasdaq rules, our board of directors has made a subjective determination as to each independent director that no relationships exist, which, in the opinion of our board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, our board of directors reviewed and discussed information provided by the directors and us with regard to each director's business and personal activities and relationships as they may relate to us and our management.

Board Committees and Independence

Our board of directors has established four standing committees – audit, compensation and nominating, corporate governance, and risk oversight – each of which operates under a charter that has been approved by our board of directors.

Audit Committee

The audit committee's main function is to oversee our accounting and financial reporting processes and the audits of our financial statements. This committee's responsibilities include, among other things:

- selecting and retaining (subject to approval by the Company's stockholders) our independent registered public accounting firm;
- setting the compensation of our independent registered public accounting firm;
- overseeing the work of our independent registered public accounting firm and pre-approving all audit services they provide;

- approving all permitted non-audit services performed by our independent registered public accounting firm;
- establishing policies and procedures for engagement of our independent registered public accounting firm for permitted audit and non-audit services;
- evaluating the qualifications, independence and performance of our independent registered public accounting firm;
- reviewing the design, implementation, adequacy and effectiveness of our internal accounting controls and our critical accounting policies;
- discussing with management and the independent registered public accounting firm the results of our annual audit and the review of our quarterly unaudited financial statements;
- reviewing the scope and plan of our independent registered public accounting firm and their effective use of audit resources;
- reviewing with management and independent auditors their significant audit findings, and assess the steps that management has taken or proposes to take to minimize significant risks or exposures facing the Company, and periodically review compliance with such steps;
- establishing procedures for the Company’s confidential and anonymous receipt, retention and treatment of complaints regarding the Company’s accounting, internal controls and auditing matters, as well as for the confidential, anonymous submissions by Company employees of concerns regarding questionable accounting or auditing matters;
- obtaining the advice and assistance, as appropriate, of independent counsel and other advisors as necessary to fulfill the responsibilities of the audit committee, and receive appropriate funding from the Company, as determined by the audit committee, for the payment of compensation to any such advisors;
- reviewing, overseeing and monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters; and
- reviewing and evaluating, at least annually, the performance of the audit committee and its members including compliance of the audit committee with its charter.

The members of our audit committee are Ms. Sentovich, Ms. Lowman, Ms. Messinger and Mr. Matz. Ms. Sentovich serves as the chairwoman of the committee. All members of our audit committee meet the requirements for financial literacy under the applicable rules and regulations of the SEC and The Nasdaq Capital Market. Our board of directors has determined that Ms. Sentovich and Mr. Matz are “audit committee financial experts” as defined by applicable SEC rules and have the requisite financial sophistication as defined under the applicable Nasdaq rules and regulations. Our board of directors has determined that Ms. Sentovich, Ms. Lowman, Ms. Messinger and Mr. Matz are independent under the applicable rules of the SEC and The Nasdaq Capital Market. We are currently in compliance with Nasdaq rules and Rule 10A-3 due to the fact that all members of our audit committee have been deemed independent by our board of directors. The audit committee operates under a written charter that satisfies the applicable standards of the SEC and The Nasdaq Capital Market.

Compensation Committee

Our compensation committee approves, or recommends to our board of directors, policies relating to compensation and benefits of our officers and employees. The compensation committee approves, or recommends to our board of directors, annual and long-term corporate goals and objectives relevant to the compensation of our chief executive officer and other executive officers, evaluates the performance of these officers in light of those goals and objectives and approves, or recommends to our board of directors, the compensation of these officers based on such evaluations. The compensation committee also approves, or recommends to our board of directors, the issuance of stock options and other awards under our equity plan. The compensation committee will review and evaluate, at least annually, the performance of the compensation committee and its members, including compliance by the compensation committee with its charter.

The members of our compensation committee are Mr. Potashner, Ms. Sentovich, and Ms. Messinger. Mr. Potashner serves as the chairperson of the committee. Our board of directors has determined that Mr. Potashner, Ms. Sentovich, and Ms. Messinger are independent under the applicable rules and regulations of The Nasdaq Capital Market and all current members qualify as a “non-employee director” as defined in Rule 16b-3 promulgated under the Exchange Act. Our board of directors has determined that each of the members of our compensation committee is an “outside director” as that term is defined in Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended, or Section 162(m). We are currently in compliance with Nasdaq rules due to the fact that all members of our compensation committee have been deemed independent by our board of directors. The compensation committee operates under a written charter, which the compensation committee will review and evaluate at least annually.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee is responsible for assisting our board of directors in discharging the board of directors’ responsibilities regarding the identification of qualified candidates to become board members, the selection of nominees for election as directors at our annual meetings of stockholders (or special meetings of stockholders at which directors are to be elected), and the selection of candidates to fill any vacancies on our board of directors and any committees thereof. In addition, the nominating and corporate governance committee is responsible for overseeing our corporate governance policies, reporting and making recommendations to our board of directors concerning governance matters and oversight of the evaluation of our board of directors. In February 2020, this committee added risk assessment and management to their charter.

The members of our nominating and corporate governance committee are Mr. Harrison, Mr. Potashner, and Mr. Matz. Mr. Harrison serves as the chairman of the committee. Our board of directors has determined that Mr. Harrison, Mr. Potashner, and Mr. Matz are independent under the applicable rules and regulations of The Nasdaq Capital Market relating to nominating and corporate governance committee independence. We are currently in compliance with Nasdaq rules due to the fact that all members of our nominating and corporate governance committee have been deemed independent by our board of directors. The nominating and corporate governance committee operates under a written charter, which the nominating and corporate governance committee will review and evaluate at least annually.

Risk Oversight Committee

The risk oversight committee is responsible for assisting our board of directors and overseeing and monitoring the Company’s senior management with carrying out its responsibilities such as identifying and assessing the material risks the Company faces, establishing a risk management, crisis management, and emergency response plan, overseeing financial risks, strategic risks, market risks, and other risks the Company faces, if applicable, and approving the Company’s enterprise wide risk management framework in conjunction with the board of directors.

The members of our risk oversight committee are Mr. Matz, Ms. Lowman, and Mr. Harrison. Mr. Matz serves as the chairman of the committee. Our board of directors has determined that Mr. Matz, Ms. Lowman, and Mr. Harrison are independent. The risk oversight committee operates under a written charter, which the risk oversight committee will review and evaluate at least annually.

Board Diversity

Our nominating and corporate governance committee is responsible for reviewing with the board of directors, on an annual basis, the appropriate characteristics, skills and experience required for the board of directors as a whole and its individual members. In evaluating the suitability of individual candidates (both new candidates and current members), the nominating and corporate governance committee, in recommending candidates for election, and the board of directors, in approving (and, in the case of vacancies, appointing) such candidates, will take into account many factors, including the following:

- personal and professional integrity, ethics and values;
- experience in corporate management, such as serving as an officer or former officer of a publicly-held company;
- experience as a board member or executive officer of another publicly-held company;
- strong finance experience;
- diversity of expertise and experience in substantive matters pertaining to our business relative to other board members;

- diversity of background and perspective, including, but not limited to, with respect to age, gender, race, place of residence and specialized experience;
- experience relevant to our business industry and with relevant social policy concerns; and
- relevant academic expertise or other proficiency in an area of our business operations.

Currently, our board of directors evaluates each individual in the context of the board of directors as a whole, with the objective of assembling a group that can best maximize the success of the business and represent stockholder interests through the exercise of sound judgment using its diversity of experience in these various areas.

Family Relationships

There are no family relationships between or among the directors, executive officers or persons nominated or chosen by us to become directors or executive officers.

Involvement in Certain Legal Proceedings

To the best of our knowledge, during the past ten years, none of the following occurred with respect to a present or former director, executive officer, or employee: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his or her involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

Code of Business Conduct and Ethics

We have adopted a written code of business conduct and ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial and accounting officer, controller, or persons performing similar functions. Our code of business conduct and ethics is available under the Investors – Corporate Governance section of our website at www.onestopsystems.com. In addition, we post on our website all disclosures that are required by law or the listing standards of The Nasdaq Capital Market concerning any amendments to, or waivers from, any provision of the code. The reference to our website address does not constitute incorporation by reference of the information contained at or available through our website, and should not consider it to be a part of this Annual Report.

Section 16(a) Beneficial Ownership Reporting Compliance

Under Section 16(a) of the Exchange Act, directors, executive officers and beneficial owners of 10% or more of our common stock, or reporting persons, are required to report to the SEC on a timely basis the initiation of their status as a reporting person and any changes with respect to their beneficial ownership of our common stock. Based solely on our review of copies of such forms that we have received, or written representations from reporting persons, we believe that during the fiscal year ended December 31, 2020, all executive officers, directors and greater than 10% stockholders complied with all applicable filing requirements, other than (i) James Reardon, David Raun, Jack Harrison, and Josef Bressner, each of who filed one (1) late report, (ii) John W. Morrison Jr. and Kenneth Potashner, each of who filed two (2) late reports, (iii) Jim Ison, who filed three (3) late reports, and (iv) Steve Cooper, who filed four (4) late reports. There were no known failures to file a required form.

ITEM 11. EXECUTIVE COMPENSATION.

This section discusses the material components of the executive compensation program for our executive officers who are named in the “Summary Compensation Table” below. In 2020, our “named executive officers” and their positions were as follows:

- David Raun, President and Chief Executive Officer;
- Jim Ison, Chief Sales and Marketing Officer; and,
- John W. Morrison Jr., Chief Financial Officer, Treasurer and Secretary
- Steve Cooper, Former President and Chief Executive Officer – terminated February 15, 2020

This discussion may contain forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt in the future may differ materially from the currently planned programs summarized in this discussion.

Summary Compensation Table

The following table provides information regarding the total compensation for services rendered in all capacities that was earned by each individual who served as our principal executive officer at any time in 2020 and 2019, and our two other most highly compensated executive officers who were serving as executive officers as of December 31, 2020 and 2019. David Raun became a named executive officers effective February 15, 2020. Prior to February 15, 2020, Steve Cooper served as president and chief executive officer. Other officers were named officers for both 2019 and 2020.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$)(1)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)(2)	Total (\$)
David Raun (3) President and Chief Executive Officer	2020	\$ 282,116	\$ -	\$ 1,696,019	\$ -	\$ 23,128	\$ 2,001,263
	2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Jim Ison Chief Sales and Marketing Officer	2020	\$ 264,816	\$ 74,973	\$ 40,500	\$ -	\$ 31,650	\$ 411,938
	2019	\$ 248,852	\$ 30,577	\$ 24,300	\$ -	\$ 34,689	\$ 338,418
John W. Morrison Jr. Chief Financial Officer	2020	\$ 285,574	\$ 113,194	\$ 40,500	\$ -	\$ 31,957	\$ 471,224
	2019	\$ 270,382	\$ 37,838	\$ 36,450	\$ -	\$ 35,944	\$ 380,614
Steve Cooper (4) Former President and Chief Executive Officer	2020	\$ 62,367	\$ 245,992	\$ -	\$ -	\$ 300,657	\$ 609,015
	2019	\$ 337,314	\$ 82,201	\$ 72,900	\$ -	\$ 23,692	\$ 516,107

- (1) Amounts reflect the full grant-date fair value of stock awards granted during the relevant fiscal year computed in accordance with ASC Topic 718, rather than the amounts paid to or realized by the named individual. We provide information regarding the assumptions used to calculate the value of all stock awards and option awards made to our officers in Note 9 to the audited consolidated financial statements for the year ended December 31, 2020 contained elsewhere in this Annual Report.
- (2) Represents payment of health insurance premiums and 401(k) contributions. For Mr. Cooper, it also includes severance benefits.
- (3) Mr. Raun was appointed interim chief executive officer on February 15, 2020, and was appointed president and chief executive officer on June 24, 2020.
- (4) Mr. Cooper was terminated on February 15, 2020.

Narrative Disclosure to Compensation Tables

Employment Agreements

Executive Employment Agreement with David Raun

Mr. Raun is entitled to a base salary of \$345,000, as approved by the Board of Directors on June 24, 2020, and subsequent annual increases as determined by the compensation committee and an annual bonus (paid out quarterly if targets are met) in the amount of 50% of his then annual base salary. The bonus is based on Mr. Raun's performance, as determined by the board of directors in its sole discretion, against fundamental corporate and/or individual objectives to be determined by the board of directors. Mr. Raun is eligible to participate in our 2017 Equity Incentive Plan subject to the discretion of the board of directors if and when the board of directors determines to make a grant to him.

Under the terms of the employment agreement with Mr. Raun, if we terminate his employment for other than good cause, or if Mr. Raun resigns for good reason, Mr. Raun is entitled to the following payments and benefits: (1) his fully earned but unpaid base salary through the date of termination at the rate then in effect, and any unreimbursed expenses incurred in accordance with Company policy; (2) severance payments in an aggregate amount up to twelve (12) months of Mr. Raun's then-current Base Salary (3) the continuation of Mr. Raun's group health continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA") at OSS' expense for a period of twelve (12) months

following the termination date, and (4) unvested Restricted Stock Units (“RSU’s”) shall accelerate so that an additional twelve (12) months of RSU’s shall vest from the termination date. Mr. Raun must provide a release and waiver to OSS as a condition of receiving benefits (2)-(4) set forth in this paragraph.

Executive Employment Agreement with John Morrison

Mr. Morrison is entitled to a base salary of \$275,000, as approved by the Board of Directors on February 13, 2020, and subsequent annual increases as determined by the compensation committee and a target quarterly bonus in the amount of 35% of his quarterly base salary. The target quarterly bonus is based on Mr. Morrison’s performance, as determined by the board of directors in its sole discretion, against fundamental corporate and/or individual objectives to be determined by the board of directors. Mr. Morrison is eligible to participate in our 2017 Equity Incentive Plan subject to the discretion of the board of directors if and when the board of directors determines to make a grant to him.

Under the terms of the employment agreement with Mr. Morrison, if we terminate his employment without cause (as defined below) or he resigns for good reason (as defined below) at any time other than within three (3) months immediately preceding or twelve (12) months immediately following the effective date of a change in control (as defined below), he is entitled to the following payments and benefits: (1) his fully earned but unpaid base salary through the date of termination at the rate then in effect, plus all other amounts under any compensation plan or practice to which he is entitled; (2) severance payments in an aggregate amount up to six (6) months of Mr. Morrison’s then-current Base Salary, paid to Mr. Morrison on OSS’ regular paydays until the earlier of (i) the date that is six (6) months following his termination or (ii) the date as of which he commences employment with another employer, subject to standard payroll deductions and withholdings; (3) a lump sum payment equal to Mr. Morrison’s then-current target bonus; (4) the continuation of Mr. Morrison’s group health continuation coverage under COBRA at OSS’ expense for a period of six (6) months following the termination date; *provided, however*, that in the event Mr. Morrison becomes eligible for comparable group insurance coverage in connection with new employment, such COBRA premium payments by OSS shall terminate immediately; and (5) the automatic acceleration of the vesting and exercisability of his equity awards and stock options. Mr. Morrison must provide a release and waiver to OSS as a condition of receiving benefits (2)-(5) set forth in this paragraph.

In the event Mr. Morrison’s termination without cause or resignation for good reason occurs within the three (3) months immediately preceding or twelve (12) months immediately following a change in control, he is entitled to the following payments and benefits: (1) a single lump-sum payment in an amount equal to six (6) months of Mr. Morrison’s then-current base salary, subject to standard payroll deductions and withholdings, payable within ten (10) business days of the date the release and waiver becomes effective; and (2) provided that Mr. Morrison timely elects such coverage, the continuation of Mr. Morrison’s group health continuation coverage under COBRA at OSS’ expense for a period of six (6) months following the termination date; *provided, however*, that in the event Mr. Morrison becomes eligible for comparable group insurance coverage in connection with new employment, such COBRA premium payments by OSS shall terminate immediately; and (3) the vesting of the shares subject to each of Mr. Morrison’s equity awards and stock options shall be accelerated such that one hundred percent (100%) of said shares shall be deemed fully-vested and, if applicable, immediately exercisable effective as of the date of such termination.

If Mr. Morrison’s employment is terminated as a result of his death or following his permanent disability, Mr. Morrison or his estate, as applicable, is entitled to the following payments and benefits: (1) his fully earned but unpaid base salary through the date of termination at the rate then in effect, plus all other amounts under any compensation plan, expense reimbursement or practice to which he is entitled; and (2) a lump sum cash payment in an amount equal to his “earned” bonus for the calendar quarter during which his date of termination occurs calculated as of the date of termination (wherein “earned” means that he has met the applicable bonus metrics as of date of such termination, as determined by the board of directors), prorated for such portion of the calendar quarter during which such termination occurs that has elapsed through the date of termination.

Executive Employment Agreement with Jim Ison

Mr. Ison is entitled to a base salary of \$255,000, as approved by the Board of Directors on February 13, 2020, and subsequent annual increases as determined by the compensation committee and a target quarterly bonus in the amount of 25% of his quarterly base salary. The target quarterly bonus is based on Mr. Ison’s performance, as determined by the board of directors in its sole discretion, against fundamental corporate and/or individual objectives to be determined by the board of directors. Mr. Ison is eligible to participate in our 2017 Equity Incentive Plan subject to the discretion of the board of directors if and when the board of directors determines to make a grant to him.

Under the terms of the employment agreement with Mr. Ison, if we terminate his employment without cause (as defined below) or he resigns for good reason (as defined below) at any time other than within three (3) months immediately preceding or twelve (12) months immediately following the effective date of a change in control (as defined below), he is entitled to the following payments and benefits: (1) his fully earned but unpaid base salary through the date of termination at the rate then in effect, plus all other amounts under any compensation plan or practice to which he is entitled; (2) severance payments in an aggregate amount up to six (6) months of Mr. Ison's then-current Base Salary, paid to Mr. Ison on OSS' regular paydays until the earlier of (i) the date that is six (6) months following his termination or (ii) the date as of which he commences employment with another employer, subject to standard payroll deductions and withholdings; (3) a lump sum payment equal to Mr. Ison's then-current target bonus; (4) the continuation of Mr. Ison's group health continuation coverage under COBRA at OSS' expense for a period of six (6) months following the termination date; *provided, however*, that in the event Mr. Ison becomes eligible for comparable group insurance coverage in connection with new employment, such COBRA premium payments by OSS shall terminate immediately; and (5) the automatic acceleration of the vesting and exercisability of his equity awards and stock options. Mr. Ison must provide a release and waiver to OSS as a condition of receiving benefits (2)-(5) set forth in this paragraph.

In the event Mr. Ison's termination without cause or resignation for good reason occurs within the three (3) months immediately preceding or twelve (12) months immediately following a change in control, he is entitled to the following payments and benefits: (1) a single lump-sum payment in an amount equal to six (6) months of Mr. Ison's then-current base salary, subject to standard payroll deductions and withholdings, payable within ten (10) business days of the date the release and waiver becomes effective; and (2) provided that Mr. Ison timely elects such coverage, the continuation of Mr. Ison's group health continuation coverage under COBRA at OSS' expense for a period of six (6) months following the termination date; *provided, however*, that in the event Mr. Ison becomes eligible for comparable group insurance coverage in connection with new employment, such COBRA premium payments by OSS shall terminate immediately; and (3) the vesting of the shares subject to each of Mr. Ison's equity awards and stock options shall be accelerated such that one hundred percent (100%) of said shares shall be deemed fully-vested and, if applicable, immediately exercisable effective as of the date of such termination.

If Mr. Ison's employment is terminated as a result of his death or following his permanent disability, Mr. Ison or his estate, as applicable, is entitled to the following payments and benefits: (1) his fully earned but unpaid base salary through the date of termination at the rate then in effect, plus all other amounts under any compensation plan, expense reimbursement or practice to which he is entitled; and (2) a lump sum cash payment in an amount equal to his "earned" bonus for the calendar quarter during which his date of termination occurs calculated as of the date of termination (wherein "earned" means that he has met the applicable bonus metrics as of date of such termination, as determined by the board of directors), prorated for such portion of the calendar quarter during which such termination occurs that has elapsed through the date of termination.

Defined Terms Applicable to Executive Employment Agreements

For purposes of executive employment agreements, "change in control" shall mean:

(i) The direct or indirect sale or transfer, in a single transaction or a series of related transactions, by the stockholders of the Company of voting securities, in which the holders of the outstanding voting securities of the Company immediately prior to such transaction or series of transactions hold, as a result of holding Company securities prior to such transaction, in the aggregate, securities possessing less than fifty percent (50%) of the total combined voting power all outstanding voting securities of the Company or of the acquiring entity immediately after such transaction or series of related transactions;

(ii) A merger or consolidation in which the Company is not the surviving entity, except for a transaction in which the holders of the outstanding voting securities of the Company immediately prior to such merger or consolidation hold as a result of holding Company securities prior to such transaction, in the aggregate, securities possessing more than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the surviving entity (or the parent of the surviving entity) immediately after such merger or consolidation;

(iii) A reverse merger in which the Company is the surviving entity but in which the holders of the outstanding voting securities of the Company immediately prior to such merger hold as a result of holding Company securities prior to such transaction, in the aggregate, securities possessing less than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the Company or of the acquiring entity immediately after such merger;

(iv) The sale, transfer or other disposition (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company, except for a transaction in which the holders of the outstanding voting securities of the Company immediately prior to such transaction(s) receive as a distribution with respect to securities of the Company, in the aggregate, securities possessing more than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the acquiring entity immediately after such transaction(s); or

(v) Any time individuals who, on the date this Plan is adopted by the board of directors, are members of the board of directors (the "Incumbent Board") cease for any reason to constitute at least a majority of the members of the input/output; *provided, however*, that if the appointment or election (or nomination for election) of any new board member was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new member shall, for purposes of this Plan, be considered as a member of the Incumbent Board.

For purposes of the executive employment agreements, "cause" means as determined in the sole discretion of the board of directors following written notice of the condition(s) believed to constitute cause, which notice shall briefly describe such condition(s), one or more of the following condition(s): (i) Executive's failure to substantially perform Executive's job duties (other than any such failure resulting from Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after his issuance of written notice of the occurrence of an event alleged by Executive to constitute good reason); (ii) Executive's failure to comply with all material applicable laws in performing Executive's job duties or in directing the conduct of OSS' business; (iii) Executive's commission of any felony or intentionally fraudulent acts against OSS, its affiliates, executives, agents or customers; (iv) Executive's participation in any activity that is directly competitive with or intentionally injurious to OSS or any of its affiliates or which violates the terms of Executive's proprietary information and inventions agreement; (v) Executive's material breach of the terms of Executive's proprietary information and inventions agreement; (vi) Executive's commission of any act of fraud, embezzlement or dishonesty against OSS or any of its affiliates, or use or intentional appropriation for Executive's personal use or benefit of any funds or material properties of OSS or any of its affiliates not authorized by the board of directors to be so used or appropriated; (vii) Executive's breach of any material provision of the employment agreement; and (viii) Executive's gross negligence, insubordination or material violation of any duty of loyalty to OSS or any other demonstrable material misconduct on the part of Executive; *provided, however*, that, termination by OSS under subsections (i) or (vii) of this Section 3.8(c), shall only be deemed for "cause" pursuant to the foregoing definition if Executive fails to remedy such condition(s) within thirty (30) days following delivery of the notice of termination for cause.

For purposes of the executive employment agreements, "good reason" means the occurrence of any of the following events without Executive's consent: (i) a material adverse change in Executive's duties, authority or responsibilities relative to the duties, authority or responsibilities in effect immediately prior to such reduction, or, as it relates to Mr. Cooper, the removal of Executive as chief executive officer of OSS; *provided, however*, that a reduction in duties, position or responsibilities solely by virtue of OSS being acquired and made part of a larger entity (as, for example, when Executive retains a similar position with a subsidiary of the acquiring entity following a change in control, but Executive does not hold the same position in the acquiring entity) shall not constitute "good reason;" and, *provided, further* that Executive's removal from the board of directors shall not constitute "good reason;" (ii) a material diminution in Executive's base compensation; or (iii) a material breach by OSS of its obligations under this Agreement; *provided, however*, that, such termination by Executive shall only be deemed for "good reason" pursuant to the foregoing definition if: (A) Executive gives OSS written notice of Executive's intent to terminate for good reason within sixty (60) days following the first occurrence of the condition(s) that Executive believes constitute(s) good reason, which notice shall describe such condition(s); (B) OSS fails to remedy such condition(s) within thirty (30) days following receipt of the written notice (the "Cure Period"); and (C) Executive voluntarily terminates Executive's employment within sixty (60) days following the end of the Cure Period.

Annual Cash Bonus

For 2020 and 2019, Mr. Raun, Mr. Ison and Mr. Morrison were eligible for bonuses. The executives' bonuses for 2020 and 2019 were determined at the discretion of our board of directors based on its assessment of our corporate performance. Based on this assessment, our board of directors determined not to award or pay Mr. Raun a bonus for 2020. Mr. Ison received a bonus of \$74,973 and \$30,060, representing 28.3% and 12.3% of his paid salary for 2020 and 2019, respectively and Mr. Morrison received a bonus of \$113,194 and \$37,326, representing 39.6% and 14.0% of his paid salary for 2020 and 2019, respectively. Mr. Cooper received bonuses of \$245,992 and \$82,201 representing 394.4% and 24.3% of his paid salary for 2020 and 2019, respectively.

Equity Compensation

We primarily offer stock options to our named executive officers as the long-term incentive component of our compensation program. Our stock options allow employees to purchase shares of our common stock at a price per share equal to the fair market value of our common stock on the date of grant and may or may not be intended to qualify as “incentive stock options” for U.S. federal income tax purposes. In the past, our board of directors has determined the fair market value of our common stock based upon inputs including valuation reports prepared by third-party valuation firms from time to time. Generally, the stock options we grant vest over three years, subject to the employee’s continued employment with us on the vesting date.

On June 24, 2020, the Company entered into an employment agreement with Mr. Raun to serve as the Company’s president and chief executive officer. Pursuant to the terms of the employment agreement, Mr. Raun is entitled to receive 412,125 restricted stock units (“RSUs”) that shall vest over three years, with one third of the RSUs vesting following the one-year anniversary of the date of grant, and the remaining RSUs vesting in four equal installments, commencing six months after the one-year anniversary of the date of grant and every six months thereafter until fully vested; and 412,125 Incentive Stock Options (“ISOs”) pursuant to the Company’s 2017 Equity Incentive Plan, whereby the exercise price for the ISOs shall be no less than the fair market value of the Company’s common stock at the date of grant, (\$2.14).

The ISOs shall vest at the end of each the second and fourth quarters, the price of the Company’s common stock as of the end of quarter two or quarter four, as applicable, shall be determined using the ten-day trailing volume weighted average price (“VWAP”) after reporting of quarter two and quarter four earnings, as applicable. The date of each such determination shall be referred to as a “Determination Date.” If on any Determination Date the Company’s stock price has increased from the prior Determination Date, then a portion of the ISOs shall become vested. The number of ISOs that shall become vested on a Determinate Date is determined as follows: $(\text{Price at Determination Date} - \text{Price at prior Determination Date}) \times 100 \div 1,177.52 = \text{Vested ISOs}$. If on any Determination Date the Company’s stock price is above \$5.50 per share, all ISOs shall immediately become vested.

On February 13, 2019, Mr. Ison received a restricted stock unit (RSU’s) grant of 10,000 shares of our common stock. The RSU’s vest over three years, with equal quarterly installments over a period of three years, subject to his continued employment with us on each vesting date.

On February 10, 2020, Mr. Ison received a restricted stock unit (RSU’s) grant of 15,000 shares of our common stock. The RSU’s vest over three years, with equal semi-annual installments over a period of three years, subject to his continued employment with us on each vesting date.

On February 13, 2019, Mr. Morrison received a restricted stock unit (RSU’s) grant of 15,000 shares of our common stock. The RSU’s vest over three years, with equal quarterly installments over a period of three years, subject to his continued employment with us on each vesting date.

On February 10, 2020, Mr. Morrison received a restricted stock unit (RSU’s) grant of 15,000 shares of our common stock. The RSU’s vest over three years, with equal semi-annual installments over a period of three years, subject to his continued employment with us on each vesting date.

Stock awards granted to our named executive officers may be subject to accelerated vesting in certain circumstances. For additional discussion, please see “Employment Agreements” above and “Change in Control Benefits” below.

Prior to our initial public offering, we adopted a 2017 Equity Incentive Plan, in order to facilitate the grant of cash and equity incentives to directors, employees (including our named executive officers) and consultants of our company and certain of its affiliates to enable our company and certain of its affiliates to obtain and retain services of these individuals, which is essential to our long-term success. For additional information about the 2017 Equity Incentive Plan, please see the section titled “Incentive Award Plans” below.

Other Elements of Compensation

Retirement Plans

We have 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 us. In 2020 and 2019, the matching contribution is 100% of the employee’s contribution up to a

maximum of 5% of the employee's annual compensation. However, matching contributions to the 401(k) plan were suspended in May 2020 as a component of the Company's cost containment efforts.

Employee Benefits and Perquisites

Our named executive officers are eligible to participate in our health and welfare plans which include health, vision, dental, disability, flex-spending, life insurance and 401(k) plan.

Change in Control Benefits

Our named executive officers may become entitled to certain benefits or enhanced benefits in connection with a change in control of our company. Each of our named executive officers' employment agreements entitles them to accelerated vesting of all outstanding equity awards, as well as certain other benefits, upon a change in control of our company. For additional discussion, please see "Employment Agreements" above.

Outstanding Equity Awards at Fiscal Year End

The following table summarizes the number of shares of common stock underlying outstanding equity incentive plan awards for each named executive officer as of December 31, 2020.

Name	Grant Date	Option Awards				Stock Awards				
		Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Equity Incentive plan awards: Number of securities underlying unexercised unearned options (#)	Option Exercise Price (\$)	Option expiration date	Number of shares or units of stock that have not vested (#)	Market value of shares of units of stock that have not vested (\$)	Equity Incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)	Equity Incentive plan awards: Market or payout value of unearned share, units or other right that have not vested (\$)
David Raun	4/18/2017			10,000	\$ 1.95	4/17/2027				
	6/24/2020			412,125	\$ 2.14	6/23/2030				
	3/4/2020						10,000	\$ 40,000		
	6/24/2020						8,634	\$ 34,536		
	6/24/2020						412,125	\$ 1,648,500		
Jim Ison	10/1/2012	25,355			\$ 0.76	9/30/2022				
	7/16/2014	50,000			\$ 0.46	7/15/2024				
	4/2/2016	25,000			\$ 1.08	4/1/2026				
	4/18/2017	20,000			\$ 1.95	4/17/2027				
	4/11/2018						1,670	\$ 6,680		
	2/13/2019						4,999	\$ 19,996		
	2/10/2020						12,500	\$ 50,000		
John W. Morrison Jr.	2/13/2019						7,500	\$ 30,000		
	2/10/2020						12,500	\$ 50,000		
Steve Cooper (1)		-	-	-	\$ -		-	\$ -		

(1) Mr. Cooper was terminated on February 15, 2020. Mr. Cooper exercised all vested options prior to his departure on a net exercise basis.

Directors Compensation

Mr. Raun who is our president and chief executive officer, received compensation for his service as a director until February 15, 2020. The compensation received by Mr. Raun as an officer for the year ended December 31, 2020 is presented in “Executive Compensation – Summary Compensation Table.”

The following table sets forth information for the year ended December 31, 2020, regarding the compensation awarded to, earned by or paid to our non-employee directors who served on our board of directors during 2020.

Name	Fees earned or paid in cash (\$)	Stock awards (\$)	RSU awards (\$)	Non-equity incentive plan compensation (\$)	Nonqualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
Ken Potashner	\$ 40,000	\$ -	\$ 20,800	\$ -	\$ -	\$ -	\$ 60,800
Jack Harrison	\$ 35,000	\$ -	\$ 20,800	\$ -	\$ -	\$ -	\$ 55,800
Kimberly Sentovich	\$ 35,000	\$ -	\$ 20,800	\$ -	\$ -	\$ -	\$ 55,800
Sita Lowman (1)	\$ 15,000	\$ -	\$ 15,287	\$ -	\$ -	\$ -	\$ 30,287
Gioia Messinger (1)	\$ 15,000	\$ -	\$ 15,287	\$ -	\$ -	\$ -	\$ 30,287
Greg Matz (1)	\$ 17,500	\$ -	\$ 15,287	\$ -	\$ -	\$ -	\$ 32,787
David Raun (2)	\$ 4,519	\$ -	\$ 20,800	\$ -	\$ -	\$ -	\$ 25,319
John Reardon (3)	\$ 12,775	\$ -	\$ 20,800	\$ -	\$ -	\$ -	\$ 33,575
Steve Cooper (3)	\$ 8,736	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,736

(1) New member effective July 1, 2020

(2) For the period January 1 – February 15, 2020

(3) Messrs. Reardon and Cooper were not proposed on the slate for the board of director’s effective from June 3, 2020.

Stock Option Plans

2017 Equity Incentive Plan

Our board of directors adopted our 2017 Equity Incentive Plan on October 10, 2017 (the “2017 Plan”). Our 2017 Plan allows for the grant of a variety of equity vehicles to provide flexibility in implementing equity awards, including incentive stock options, non-qualified stock options, restricted stock grants, unrestricted stock grants and restricted stock units.

Authorized Shares. A total of 1,500,000 shares of common stock were authorized under the 2017 Plan.

Plan Administration. As permitted by the terms of the 2017 Plan, the board of directors has delegated administration of the 2017 Plan to the compensation committee. As used herein with respect to the 2017 Plan, the “Board of Directors” refers to any committee the Board of Directors appoints as well as to the Board of Directors itself. Subject to the provisions of the 2017 Plan, the Board of Directors has the power to construe and interpret the 2017 Plan and awards granted under it and to determine the persons to whom and the dates on which awards will be granted, the number of shares of common stock to be subject to each award, the time or times during the term of each award within which all or a portion of such award may be exercised, the exercise price, the type of consideration and other terms of the award. Subject to the limitations set forth below, the Board of Directors will also determine the exercise price of options granted under the 2017 Plan and, with the consent of any adversely affected option holder, may reduce the exercise price of any outstanding option, cancel an outstanding option in exchange for a new option covering the same or a different number of shares of common stock or another equity award or cash or other consideration, or any other action that is treated as a repricing under generally accepted accounting principles. All decisions, determinations and interpretations by the Board of Directors regarding the 2017 Plan shall be final and binding on all participants or other persons claiming rights under the 2017 Plan or any award.

Options. Options granted under the 2017 Plan may become exercisable in cumulative increments (“vest”) as determined by the Board of Directors. Such increments may be based on continued service to the Company over a certain period of time, the occurrence of certain performance milestones, or other criteria. Options granted under the 2017 Plan may be subject to different vesting terms. The Board of Directors has the power to accelerate the time during which an option may vest or be exercised. In addition, options granted under the 2017 Plan may permit exercise prior to vesting, but in such event the participant may be required to enter into an early exercise stock purchase agreement that allows the Company to repurchase unvested shares, generally at their exercise price, should the participant’s service terminate before vesting. To the

extent provided by the terms of an option, a participant may satisfy any federal, state or local tax withholding obligation relating to the exercise of such option by a cash payment upon exercise, by authorizing the Company to withhold a portion of the stock otherwise issuable to the participant, or by such other method as may be set forth in the option agreement. The maximum term of options under the 2017 Plan is 10 years, except that in certain cases the maximum term of certain incentive stock options is five years. Options under the 2017 Plan generally terminate three months after termination of the participant's service. Incentive stock options are not transferable except by will or by the laws of descent and distribution, provided that a participant may designate a beneficiary who may exercise an option following the participant's death. Non-statutory stock options are transferable to the extent provided in the option agreement.

Stock Bonuses and Restricted Stock Awards. Subject to certain limitations, the consideration, if any, for restricted stock unit awards must be at least the par value of our common stock. The consideration for a stock unit award may be payable in any form acceptable to the Board of Directors and permitted under applicable law. The Board of Directors may impose any restrictions or conditions upon the vesting of restricted stock unit awards, or that delay the delivery of the consideration after the vesting of stock unit awards, that it deems appropriate. Restricted stock unit awards are settled in shares of the Company's common stock. Dividend equivalents may be credited in respect of shares covered by a restricted stock unit award, as determined by the Board of Directors. At the discretion of the Board of Directors, such dividend equivalents may be converted into additional shares covered by the restricted stock unit award. If a restricted stock unit award recipient's service relationship with the Company terminates, any unvested portion of the restricted stock unit award is forfeited upon the recipient's termination of service.

Certain Adjustments. Transactions not involving receipt of consideration by the Company, such as a merger, consolidation, reorganization, recapitalization, reincorporation, reclassification, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, or a change in corporate structure may change the type(s), class(es) and number of shares of common stock subject to the 2017 Plan and outstanding awards. In that event, the 2017 Plan will be appropriately adjusted as to the type(s), class(es) and the maximum number of shares of common stock subject to the 2017 Plan and the Section 162(m) Limitation, and outstanding awards will be adjusted as to the type(s), class(es), number of shares and price per share of common stock subject to such awards.

2015 Stock Option Plan

Our board of directors adopted, and our stockholders approved, our 2015 Stock Option Plan in December 2015 (the "2015 Plan"). Our 2015 Plan allows for the grant of incentive stock options, within the meaning of Section 422 of the Code, to our employees and our parent and subsidiary corporations' employees, and for the grant of non-statutory stock options to our employees, directors and consultants and our parent and subsidiary corporations' employees, directors and consultants.

Authorized Shares. A total of 1,500,000 shares of common stock were authorized for grant under the 2015 Plan. Our 2015 Plan was terminated by the board of directors on October 10, 2017, and accordingly, no shares are available for issuance under the 2015 Plan. Our 2015 Plan will continue to govern outstanding awards granted thereunder.

Plan Administration. Our board of directors or a committee of our board (the administrator) administers our 2015 Plan. Subject to the provisions of the 2015 Plan, the administrator has the full authority and discretion to take any actions it deems necessary or advisable for the administration of the 2015 Plan. The administrator has the power to construe and interpret the terms of our 2015 Plan and awards granted under it, to prescribe, amend and rescind rules relating to our 2015 Plan, including rules and regulations relating to sub-plans, and to determine the terms and conditions of the awards, including the exercise price, the number of shares of our common stock subject to each such award, any vesting acceleration or waiver of forfeiture restrictions, and any restrictions or limitations regarding awards or the shares relating thereto. All decisions, interpretations and other actions of the administrator are final and binding on all participants in the 2015 Plan.

Options. Stock options may be granted under our 2015 Plan. The exercise price per share of all options must equal at least 100% of the fair market value per share of our common stock on the date of grant, as determined by the administrator. The term of a stock option may not exceed 10 years. With respect to any participant who owns 10% of the voting power of all classes of our outstanding stock as of the grant date, the term of an incentive stock option granted to such participant must not exceed five years and the exercise price per share of such incentive stock option must equal at least 110% of the fair market value per share of our common stock on the date of grant, as determined by the administrator.

After termination of an employee, director or consultant, he or she may exercise his or her option for the period of time as specified in the applicable option agreement. If termination is due to death or disability, the option generally will remain

exercisable for at least twelve months. In all other cases, the option will generally remain exercisable for at least 90 days. However, an option generally may not be exercised later than the expiration of its term.

Transferability of Options. Unless our administrator provides otherwise, our 2015 Plan generally does not allow for the transfer or assignment of options, except by will or by the laws of descent and distribution.

Certain Adjustments. In the event of certain changes in our capitalization, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the 2015 Plan, the administrator will adjust the number and class of shares that may be delivered under our 2015 Plan and/or the number, class and price of shares covered by each outstanding award.

2011 Stock Option Plan

Our board of directors adopted, and our stockholders approved, our 2011 Stock Option Plan in December 2011 (the “2011 Plan”). Our 2011 Plan allows for the grant of incentive stock options, within the meaning of Section 422 of the Code, to our employees and our parent and subsidiary corporations’ employees, and for the grant of non-statutory stock options to our employees, directors and consultants and our parent and subsidiary corporations’ employees, directors and consultants.

Authorized Shares. A total of 1,500,000 shares of common stock were authorized for grant under the 2011 Plan. Our 2011 Plan was terminated by the board of directors on October 10, 2017, and accordingly, no shares are available for issuance under the 2011 Plan. Our 2011 Plan will continue to govern outstanding awards granted thereunder.

Plan Administration. Our board of directors administers our 2011 Plan. Subject to the provisions of the 2011 Plan, the board of directors has the full authority and discretion to take any actions it deems necessary or advisable for the administration of the 2011 Plan. The board of directors has the power to construe and interpret the terms of our 2011 Plan and awards granted under it, to prescribe, amend and rescind rules relating to our 2011 Plan, including rules and regulations relating to sub-plans, and to determine the terms and conditions of the awards, including the exercise price, the number of shares of our common stock subject to each such award, any vesting acceleration or waiver of forfeiture restrictions, and any restrictions or limitations regarding awards or the shares relating thereto. All decisions, interpretations and other actions of the board of directors are final and binding on all participants in the 2011 Plan.

Options. Stock options may be granted under our 2011 Plan. The exercise price per share of all options must equal at least 100% of the fair market value per share of our common stock on the date of grant, as determined by the board of directors. The term of a stock option may not exceed 10 years. With respect to any participant who owns 10% of the voting power of all classes of our outstanding stock as of the grant date, the term of an incentive stock option granted to such participant must not exceed five years and the exercise price per share of such incentive stock option must equal at least 110% of the fair market value per share of our common stock on the date of grant, as determined by the board of directors.

After termination of an employee, director or consultant, he or she may exercise his or her option for the period of time as specified in the applicable option agreement. If termination is due to death or disability, the option generally will remain exercisable for at least twelve months. In all other cases, the option will generally remain exercisable for at least 90 days. However, an option generally may not be exercised later than the expiration of its term.

Transferability of Options. Unless our board of directors provides otherwise, our 2011 Plan generally does not allow for the transfer or assignment of options, except by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the board of directors, in its discretion, a non-statutory option shall be assignable or transferable subject to the applicable limitations, if any, described in Rule 701 under the Securities Act.

Certain Adjustments. In the event of certain changes in our capitalization, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the 2011 Plan, the board of directors will adjust the number and class of shares that may be delivered under our 2011 Plan and/or the number, class and price of shares covered by each outstanding award.

2000 Stock Option Plan

Our board of directors adopted, and our stockholders approved, our 2000 Stock Option Plan (the “2000 Plan”). Our 2000 Plan allows for the grant of incentive stock options, within the meaning of Section 422 of the Code, to our employees and our parent and subsidiary corporations’ employees, and for the grant of non-statutory stock options to our employees, directors and consultants and our parent and subsidiary corporations’ employees, directors and consultants.

Authorized Shares. A total of 1,500,000 shares of common stock were authorized for grant under the 2000 Plan. In November 2008, the 2000 Plan was increased to allow for an aggregate of 3,000,000 shares authorized under the plan. Our 2000 Plan expired on its terms in 2010, and accordingly, no shares are available for issuance under the 2000 Plan. Our 2000 Plan will continue to govern outstanding awards granted thereunder.

Plan Administration. Our board of directors administers our 2000 Plan. Subject to the provisions of the 2000 Plan, the board of directors has the full authority and discretion to take any actions it deems necessary or advisable for the administration of the 2000 Plan. The board of directors has the power to construe and interpret the terms of our 2000 Plan and awards granted under it, to prescribe, amend and rescind rules relating to our 2000 Plan, including rules and regulations relating to sub-plans, and to determine the terms and conditions of the awards, including the exercise price, the number of shares of our common stock subject to each such award, any vesting acceleration or waiver of forfeiture restrictions, and any restrictions or limitations regarding awards or the shares relating thereto. All decisions, interpretations and other actions of the board of directors are final and binding on all participants in the 2000 Plan.

Options. Under the 2000 Plan, the exercise price per share of all options must equal at least 100% of the fair market value per share of our common stock on the date of grant, as determined by the board of directors. The term of a stock option may not exceed 10 years. With respect to any participant who owns 10% of the voting power of all classes of our outstanding stock as of the grant date, the term of an incentive stock option granted to such participant must not exceed five years and the exercise price per share of such incentive stock option must equal at least 110% of the fair market value per share of our common stock on the date of grant, as determined by the board of directors.

After termination of an employee, director or consultant, he or she may exercise his or her option for the period of time as specified in the applicable option agreement. If termination is due to death or disability, the option generally will remain exercisable for at least twelve months. In all other cases, the option will generally remain exercisable for at least 90 days. However, an option generally may not be exercised later than the expiration of its term.

Transferability of Options. Unless our board of directors provides otherwise, our 2000 Plan generally does not allow for the transfer or assignment of options, except by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the board of directors, in its discretion, a non-statutory option shall be assignable or transferable subject to the applicable limitations, if any, described in Rule 701 under the Securities Act.

Certain Adjustments. In the event of certain changes in our capitalization, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the 2000 Plan, the board of directors will adjust the number and class of shares that may be delivered under our 2000 Plan and/or the number, class and price of shares covered by each outstanding award.

S-8 Registration Statement:

On October 3, 2018, the Company filed a Form S-8 Registration Statement relating to 3,432,525 shares of the Company's common stock, par value \$0.0001 per share issuable to the employees, officers, directors, consultants and advisors of the Company under the Company's 2017 Plan, 2015 Plan, 2011 Plan, and 2000 Plan.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth information regarding beneficial ownership of our common stock, as of February 28, 2021, by:

- each person, or group of affiliated persons, known by us to be the beneficial owner of more than 5% of our common stock;
- each of our named executive officers;
- each of our directors; and
- all of our executive officers and directors as a group.

We have determined beneficial ownership in accordance with SEC rules. The information does not necessarily indicate beneficial ownership for any other purpose. Under these rules, the number of shares of common stock deemed outstanding includes shares issuable upon exercise of stock options or warrants held by the respective person or group that may be exercised or converted within 60 days after February 28, 2021. For purposes of calculating each person's or group's

percentage ownership, stock options and warrants exercisable within 60 days after February 28, 2021 are included for that person or group but not for any other person or group.

Applicable percentage ownership is based on 16,912,312 shares of common stock outstanding at February 28, 2021.

Unless otherwise indicated and subject to applicable community property laws, to our knowledge, each stockholder named in the following table possesses sole voting and investment power over the shares listed. Unless otherwise noted below, the address of each person listed on the table is c/o One Stop Systems, Inc., 2235 Enterprise Street, #110, Escondido, CA 92029.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percent of Common Stock Beneficially Owned
5% or greater stockholders:		
Steve Cooper (11)	3,042,675	18.0 %
James Reardon (12)	1,139,312	6.7 %
Bard & Associate (13)	974,255	5.8 %
Named Executive Officer and Directors:		
David Raun (1)	105,497	*
Ken Potashner (2)	362,057	2.1 %
Jack Harrison (3)	60,218	*
Kimberly Sentovich (4)	17,500	*
Sita Lowman (5)	6,164	*
Gioia Messinger (6)	6,924	*
Greg Matz (7)	8,664	*
Jim Ison (8)	152,592	*
John Morrison (9)	69,611	*
All executive officers and directors as a group (9 persons) (10)	<u>789,227</u>	<u>4.57 %</u>

* Less than 1%.

- (1) Consists of (i) 81,544 shares of common stock held by Mr. Raun, (ii) 10,000 shares of common stock Mr. Raun has the right to acquire or receive from us within 60 days of February 28, 2021, and (iii) 13,953 shares of common stock that Mr. Raun has the right to exercise within 60 days of February 28, 2021 pursuant to common stock warrants. Mr. Raun is our president and chief executive officer.
- (2) Consists of (i) 169,200 shares of common stock held by Mr. Potashner, (ii) 47,857 shares of common stock that Kenco, Inc. has the right to exercise within 60 days of February 28, 2021 pursuant to common stock warrants, and (iii) 145,000 shares of common stock that Mr. Potashner has the right to acquire or receive from us within 60 days of February 28, 2021 pursuant to the exercise of stock options. Mr. Potashner has sole voting and investment control over Kenco, Inc. Mr. Potashner is the chairman of the board of directors.
- (3) Consists of (i) 30,451 shares of common stock held by Mr. Harrison, and (ii) 19,767 shares of common stock that Mr. Harrison has the right to exercise within 60 days of February 28, 2021 pursuant to common stock warrants, and (iii) 10,000 shares of common stock that Mr. Harrison has the right to acquire from us within 60 days of February 28, 2021 pursuant to the exercise of stock options. Mr. Harrison is a member of the board of directors.
- (4) Consists of 17,500 shares of common stock held by Ms. Sentovich. Ms. Sentovich is a member of the board of directors.
- (5) Consists of 6,164 shares of common stock held by Ms. Lowman. Ms. Lowman is a member of the board of directors.
- (6) Consists of 6,924 shares of common stock held by Ms. Messinger. Ms. Messinger is a member of the board of directors.
- (7) Consists of 8,664 shares of common stock held by Mr. Matz. Mr. Matz is a member of the board of directors.
- (8) Consists of (i) 31,400 shares of common stock held by Mr. Ison, and (ii) 120,355 shares of common stock and (iii) 837 RSU's that Mr. Ison has the right to acquire or receive from us within 60 days of February 28, 2021 pursuant to the exercise of stock options. Mr. Ison is the chief sales and marketing officer of the company.
- (9) Consists of (i) 69,611 shares of common stock held by Mr. Morrison. Mr. Morrison is the chief financial officer of the company.
- (10) Includes (i) 421,458 shares beneficially owned by our current named executive officers and directors, (ii) 366,932 shares subject to options, warrants or convertible securities, and (iii) 837 RSU's that are either exercisable or such person has a right to receive within 60 days of February 28, 2021, as set forth in the previous footnotes.

- (11) Consists of 3,042,675 shares of common stock held by The Cooper Revocable Trust dated April 25, 2001. Mr. Cooper shares joint voting and investment control of The Cooper Revocable Trust dated April 25, 2001 with his wife Lori Cooper. Mr. Cooper served as our chief executive officer and president until February 15, 2020.
- (12) Consists of (i) 1,119,312 shares of common stock held by Mr. Reardon, and (ii) 20,000 shares of common stock that Mr. Reardon has the right to acquire from us within 60 days of February 28, 2021 pursuant to the exercise of stock options. Mr. Reardon is a VP of sales of the Company.
- (13) Schedule 13G filed with the SEC on February 12, 2021.

Equity Compensation Plan Information:

The following table provides information as of December 31, 2020, regarding our equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
2017 Stock Option Plan	1,667,630	\$ 1.52	26,235
2015 Stock Option Plan	424,610	\$ 1.74	-
2011 Stock Option Plan	309,895	\$ 0.63	-
Warrants	505,946	\$ 5.00	-

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

We describe below the transactions and series of similar transactions, since January 1, 2019, to which we were a party or will be a party, in which:

- the amounts involved exceeded or will exceed \$120,000; and
- any of our directors, executive officers, holders of more than 5% of our capital stock or any member of their immediate family had or will have a direct or indirect material interest, other than equity and other compensation, termination, change in control and other arrangements with directors and executive officers, which are described where required under the section above titled "Executive Compensation."

Convertible Note and Warrant Financing

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 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. 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 as a price per share equal to \$2.15 per share. Accordingly, the Company issued to these note holders warrants to purchase 53,490 shares of the Company's common stock. The relative fair value of the warrants issued was \$46,121.

Management Services Agreement

Effective August 1, 2016, we entered into a management services agreement with a company owned by the former chief executive officer of Magma. The agreement calls for payments of \$180,000 per year for the first two years paid in monthly installments. In the third year, the amount is reduced to \$37,500 for the year paid in monthly installments. Additionally, we granted 30,000 non-statutory stock options in conjunction with execution of this agreement with an exercise price of \$1.78 per share. Payments for the year ended December 31, 2020 and 2019 were \$0 and \$21,875, respectively. Such management services agreement has been fully completed.

Investors' Rights Agreement

We entered into a second amended and restated investors' rights agreement in January 2007 with the holders of our preferred stock, including entities with which certain of our directors are affiliated. This agreement provides for certain rights relating to the registration of their shares of common stock issuable upon conversion of their preferred stock, a right of first refusal for certain holders of preferred stock to purchase future securities sold by us and certain additional covenants made by

us. Except for the registration rights (including the related provisions pursuant to which we have agreed to indemnify the parties to the investors' rights agreement), all rights under this agreement terminated upon closing of our initial public offering. The registration rights will continue and will terminate two years following the closing of our initial public offering, or for any particular holder with registration rights, at such time when such holder may sell all of such shares pursuant to Rule 144(b)(1) under the Securities Act. Our common holders also have certain rights to "piggyback" onto the registration rights provided to our former holders of preferred stock. See "Description of Capital Stock—Registration Rights" for additional information.

Executive Compensation and Employment Arrangements

Please see "Item 11 Executive Compensation" for information on compensation arrangements with our executive officers and agreements with our executive officers containing compensation and termination provisions, among others.

Director and Officer Indemnification and Insurance

We have entered into indemnification agreements with each of our directors and executive officers, and we maintain directors' and officers' liability insurance. These agreements, among other things, require us to indemnify each director and executive officer to the fullest extent permitted by Delaware law, including indemnification of expenses such as attorneys' fees, judgments, fines and settlement amounts incurred by the director or executive officer in any action or proceeding, including any action or proceeding by or in right of us, arising out of the person's services as a director or executive officer.

Our certificate of incorporation and our amended and restated bylaws provide that we will indemnify each of our directors and officers to the fullest extent permitted by the Delaware General Corporation Law. Further, we have entered into indemnification agreements with each of our directors and officers, and we have purchased a policy of directors' and officers' liability insurance that insures our directors and officers against the cost of defense, settlement or payment of a judgment under certain circumstances. For further information, see "Executive Compensation—Limitations of Liability and Indemnification Matters."

Board Committees and Independence

Our board of directors has established four standing committees – audit, compensation, nominating and corporate governance, and risk oversight – each of which operates under a charter that has been approved by our board of directors.

Policies and Procedures Regarding Related Party Transactions

Our board of directors has adopted a written related person transaction policy setting forth the policies and procedures for the review and approval or ratification of related-person transactions. This policy covers, with certain exceptions set forth in Item 404 of Regulation S-K under the Securities Act, any transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships in which we were or are to be a participant, where the amount involved exceeds \$120,000 and a related person had or will have a direct or indirect material interest, including, without limitation, purchases of goods or services by or from the related person or entities in which the related person has a material interest, indebtedness, guarantees of indebtedness and employment by us of a related person. In reviewing and approving any such transactions, our audit committee is tasked to consider all relevant facts and circumstances, including, but not limited to, whether the transaction is on terms comparable to those that could be obtained in an arm's length transaction and the extent of the related person's interest in the transaction. All of the transactions described in this section occurred prior to the adoption of this policy.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The Audit Committee of the Board has selected Haskell & White LLP ("H&W") as our independent registered public accounting firm for the fiscal year ended December 31, 2020. H&W has audited our consolidated financial statements for the years ended December 31, 2020 and 2019.

Principal Accountant Fees and Services

The aggregate fees for professional services rendered to us by Haskell & White LLP, (H&W), our independent registered public accounting firm which performed our audits for the years ended December 31, 2020 and 2019, and for other services were as follows:

	2020	2019
Audit fees (1)	\$ 207,500	\$ 201,400
Audit-Related fees (2)	-	24,075
Tax fees	-	-
Other fees	-	-
Total fees	<u>\$ 207,500</u>	<u>\$ 225,475</u>

- (1) Includes fees for (i) audits of our consolidated financial statements for the fiscal years ended December 31, 2020 and 2019, and (ii) reviews of our interim period financial statements for fiscal year 2020 and 2019.
- (2) Included fees related to the initial and subsequent review of our registration statement on Form S-3 in 2019.

Pre-Approval Policies and Procedures

The Audit Committee pre-approves all auditing services and the terms of non-audit services provided by our independent registered public accounting firm, but only to the extent that the non-audit services are not prohibited under applicable law and the committee determines that the non-audit services do not impair the independence of the independent registered public accounting firm.

In situations where it is impractical to wait until the next regularly scheduled quarterly meeting, the chairman of the committee has been delegated authority to approve audit and non-audit services to be provided by our independent registered public accounting firm. Fees payable to our independent registered public accounting firm for any specific, individual service approved by the chairman pursuant to the above-described delegation of authority may not exceed \$25,000, and the chairman is required to report any such approvals to the full committee at its next scheduled meeting. In addition, the Audit Committee has pre-approved a list of acceptable services and fees payable to H&W in an aggregate amount of up to \$12,500 per quarter for such services, including without limitation audit and allowable non-audit and tax consulting. This pre-approval is for small projects needing quick reaction and judged by the Audit Committee not to raise any independence issues with H&W. Such projects and fees are required to be presented in detail at the next Audit Committee meeting. Fees that were incurred in 2020 and 2019 were pre-approved by the Audit Committee.

The Audit Committee has considered and determined that the provision of the non-audit services described is compatible with maintaining the independence of our registered public accounting firm.

PART IV

ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES.

1. Financial Statements.

The financial statements of One Stop Systems, Inc., together with the report thereon of Haskell & White LLP, an independent registered public accounting firm, are included in this Annual Report on Form 10-K.

2. Financial Statement Schedules.

All schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

3. Exhibits

A list of exhibits is set forth on the Exhibit Index immediately preceding the signature page of this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 16. FORM 10-K SUMMARY.

Not applicable.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
One Stop Systems, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of One Stop Systems, Inc. (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years then ended, and the related notes (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for each of the years then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Haskell & White LLP
HASKELL & WHITE LLP

We have served as the Company's auditor since 2017.

Irvine, California
March 25, 2021

ONE STOP SYSTEMS, INC. (OSS)
CONSOLIDATED BALANCE SHEETS

	December 31, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,316,921	\$ 5,185,321
Accounts receivable, net	7,458,383	11,667,157
Inventories, net	9,647,504	7,369,356
Prepaid expenses and other current assets	655,708	453,938
Total current assets	24,078,516	24,675,772
Property and equipment, net	3,487,178	3,568,564
Deposits and other	81,709	47,146
Deferred tax assets, net	3,698,593	3,019,823
Goodwill	7,120,510	7,120,510
Intangible assets, net	662,257	1,346,192
	<u>\$ 39,128,763</u>	<u>\$ 39,778,007</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 976,420	\$ 4,115,977
Accrued expenses and other liabilities	3,481,444	4,607,432
Current portion of notes payable, net of debt discount of \$2,047 and \$7,019, respectively (Note 8)	1,365,204	1,377,751
Current portion of related-party notes payable, net of debt discount of \$6,726 and \$23,060, respectively (Note 8)	199,943	561,441
Current portion of senior secured convertible note, net of debt discounts of \$256,242 (Note 8)	1,789,212	-
Total current liabilities	7,812,223	10,662,601
Notes payable, net of current portion and debt discount of \$0 and \$2,047, respectively (Note 8)	-	149,301
Related-party notes payable, net of current portion and debt discount of \$0 and \$6,726, respectively (Note 8)	-	199,943
Senior secured convertible note, net of current portion and debt discounts of \$14,107 (Note 8)	531,347	-
Paycheck protection program note payable (Note 8)	1,499,360	-
Total liabilities	<u>9,842,930</u>	<u>11,011,845</u>
Commitments and contingencies (Note 11)		
Stockholders' equity		
Common stock, \$.0001 par value; 50,000,000 shares authorized; 16,684,424 and 16,121,747 shares issued and outstanding, respectively	1,668	1,612
Additional paid-in capital	30,758,354	30,537,015
Noncontrolling interest	-	500
Accumulated other comprehensive income (loss)	287,547	(17,773)
Accumulated deficit	(1,761,736)	(1,755,192)
Total stockholders' equity	<u>29,285,833</u>	<u>28,766,162</u>
	<u>\$ 39,128,763</u>	<u>\$ 39,778,007</u>

See accompanying notes to consolidated financial statements

ONE STOP SYSTEMS, INC. (OSS)
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,	
	2020	2019
Revenue	\$ 51,895,388	\$ 58,308,019
Cost of revenue	35,460,774	38,905,756
Gross profit	16,434,614	19,402,263
Operating expenses:		
General and administrative	8,418,358	8,501,572
Impairment of goodwill	-	1,697,394
Marketing and selling	4,120,778	5,138,762
Research and development	4,319,759	4,843,554
Total operating expenses	16,858,895	20,181,282
Loss from operations	(424,281)	(779,019)
Other (expense) income:		
Interest income	418,379	151,113
Interest expense	(550,774)	(165,560)
Other (expense) income, net	(53,612)	130,381
Total other (expense) income, net	(186,007)	115,934
Loss before income taxes	(610,288)	(663,085)
(Benefit) provision for income taxes	(603,744)	237,252
Net loss	\$ (6,544)	\$ (900,337)
Net loss per share:		
Basic	\$ (0.00)	\$ (0.06)
Diluted	\$ (0.00)	\$ (0.06)
Weighted average common shares outstanding:		
Basic	16,512,203	15,148,613
Diluted	16,512,203	15,148,613

See accompanying notes to consolidated financial statements

ONE STOP SYSTEMS, INC. (OSS)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the Year Ended December 31,	
	2020	2019
Net loss	\$ (6,544)	\$ (900,337)
Other comprehensive income (loss):		
Reclassification adjustment from unrealized to realized gain	-	(19,999)
Currency translation adjustment, net	305,320	(72,819)
Unrealized gain on forward contracts	-	53,904
Total other comprehensive income (loss)	305,320	(38,914)
Comprehensive income (loss)	<u>\$ 298,776</u>	<u>\$ (939,251)</u>

See accompanying notes to consolidated financial statements

ONE STOP SYSTEMS, INC. (OSS)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Year Ended December 31, 2020

	<u>Common Stock</u>		<u>Additional Paid-in-Capital</u>	<u>Noncontrolling Interest</u>	<u>Accumulated Other Comprehensive income (loss)</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balance, January 1, 2020	16,121,747	\$ 1,612	\$ 30,537,015	\$ 500	\$ (17,773)	\$ (1,755,192)	\$ 28,766,162
Stock-based compensation	-	-	724,378	-	-	-	724,378
Exercise of stock options, RSU's and warrants	562,677	56	181,836	-	-	-	181,892
Return of capital upon dissolution of SkyScale	-	-	-	(500)	-	-	(500)
Taxes paid on net issuance of employee stock options	-	-	(684,875)	-	-	-	(684,875)
Currency translation adjustment	-	-	-	-	305,320	-	305,320
Net loss	-	-	-	-	-	(6,544)	(6,544)
Balance, December 31, 2020	<u>16,684,424</u>	<u>\$ 1,668</u>	<u>\$ 30,758,354</u>	<u>\$ -</u>	<u>\$ 287,547</u>	<u>\$ (1,761,736)</u>	<u>\$ 29,285,833</u>

See accompanying notes to consolidated financial statements

ONE STOP SYSTEMS, INC. (OSS)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - CONTINUED
For the Year Ended December 31, 2019

	<u>Common Stock</u>		<u>Additional Paid-in-Capital</u>	<u>Noncontrolling Interest</u>	<u>Accumulated Other Comprehensive Income (loss)</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balance, January 1, 2019	14,216,328	\$ 1,422	\$ 27,424,113	\$ 500	\$ 1,142	\$ (854,855)	\$ 26,572,322
Stock-based compensation	-	-	649,469	-	-	-	649,469
Exercise of stock options, RSU's and Warrants	350,587	35	47,299	-	-	-	47,334
Relative fair value of warrants issued with notes payable and notes payable to related parties	-	-	60,158	-	-	-	60,158
Taxes paid on net issuance of employee stock options	-	-	(132,017)	-	-	-	(132,017)
Proceeds from issuance of stock, net of issuance costs of \$212,566	1,554,832	155	2,487,993	-	-	-	2,488,148
Currency translation adjustment	-	-	-	-	(72,819)	-	(72,819)
Gain on forward contract	-	-	-	-	53,904	-	53,904
Net loss	-	-	-	-	-	(900,337)	(900,337)
Balance, December 31, 2019	<u>16,121,747</u>	<u>\$ 1,612</u>	<u>\$ 30,537,015</u>	<u>\$ 500</u>	<u>\$ (17,773)</u>	<u>\$ (1,755,192)</u>	<u>\$ 28,766,162</u>

See accompanying notes to consolidated financial statements

ONE STOP SYSTEMS, INC. (OSS)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (6,544)	\$ (900,337)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Deferred benefit for income taxes	(663,772)	(112,740)
Loss (gain) on disposal of property and equipment	11,586	(1,785)
Provision for bad debt, net	18,141	702
Impairment of goodwill	-	1,697,394
Warranty reserves	(28,031)	14,348
Amortization of deferred gain	(53,838)	(28,555)
Depreciation	922,597	671,223
Amortization	683,935	984,065
Inventory reserves	623,159	301,302
Amortization of debt discount	376,004	21,303
Stock-based compensation expense	724,378	649,469
Changes in operating assets and liabilities:		
Accounts receivable	4,286,294	(1,165,596)
Inventories	(2,630,149)	(1,008,980)
Prepaid expenses and other current assets	(246,310)	211,325
Accounts payable	(3,148,762)	424,567
Accrued expenses and other liabilities	(1,118,861)	617,163
Net cash (used in) provided by operating activities	<u>(250,173)</u>	<u>2,374,868</u>
Cash flows from investing activities:		
Purchases of property and equipment, including capitalization of labor costs for test equipment and ERP	(820,336)	(2,386,227)
Proceeds from sales of property and equipment	<u>1,542</u>	<u>1,050</u>
Net cash used in investing activities	<u>(818,794)</u>	<u>(2,385,177)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	181,892	47,334
Payment of payroll taxes on net issuance of employee stock options	(684,875)	(132,017)
Proceeds from issuance of common stock	-	2,700,714
Stock issuance costs	-	(212,566)
Net repayments on bank lines of credit	(99,410)	(513,590)
Borrowings from related-party notes payable	-	1,150,000
Borrowings from notes payable	-	350,000
Repayments of related-party notes payable	(584,502)	(410,931)
Repayments of notes payable	(177,866)	(56,843)
Proceeds from senior secured convertible note, net	2,383,726	-
Repayments of senior secured convertible note	(409,090)	-
Proceeds from paycheck protection program (PPP) note payable	1,499,360	-
Net cash provided by financing activities	<u>2,109,235</u>	<u>2,922,101</u>
Net change in cash and cash equivalents	1,040,268	2,911,792
Effect of exchange rates on cash	91,332	1,273
Cash and cash equivalents, beginning of year	<u>5,185,321</u>	<u>2,272,256</u>
Cash and cash equivalents, end of year	<u>\$ 6,316,921</u>	<u>\$ 5,185,321</u>

See accompanying notes to consolidated financial statements

ONE STOP SYSTEMS, INC. (OSS)
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

	For the Year Ended December 31,	
	2020	2019
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 301,214	\$ 129,547
Cash paid during the year for income taxes	\$ 344,184	\$ 8,780
Supplemental disclosure of non-cash transactions:		
Original issue discount on senior secured convertible note	\$ 300,000	\$ -
Reclassification of inventories to property and equipment	\$ 164,856	\$ 106,502
Forward foreign currency contracts	\$ -	\$ 53,904
Relative fair value of warrants issued in connection with notes and related-party notes payable	\$ -	\$ 60,158

See accompanying notes to consolidated financial statements

ONE STOP SYSTEMS, INC. (OSS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

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 media and entertainment, medical, industrial and military applications.

During the year ended December 31, 2015, the Company formed a wholly-owned subsidiary in Germany, One Stop Systems, GmbH (“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 of the SkyScale joint venture agreement agreed to dissolve SkyScale and ceased operations as of December 31, 2018.

On August 31, 2018, the Company acquired Concept Development Inc. (“CDI”) located in Irvine, California. CDI specializes in the design and manufacture of custom high-performance computing systems for airborne in-flight entertainment and networking systems. CDI has been fully integrated into the core operations of OSS as of June 1, 2020.

On October 31, 2018, OSS GmbH acquired 100% of the outstanding stock of Bressner Technology GmbH, a Germany limited liability company located near Munich, Germany (“Bressner”). Bressner provides standard and customized servers, panel PCs, and PCIe expansion systems. Bressner also provides manufacturing, test, sales and marketing services for customers throughout Europe.

Liquidity, Going Concern Considerations and Management Plans

Given our recurring 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 1,554,546 shares of the Company’s common stock for net cash proceeds of \$2,488,148; (iv) the April 24, 2020 sale of \$3,000,000 of Senior Secured Convertible Promissory Notes issued at a 10% original issue discount and (v) receipt of approximately \$1,500,000 on April 28, 2020 of government loan proceeds under the Paycheck Protection Program, and (vi) a receipt of approximately \$9,250,000 on March 3, 2021 in a registered direct offering.

As of December 31, 2020, the Company’s cash and cash equivalents were \$6,316,921 and working capital was \$16,266,293. Cash and cash equivalents held by Bressner totaled \$1,062,818 (USD) at December 31, 2020. Bressner’s debt covenants do not permit the use of these funds by its parent company.

During the year ended December 31, 2020, the Company experienced an operating loss of \$424,281, with cash used in operating activities of \$250,173. Our largest customer, engaged in the media and entertainment industry, is having significant financial hardships attributable to the COVID-19 pandemic with aged outstanding accounts receivables. The Company has formulated a plan whereby extended payment terms have been made available, and our customer is presently honoring those terms.

The Company's revenue growth during the year has slowed due to the effects of COVID-19. However, resulting from a reduction in force and strict cost containment, the Company has been able to mitigate the effects, to some degree, of the reduced revenue attributable to the economic impact of COVID-19.

In March 2020, the World Health Organization declared the outbreak of COVID-19, a global pandemic and the United States federal government declared it a national emergency. COVID-19 continues to impact worldwide economic activity. A public health pandemic, including COVID-19, poses the risk that we or our employees, contractors, customers, 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.

More generally, COVID-19 raises the possibility of an extended global economic downturn, which could affect demand for our products and services and impact our results and financial condition even after the pandemic is contained and remediation/restriction measures are lifted. For example, we may be unable to collect receivables from customers that are significantly impacted by COVID-19. Also, a decrease in orders in a given period could negatively affect our revenues in future periods. COVID-19 may also have the effect of heightening many of the other risks described in the "Risk Factors" section of our Annual Report on this Form 10-K, including risks associated with our customers and supply chain. We will continue to evaluate the nature and extent of the impact of COVID-19 to our business.

Presently, it is clear the global economy has been negatively impacted by COVID-19, and demand for some of our products and services have been reduced due to uncertainty and the economic impact of COVID-19. For example, customers in certain of the industries most impacted by COVID-19, have requested, and we expect will continue to request, relief to existing contracts or payment obligations, and the impact of those is uncertain. Furthermore, some customers are delaying payments owed to the Company while they address immediate financial crises in their operations due to COVID-19. In particular, in the media and entertainment industry, demand for the use of outdoor media equipment has been impacted due to restrictions on public gatherings. Until such restrictions improve, we expect that demand for certain of our clients' products and services will be limited, and may not return to prior levels, and thus, may impact our financial results and operations.

Specifically, our business has also begun to be negatively affected by a range of external factors related to COVID-19 that are not within our control. For example, numerous measures have been implemented by governmental authorities across the globe to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, restrictions and limitations of public gatherings, and business limitations and shutdowns. Many of our customers' businesses have been severely impacted by these measures and some have been required to reduce employee headcount as a result. If a significant number of our customers are unable to continue as a going concern, this would have an adverse impact on our business and financial condition. In addition, many of our customers are working remotely, which may delay the timing of new business and implementations of our services. If COVID-19 continues to have a substantial impact on our partners, customers, or suppliers, our results of operations and overall financial performance will be harmed.

Though management has been proactively managing through the current known impacts, if the situation further deteriorates or the outbreak results in further restriction on 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.

The longer the COVID-19 pandemic persists, the greater the potential for significant adverse impact to our business operations. Quarantines, travel restrictions, prohibitions on non-essential gatherings, shelter-in-place orders and other similar directives and policies intended to reduce the spread of the disease, may reduce our productivity and that of the third parties on which we rely and may disrupt and delay many aspects of our business.

The Company is complying with state mandated requirements for safety in the workplace to ensure the health, safety and well-being of our employees. These measures included personal protective equipment, social distancing, cleanliness of the facilities and daily monitoring of the health of employees in our facilities. We have not developed a specific and comprehensive contingency plan designed to address the challenges and risks presented by the COVID-19 pandemic and, even if and when we do develop such a plan, there can be no assurance that such plan will be effective in mitigating the potential adverse effects on our business, financial condition and results of operations.

Management's plans with respect to the above is to continue its efforts towards responding to the changing economic landscape attributable to COVID-19, to continue to reduce costs, conserve cash, strengthen margins, and improve company-wide execution. Specific actions already implemented by management include a reduction in force, a limited freeze on hiring, reduced work week, 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. Savings from this effort are estimated to be \$2.5 million on an annual basis.

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 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 on 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 which have been satisfied. The note is repayable in twenty-two installments beginning three months after closing in cash or shares of the Company's common stock.
- On March 1, 2021, the Company entered into a definitive agreement with an institutional investor for the purchase and sale of 1,497,006 shares of common stock at a purchase price of \$6.68 in a registered direct offering priced At-The-Market under Nasdaq rules. Total estimated proceeds are \$9,250,000 after commissions and offering costs (see Note 16).

As a result of management's cost reduction plans, the Company's 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 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").

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of OSS, which include the acquisition of Concept Development Inc., its wholly-owned subsidiary, OSS GmbH, which also includes the acquisition of Bressner Technology GmbH. 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 and 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”) and Securities Investor Protection Corporation (“SIPC”), of which both provide basic deposit coverage with limits up to \$250,000 per owner. As of December 31, 2020, the Company had \$4,816,433 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. Bressner has funds on deposit in both Euro and U.S. dollar denominations of €669,160 (US\$818,256) with banks in excess of the insurance limits.

In the years ended December 31, 2020 and December 31, 2019, approximately 24%, and 41%, respectively, of net sales represent customers which are each greater than 10% of our consolidated annual revenue. This concentration is with two customers, disguise and Raytheon. As of December 31, 2020 and 2019, approximately 64% and 72%, respectively, of net trade accounts receivables represent customer balances which are each greater than 10% of our consolidated trade accounts receivable balance. As a result of the recent worldwide economic impact attributable to COVID-19, disguise has been experiencing a slowdown in its business as the entertainment and media markets have been required to scale back or cancel large group gatherings. As a result, during the year, we experienced delays in receipt of scheduled payments and agreed to requests during the year for a modified payment schedule. Disguise has systematically paid down their outstanding balance and, as of March 2021, is current on their payments and outstanding balances are in accordance with pre-established credit policies and limits.

The Company made purchases from a certain supplier which represented greater than 10% of the Company’s vendor purchases on an annual basis. This vendor represented approximately 18.3% and 11.0% of purchases for the years ended December 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 three months 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 cost 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 December 31, 2020 and 2019, the allowance for doubtful accounts is \$32,120 and \$14,000, respectively.

Revenues earned in excess of related billings are recorded as an asset on the consolidated balance sheet as unbilled receivables. Unbilled receivables as of December 31, 2020 and 2019 were \$106 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 two 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 (expense) income, 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 and when we deem that a triggering event has occurred. The Company reviews goodwill for impairment annually on December 31st. The Company completed its annual assessment for goodwill impairment and determined that goodwill is not impaired as of December 31, 2020 and no adjustment was required.

In April 2019, the Company performed an interim 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 year ended December 31, 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 2020 and determined that there was no impairment as of December 31, 2020. Though there were indicators of impairment attributable to the COVID-19 pandemic that directly impacted our business, as a result of management's cost containment efforts, raising cash, minimizing working capital requirements and a focus on profitability, during the year the Company improved its financial stability and thus determined that there is no impairment of its intangible and long-lived assets. 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, 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: (i) identification of the contract with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) 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 typically 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 this agreement of \$6,692,752 and \$10,075,756 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, \$1,482,186 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 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. 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.

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

Entity:	For the Year Ended December 31, 2020			For the Year Ended December 31, 2019		
	Domestic	International	Total	Domestic	International	Total
Customized computers and flash arrays	\$ 21,698,400	\$ 10,611,133	\$ 32,309,533	\$ 19,436,784	\$ 18,081,290	\$ 37,518,074
In-flight entertainment & connectivity	1,123,664	216,821	1,340,485	2,030,596	506,738	2,537,334
Value-added reseller with minimal customization	92,511	18,152,859	18,245,370	473,489	17,779,122	18,252,611
	<u>\$ 22,914,575</u>	<u>\$ 28,980,813</u>	<u>\$ 51,895,388</u>	<u>\$ 21,940,869</u>	<u>\$ 36,367,150</u>	<u>\$ 58,308,019</u>

Warranty Reserve

The Company offers product warranties that extend for one or two years from the date of sale. Such warranties are considered assurance-type warranties; 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 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 years ended December 31, 2020 and 2019 were \$373,847 and \$377,768, respectively.

The revenue that was recognized for the warranties sold for the years ended December 31, 2020 and 2019 were \$401,915 and \$392,532, 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 recover 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 December 31, 2020 and 2019, deferred revenue totaled \$407,768 and \$394,571, respectively. The Company expects to recognize \$407,768 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 statement of operations. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss) in the consolidated balance sheets.

Derivative Financial Instruments

We employ derivatives to manage certain currency 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 December 31, 2020 and 2019, Bressner had no foreign exchange contract 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 OCI 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 (expense) income, net" in the consolidated statements of operations 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 equivalent fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable on the grant date. 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. Given a lack of historical stock option exercises, the expected term of options granted is calculated as the average of the weighted vesting period and the contractual expiration date of the option. This calculation is based on a method permitted by the Securities and Exchange Commission 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 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.

Debt Discounts

Debt discounts, which originate from the relative fair value of warrants issued in connection with notes payable and related-party notes payable, are recorded against the noted payable and related-party notes payable in the accompanying consolidated balance sheets.

Amortization of the debt discounts are calculated using the straight-line method over the term of the applicable notes which approximates the effective interest method and are recorded in interest expense in the accompanying consolidated statements of operations. Amortization of debt discounts of \$376,006 and \$21,303 was recognized as interest expense for the years ended December 31, 2020 and 2019, respectively.

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 years ended December 31, 2020 and 2019 were \$377,105 and \$352,080, 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 various other state jurisdictions, 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 year ended December 31, 2020, relating to a projected 2018 NOL utilization and tax benefits from NOL carrybacks. We have recorded a benefit of \$41,561 in our income tax provision for the year ended December 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 Loss Per Share

Basic net loss per share is calculated by dividing net loss by the weighted-average common shares outstanding during the period. Diluted net loss per share is calculated by dividing the net 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, restricted stock units 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, 2021, and interim periods within fiscal year 2023. 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 June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 amends the guidance on the impairment of financial instruments. This update adds an impairment model (known as the current expected credit losses model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes, as an allowance, its estimate of expected credit losses. In November 2019, ASU 2016-13 was amended by ASU 2019-10 that changed the effective date of ASU 2016-13 to fiscal years beginning after December 15, 2022, with early adoption permitted. Further, the ASU clarifies that operating lease receivables are not within the scope of ASC Subtopic 326-20 and should instead be accounted for under the new leasing standard, ASC 842. The Company is currently evaluating the impact of adopting ASU 2016-13 on its consolidated financial statements and related disclosures.

Recently Implemented Accounting Pronouncements

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 became effective for the year ended December 31, 2020 (and interim periods in 2021). ASU 2018-07 did not materially impact the Company's consolidated financial statements.

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.

In July 2017, the FASB issued Accounting Standards Update No. 2017-11, *Accounting for financial instruments with down rounds features* ("ASU 2017-11"), which addressed (I) accounting for certain financial instruments with down round features and (II) replacement of the indefinite deferral for mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable non-controlling interests with a scope exception. The main provisions of Part I of ASU 2017-11 is to change the classification analysis of certain equity-linked financial instruments and embedded features with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument or embedded conversion option no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) to recognize the effect of the

down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Under previous US GAAP, the existence of down round features often result in an accounting conclusion that the evaluated feature or instrument is not indexed to the entity's own stock, which results in classification as a derivative liability. ASU 2017-11 was adopted early by the Company on April 1, 2020, with no adjustments. The Company's April 2020 convertible note payable described in Note 8 possesses down round features.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), an amendment to the guidance on income taxes, which is intended to simplify the accounting for income taxes. The amendment eliminates certain exceptions related to the methodology for calculating income taxes on an interim period, the approach for intraperiod tax allocation, and the recognition of deferred tax liabilities for outside basis differences. The amendment also clarifies existing guidance related to the recognition of franchise tax, the evaluation of a step up in the tax basis of goodwill, and the effects of enacted changes in tax laws or rates in the effective tax rate computation, among other clarifications. The effective date of the standard is annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. The Company elected to early adopt ASU 2019-12 prospectively as of July 1, 2020, which did not have a material impact on the consolidated financial statements, except for the elimination of the rule that limited the interim tax benefit to the tax benefit expected for the year. The early adoption resulted in the Company recording an additional interim tax benefit of \$446,099 for the three months ended September 30, 2020. The adoption did not impact the Company's annual income tax benefit or expense for the year ended December 31, 2020 or the amount of net deferred income tax assets as of December 31, 2020. The Company made the election to early adopt because, consistent with the FASB, it believes that it will reduce the time and cost associated with income tax accounting and reporting, while not adversely altering the information provided to stakeholders on an interim basis.

NOTE 3 – LONG LIVED INTANGIBLE ASSETS

Concept Development Inc.

On August 31, 2018, the Company acquired 100% of the outstanding common stock of Concept Development Inc. ("CDI"). The Company paid cash of \$646,759 and issued 1,266,364 shares of the Company's common stock to the CDI Stockholder for 100% of CDI outstanding common stock. The fair value assigned to the shares of common stock was \$4,194,673, which was based upon the closing price of OSS' stock on August 31, 2018 of \$3.63 less a discount of 8.75% for lack of marketability for a one-year period.

This transaction was accounted for using the acquisition method pursuant to ASC Topic 805, *Business Combinations*. Accordingly, goodwill was measured as the excess of the total consideration over the amounts assigned to the identifiable assets acquired and liabilities assumed.

The preliminary determination of fair value for the identifiable net assets acquired in the acquisition was initially determined by management after consideration of the results of a third-party appraisal. At the time of acquisition, management preliminarily assessed the value and recorded goodwill of \$3,100,361 and other intangible assets of \$1,770,000.

Subsequently in April 2019, and within the one year finalization period prescribed by ASC Topic 805, management finalized the purchase price allocation, including certain assumptions in the initial financial models used for the determination of intangible asset values. As a result, identified intangible assets were reduced from \$1,770,000 to \$575,000 with the difference of \$1,195,000 being allocated to goodwill. The change in identified intangible assets is as follows:

	Preliminary Valuation	Revised Valuation	Change
Customer lists and relationships	\$ 1,470,000	\$ 470,000	\$ (1,000,000)
Trade name	100,000	90,000	(10,000)
Non-compete	200,000	15,000	(185,000)
	<u>\$ 1,770,000</u>	<u>\$ 575,000</u>	<u>\$ (1,195,000)</u>

Additionally, 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, the Company performed an interim test of impairment of goodwill as there was indication that the carrying value of the assets may not be recoverable. To evaluate whether goodwill is impaired, the Company compares the estimated fair value of CDI to CDI's carrying value, including goodwill. The Company determined that the carrying value of CDI exceeded its estimated fair value thereby requiring the measurement of the impairment loss. After consideration of the results of an additional third-party appraisal, it was determined by management that the goodwill associated with CDI was impaired by \$1,697,394. As a result, the Company recognized a charge to operating expenses which is included in the 2019 accompanying consolidated statements of operations.

Definite lived intangible assets related to acquisitions are as follows as of December 31, 2020:

	Expected Life	Remaining Months	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Customer lists and relationships	36 to 60 months	10 to 32 months	\$ 2,084,515	\$ (1,578,178)	\$ 506,337
Drawings and technology	36 months	0 months	760,207	(760,207)	-
Trade name, trademarks & other	24 to 36 months	10 months	447,274	(355,742)	91,532
Non-compete	36 months	10 months	246,797	(182,409)	64,388
			<u>\$ 3,538,793</u>	<u>\$ (2,876,536)</u>	<u>\$ 662,257</u>

Definite lived intangible 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
			<u>\$ 3,538,793</u>	<u>\$ (2,192,601)</u>	<u>\$ 1,346,192</u>

The amortization expense of the definite lived intangible assets for the years remaining is as follows:

	2021	2022	2023	Total
	\$ 556,872	\$ 63,231	\$ 42,154	\$ 662,257

Amortization expense recognized during the year ended December 31, 2020 and 2019 was \$683,935 and \$984,065, respectively.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable, net consists of the following at December 31:

	December 31, 2020	December 31, 2019
Accounts receivable	\$ 7,491,397	\$ 11,655,725
Unbilled receivables	106	25,432
	<u>7,491,503</u>	<u>11,681,157</u>
Less: allowance for doubtful accounts	(33,120)	(14,000)
	<u>\$ 7,458,383</u>	<u>\$ 11,667,157</u>

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. The provision for bad debt expense related to accounts receivable was \$20,000 and \$7,263 for the years ended December 31, 2020 and 2019, respectively.

NOTE 5 – INVENTORIES

Inventories, net consist of the following at December 31:

	December 31, 2020	December 31, 2019
Raw materials	\$ 5,210,327	\$ 2,478,882
Sub-assemblies	255,699	1,857,004
Work-in-process	407,328	493,276
Finished goods	4,424,603	3,087,529
	10,297,957	7,916,691
Less: reserves for obsolete and slow-moving inventories	(650,453)	(547,335)
	<u>\$ 9,647,504</u>	<u>\$ 7,369,356</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment, net consists of the following at December 31:

	December 31, 2020	December 31, 2019
Computers and computer equipment	\$ 748,392	\$ 633,546
Furniture and office equipment	329,725	340,801
Manufacturing equipment and engineering tools	2,710,784	2,501,020
Software implementation	2,203,484	1,709,125
Leasehold improvements	943,194	892,097
Vehicles	4,315	-
	6,939,894	6,076,589
Less: accumulated depreciation and amortization	(3,452,716)	(2,508,025)
	<u>\$ 3,487,178</u>	<u>\$ 3,568,564</u>

During the years ended December 31, 2020 and 2019, the Company incurred \$922,597 and \$671,223 of depreciation and amortization expense related to property and equipment, respectively.

NOTE 7 – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following at December 31:

	December 31, 2020	December 31, 2019
Accrued compensation and related liabilities	\$ 932,988	\$ 1,621,177
Deferred revenue and customer deposits	1,096,672	1,260,126
Warranty reserve	425,636	424,011
Deferred rent	312,909	373,354
Other accrued expenses	713,239	928,764
	<u>\$ 3,481,444</u>	<u>\$ 4,607,432</u>

NOTE 8 – DEBT**Bank Lines of Credit**

Bressner Technology GmbH has two revolving lines of credit with German institutions totaling €2,200,000 (US\$2,690,184). Borrowing under the lines of credit bear interest at a variable rate of Euribor plus a stated rate. The current rates for the lines of credit are 3.89% and 4.0%. One million euros of the credit line expires in January 2024, with the remaining balance being open indefinitely or until occurrence of a defined change of control event. There were no outstanding line of credit balances as of December 31, 2020 and 2019.

Foreign Debt Obligations

Bressner Technology GmbH has three term loans outstanding as of December 31, 2020 with a total balance outstanding of €1,066,446 (US\$1,304,063) as follows:

On April 9, 2020, Bressner converted €500,000 of its line of credit from UniCredit Bank to a one year term loan at 1.9% interest with a balloon payment of principal and interest due upon maturity. The balance outstanding as of December 31, 2020 is €500,000 (US\$611,406);

Bressner entered into a note payable in June 2019 in the amount of €500,000 (US\$586,189) which bears interest at 1.70% and matured on June 25, 2020 with a balloon payment of principal and interest. This loan was subsequently extended to June 18, 2021, with an interest rate of 1.87%. The amount outstanding as of December 31, 2020 and 2019 is €500,000 (US\$611,406) and €508,679 (US\$571,095), respectively;

Bressner entered into a note payable in April 2019 in the amount of €500,000 (US\$586,189) 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 December 31, 2020 and 2019 is €66,446 (US\$81,251) and €328,525 (US\$368,835), respectively;

Bressner entered into a note payable in September 2019 in the amount of €300,000 (US\$336,810) which bore 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); and

Bressner entered into a note payable in September 2017, in the amount of €400,000 (US\$436,272) which bore interest at 2.125% and matured on January 31, 2020 and 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 was €25,000 (US\$28,068).

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 December 31, 2020 and 2019 is \$63,188 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 December 31, 2020 and 2019 is \$206,669 and \$791,170, respectively.

Paycheck Protection Program Loan

On April 28, 2020, One Stop Systems, Inc. received authorization pursuant to the Paycheck Protection Program (PPP) of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") as administered by the U.S. Small Business Administration (the "SBA") for a "PPP" loan. On May 11, 2020, the Loan was funded and the Company received proceeds in the amount of \$1,499,360 (the "PPP Loan").

The PPP Loan, which took the form of a two-year promissory note (the “PPPNote”), matures on April 28, 2022 and bears interest at a rate of 1.0% per annum. Monthly principal and interest payments, less the amount of any potential forgiveness (discussed below), was initially to commence on October 28, 2020. The Company did not provide any collateral or guarantees for the PPP Loan, nor did the Company pay any facility charge to obtain the PPP Loan. The PPP Note provides for customary events of default, including, among others, those relating to failure to make payment, breaches of any term, obligation, covenant or condition contained in the PPP Note and payment of unauthorized expenses or use of proceeds contrary to CARES Act rules. The Company may prepay the principal of the PPP Loan at any time without incurring any prepayment charges.

Under the original rules, all or a portion of the PPP Loan may be forgiven by the SBA and lender upon application by the Company beginning 60 days but not later than 120 days after loan approval and upon documentation of expenditures in accordance with the SBA requirements. Under the CARES Act, loan forgiveness is available for the sum of documented payroll costs, covered rent payments, and covered utilities during the eight-week period beginning on the date of loan approval. For purposes of the CARES Act, payroll costs exclude compensation of an individual employee in excess of \$100,000, prorated annually. Not more than 25% of the forgiven amount may be for non-payroll costs. Forgiveness is reduced if full-time headcount declines, or if salaries and wages for employees with salaries of \$100,000 or less annually are reduced by more than 25%. In the event the PPP Loan, or any portion thereof, is forgiven pursuant to the PPP, the amount forgiven is applied to outstanding principal.

However, the original rules governing loans granted under the PPP have been subsequently updated. The time period to spend the received funds has been extended from the original eight weeks to twenty-four weeks. Payroll is only required to be 60%, and the commencement date for the repayment has also been extended accordingly. The Company has submitted an application with the lender to forgive the PPP Loan, in accordance with SBA Procedural Notice, Control No. 5000-20057, effective as of October 2, 2020 and is awaiting notice of receipt of forgiveness. Because the Company expects the PPP loan to be forgiven in full, all related amounts have been presented as noncurrent liabilities.

Senior Secured Convertible Note:

On April 20, 2020, the Company entered into a Securities Purchase Agreement with an institutional investor, 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. The notes will be issued with a 10% original issue discount.

At the initial closing of this offering, the Company issued notes of \$3,000,000, and can consummate additional closings of up to \$3,000,000, subject to the prior satisfaction of certain closing conditions which have been satisfied. The initial investor purchased the notes for an aggregate purchase price of \$2,700,000 at the initial closing. The notes bear no interest rate (except upon event of default) and, unless earlier converted or redeemed, will mature on April 1, 2022.

The Notes are convertible at any time, in whole or in part, at the option of the investors, into shares of common stock at the initial conversion price of \$2.50 per share. The conversion price is subject to adjustment for issuances of securities below the conversion price then in effect and for stock splits, combinations or similar events. If immediately following the close of business on the six month anniversary of the issuance date of each note, the conversion price then in effect exceeds 135% of the volume weighted average price VWAP (the “Market Price”), the initial conversion price under any such note will be automatically lowered to the Market Price.

Commencing July 1, 2020, the Company has made monthly amortization payments equal to 1/22nd of the initial principal, any accrued and unpaid interest and late charges and any deferred or accelerated amount, of such note, which may be satisfied in cash at a redemption price equal to 105% of such installment amount (110% of such installment amount on notes issued at additional closings). As of December 31, 2020, the holder has elected to defer receipt of three installment payments as allowed per the agreement.

Subject to the satisfaction of certain equity conditions set forth in the notes, installment amounts may be satisfied in shares of our common stock, with such installment conversion at a conversion price equal to the lower of (i) the conversion price then in effect and (ii) the greater of (x) the floor price of \$1.00 (80% of the Nasdaq market price at date of purchase agreement) and (y) the lower of (I) 82.5% the volume weighted average price of our common stock on the trading day immediately before the applicable installment date and (II) 82.5% of the quotient of (A) the sum of the volume weighted average price of our common stock for each of the three (3) trading days with the lowest volume weighted average price of our common stock during the twenty (20) consecutive trading day period ending and including the trading day immediately

prior to the applicable installment date, divided by (B) three (3). Shares of our common stock to be issued with respect to any such installment will be pre-delivered on the second trading day after the applicable installment notice date (as defined in the notes) with a true-up on the applicable installment date. The market value of any installment amount below the floor price will be cash settled on the applicable installment date.

Management evaluated the embedded conversion feature to determine whether bifurcation was required as a separate derivative liability. Management first determined that the conversion feature was not within the scope of ASC 480. It then determined that the embedded derivative should be separated from the host instrument and accounted for as a derivative instrument because it met the criteria of ASC 815-15-25-1, primarily because the contract provides for delivery of an asset that puts the recipient in substantially the same position as net settlement. However, in part due to the Company's adoption of ASC 2017-11 on April 1, 2020, which allowed management to disregard the down round provisions of the conversion feature, management determined that a scope exception to derivative accounting existed by satisfying the additional conditions necessary for equity classification specified by ASC 815-10-15-74 and ASC 815-40-25. As a result of management's analysis, the conversion feature was not accounted for separately from the debt instrument and the Company will recognize the contingent beneficial conversion feature when, or if, such is triggered.

The original issue discount of 10% on the Senior Secured Convertible Note was recorded as a debt discount, decreasing the note payable. This debt discount is amortized to interest expense using the effective interest rate method over the term of the loan. For the year ended December 31, 2020, total debt discount amortization was \$168,395, and such amount is included in interest expense in the accompanying consolidated statements of operations.

Debt issuance costs in the amount of \$316,274 related to this indebtedness were deducted from the face value of the note. Such costs are amortized to interest expense using the effective interest rate method over the term of the loan. Total debt issuance costs amortized during the year ended December 31, 2020 was \$177,530, and such amount is included in interest expense in the accompanying consolidated statements of operations.

Debt Discount

The relative fair value of warrants issued in connection with the notes payable described above 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 years ended December 31, 2020 and 2019, total debt discount amortization was \$30,079 and \$21,303, respectively, and such amounts are included in interest expense in the accompanying consolidated statements of operations.

A summary of outstanding debt obligations as of December 31, 2020 is as follows:

Loan Description	Current Interest Rate	Maturity Date	Balance (€)	Balance (\$)	Current Portion	Long-term Portion
Domestic:						
Notes payable - third party	9.50%	April-21	€ -	\$ 63,188	\$ 63,188	\$ -
Related party notes payable	9.50%	April-21	-	206,669	206,669	-
Convertible senior secured note	10% OID	April-22	-	2,590,908	2,045,454	545,454
PPP loan	1.00%	April-22	-	1,499,360	-	1,499,360
			€ -	\$ 4,360,125	\$ 2,315,311	\$ 2,044,814
Foreign:						
Uni Credit Bank AG	1.87%	June-21	€ 500,000	\$ 611,406	\$ 611,406	\$ -
Uni Credit Bank AG	2.25%	March-21	66,446	81,251	81,251	-
Uni Credit Bank AG	1.90%	April-21	500,000	611,406	611,406	-
			€ 1,066,446	\$ 1,304,063	\$ 1,304,063	\$ -
				\$ 5,664,188	\$ 3,619,374	\$ 2,044,814

Outstanding debt obligations as of December 31, 2020 consist of the following:

Year Ended December 31, 2020	Related Parties	Third Parties	Convertible Note	PPP Loan	Foreign	Total
Current portion:						
Principal	\$ 206,669	\$ 63,188	\$ 2,045,454	\$ -	\$ 1,304,063	\$ 3,619,374
Less discount	(6,726)	(2,047)	(124,738)	-	-	(133,511)
Less loan origination costs	-	-	(131,504)	-	-	(131,504)
Net liability	<u>\$ 199,943</u>	<u>\$ 61,141</u>	<u>\$ 1,789,212</u>	<u>\$ -</u>	<u>\$ 1,304,063</u>	<u>\$ 3,354,359</u>
Long-term portion:						
Principal	\$ -	\$ -	\$ 545,454	\$ 1,499,360	\$ -	\$ 2,044,814
Less discount	-	-	(6,867)	-	-	(6,867)
Less loan origination costs	-	-	(7,240)	-	-	(7,240)
Net liability	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 531,347</u>	<u>\$ 1,499,360</u>	<u>\$ -</u>	<u>\$ 2,030,707</u>
Total:						
Principal	\$ 206,669	\$ 63,188	\$ 2,590,908	\$ 1,499,360	\$ 1,304,063	\$ 5,664,188
Less discount	(6,726)	(2,047)	(131,605)	-	-	(140,378)
Less loan origination costs	-	-	(138,744)	-	-	(138,744)
Net liability	<u>\$ 199,943</u>	<u>\$ 61,141</u>	<u>\$ 2,320,559</u>	<u>\$ 1,499,360</u>	<u>\$ 1,304,063</u>	<u>\$ 5,385,066</u>

Total future payments under the notes payable and related notes payable described above as of December 31, 2020 are as follows:

Year Ending December 31,	Related Parties	Third Parties	Convertible Note	PPP Loan	Foreign	Total	Discount / Loan Original Costs
2021	\$ 206,669	\$ 63,188	\$ 2,045,454	\$ -	\$ 1,304,063	\$ 3,619,374	\$ (265,015)
2022	-	-	545,454	1,499,360	-	2,044,814	(14,107)
Total minimum payments	206,669	63,188	2,590,908	1,499,360	1,304,063	5,664,188	(279,122)
Current portion of notes payable	(206,669)	(63,188)	(2,045,454)	-	(1,304,063)	(3,619,374)	265,015
Notes payable, net of current portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 545,454</u>	<u>\$ 1,499,360</u>	<u>\$ -</u>	<u>\$ 2,044,814</u>	<u>\$ (14,107)</u>

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.

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. There is 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

The Company maintained a stock option plan that was established in 2000 ("2000 Plan"). In November 2008, the Company increased the maximum number of shares of the Company's common stock that were issuable under the 2000 Plan to 3,000,000 shares of the Company's common stock. The 2000 Plan has expired, and no future grants may be awarded under the 2000 Plan.

In December 2011, the Company adopted a stock option plan ("2011 Plan") under which the Company may issue up to 1,500,000 shares of the Company's common stock and, as of December 31, 2020, the Company had 240,000 shares of common stock remaining unissued under the 2011 Plan. The 2011 Plan was terminated by the Board of Directors on October 10, 2017, and accordingly, no shares are available for issuance under the 2011 Plan. The 2011 Plan will continue to govern outstanding awards granted thereunder.

In December 2015, the Company adopted a stock option plan ("2015 Plan") under which the Company may issue up to 1,500,000 shares of the Company's common stock and, as of December 31, 2020, the Company had 790,000 shares of common stock remaining unissued under the 2015 Plan. The 2015 Plan was terminated by the Board of Directors on October 10, 2017, and accordingly, no shares are available for issuance under the 2015 Plan. The 2015 Plan will continue to govern outstanding awards granted thereunder.

The terms of the 2011 Plan and 2015 Plan provided for the grant of incentive options to employees and non-statutory options to employees, directors and consultants of the Company.

The Board of Directors adopted the 2017 Equity Incentive Plan on October 10, 2017 (the "2017 Plan"). The 2017 Plan allows for the grant of a variety of equity vehicles to provide flexibility in implementing equity awards, including incentive stock options, non-qualified stock options, restricted stock grants, unrestricted stock grants and restricted stock units and stock bonuses and performance-based awards. On December 18, 2017, the Company stockholders approved the "2017 Plan" under which the Company may issue up to 1,500,000 shares of the Company's common stock. The Company has 26,235 shares of common stock remaining unissued under the 2017 Plan.

The exercise price per share for options under the 2011 Plan, 2015 Plan and 2017 Plan is determined by the Company's Board of Directors, for incentive stock options the exercise price shall not be less than the fair market value of the Company's common stock on the date of grant, except that for incentive options granted to an owner/employee with a greater than 10% ownership interest in the Company, the exercise price shall not be less than 110% of the fair market value of the Company's common stock on the date of grant.

Options under the plans expire no more than ten years after the date of grant and/or within five years after the date of the grant for incentive options granted to an owner/employee with a greater than 10% ownership interest in the Company.

Effective June 24, 2020, the Company entered into an employment agreement with Mr. Raun to serve as the Company's president and chief executive officer. Pursuant to the terms of the employment agreement, Mr. Raun is entitled to receive 412,125 restricted stock units ("RSUs") that shall vest over three years, with one third of the RSUs vesting following the one-year anniversary of the date of grant, and the remaining RSUs vesting in four equal installments, commencing six months after the one-year anniversary of the date of grant and every six months thereafter until fully vested; and 412,125 Incentive Stock Options ("ISOs") pursuant to the Company's 2017 Equity Incentive Plan, whereby the exercise price for the ISOs shall be no less than the fair market value of the Company's common stock at the date of grant, (\$2.14).

The ISOs shall vest at the end of each the second and fourth quarters, the price of the Company's common stock as of the end of quarter two or quarter four, as applicable, shall be determined using the ten-day trailing volume weighted average price ("VWAP") after reporting of quarter two and quarter four earnings, as applicable. The date of each such determination shall be referred to as a "Determination Date." If on any Determination Date the Company's stock price has increased from the prior Determination Date, then a portion of the ISOs shall become vested. The number of ISOs that shall become vested on a Determinate Date is determined as follows: $((\text{Price at Determination Date} - \text{Price at prior Determination Date}) \times 100) \div 1,177.52 = \text{Vested ISOs}$. If on any Determination Date the Company's stock price is \$5.50 per share, all ISOs shall immediately become vested.

In the event that Mr. Raun's employment agreement is terminated for a reason other than "good cause" or for "good reason", Mr. Raun, upon executing an effective waiver and release of claims, unvested RSUs shall accelerate so that an additional twelve (12) months of RSUs shall vest from the termination date.

A summary of stock option activity under the plans during the years ended December 31, 2020 and 2019 are as follows:

	Stock Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2019	2,018,747	\$ 1.13	4.08	\$ 2,013,516
Granted	106,000	\$ 2.14		
Forfeited / Canceled	(62,000)	\$ 2.04		
Exercised	(376,303)	\$ 0.46		
Outstanding at December 31, 2019	1,686,444	\$ 1.13	4.84	\$ 2,013,516
Granted	432,125	\$ 2.17		
Forfeited / Canceled	(38,197)	\$ 2.32		
Exercised	(760,105)	\$ 0.88		
Outstanding at December 31, 2020	1,320,267	\$ 1.81	6.43	\$ 2,889,274
Exercisable at December 31, 2020	842,871	\$ 1.56	4.81	\$ 2,060,542
Vested and expected to vest at December 31, 2020	1,305,945	\$ 1.81	6.40	\$ 2,864,412

The following table summarizes information about common stock options outstanding as of December 31, 2020:

Plan	Exercise Price Range	Stock Options Outstanding			Stock Options Exercisable		
		Number of Shares Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price
2011	\$0.46-\$0.80	309,895	2.15	\$ 0.63	309,895	2.15	\$ 0.63
2015	\$1.78-\$1.95	424,610	6.00	\$ 1.74	423,881	6.00	\$ 1.74
2017	\$2.14-\$4.09	585,762	9.01	\$ 2.49	109,095	7.73	\$ 3.48
		<u>1,320,267</u>			<u>842,871</u>		

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 Year Ended December 31,	
	2020	2019
Expected term (in years)	5.04	4.6 - 5.9
Expected volatility	43.5 - 47.8%	43.7 - 44.4%
Risk-free interest rate	0.33 %	2.30 - 2.49%
Weighted average grant date fair value per share	\$ 0.83	\$ 1.09
Grant date fair value of options vested	\$ 554,575	\$ 706,417
Intrinsic value of options exercised	\$ 2,370,491	\$ 559,237

As of December 31, 2020, the amount of unearned stock-based compensation estimated to be expensed from 2020 through 2029 related to unvested common stock options is \$325,414, net of estimated forfeitures. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is 2.18 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.

Exercise of Stock Options

During the year ended December 31, 2020, the Company issued 314,236 shares of common stock for proceeds of \$86,892 in cash related to the exercise of stock options. Of the total shares issued, 240,381 shares of common stock were issued as a cashless exercise of stock options.

During the year ended December 31, 2019, the Company issued 350,587 shares of common stock for proceeds of \$47,334, in cash related to the exercise of stock options. Of the total shares issued, 273,600 shares of common stock were issued as a cashless exercise of stock options.

Restricted Stock Units

Restricted stock units may be granted at the discretion of the compensation committee of the Board of Directors under the 2017 Plan in connection with the hiring and retention of personnel and are subject to certain conditions. Restricted stock units generally vest quarterly over a period of 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 years ended December 31, 2020 and 2019 is as follows:

	Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2019	173,335	\$ 4.13
Granted	167,500	\$ 2.43
Vested	(116,665)	\$ (3.86)
Canceled	(7,500)	\$ (2.34)
Unvested at December 31, 2019	216,670	\$ 3.02
Granted	554,251	\$ 2.63
Vested	(151,251)	\$ 3.16
Canceled	(43,748)	\$ 2.43
Unvested at December 31, 2020	575,922	\$ 2.65

During the year ended December 31, 2020, the Company issued 123,440 restricted stocks units, net of 27,811 units retained for income tax purposes. As of December 31, 2020, there was \$918,475 of unrecognized compensation cost related to unvested restricted stock units which is expected to be recognized over a weighted average period of 2.22 years.

Stock-based compensation expense for the years ended December 31, 2020 and 2019 was comprised of the following:

Stock-based compensation classified as:	For the Year Ended December 31,	
	2020	2019
General and administrative	\$ 556,935	\$ 469,714
Production	65,631	70,243
Marketing and selling	65,580	59,486
Research and development	36,232	50,026
	<u>\$ 724,378</u>	<u>\$ 649,469</u>

Warrants

In connection with the issuance of notes payable and related notes payable in April 2019, the Company issued warrants to debt holders' share of common stock at an exercise price of \$2.15 per share. See Note 8.

The following table summarizes the Company's warrant activity during the years ended December 31, 2020 and 2019:

	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding – January 1, 2019	578,996	\$ 4.32
Warrants granted	69,766	\$ 2.15
Warrants exercised	(17,815)	\$ 1.40
Warrants outstanding – December 31, 2019	630,947	\$ 4.16
Warrants granted	-	\$ -
Warrants exercised	(125,001)	\$ 0.76
Warrants outstanding – December 31, 2020	<u>505,946</u>	<u>\$ 5.00</u>

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 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 years ended December 31, 2020 and 2019, the Company contributed \$124,993 and \$376,878, respectively to the 401(k) Plan. As of May 2020, the Company suspended matching contributions to the 401(k) as part of its cost containment program.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Legal

We are subject to litigation, claims, investigations, and audits arising from time to time in the ordinary course of our business.

On September 29, 2020, the Company's former Chief Executive Officer, Stephen D. Cooper, commenced an action entitled Stephen D. Cooper v. One Stop Systems, Inc. et al. in San Diego County Superior Court, Case No. 37-2020-00034492-CU-BC-CTL. Mr. Cooper alleges claims for (1) breach of written contract and (2) violation of California Labor Code Sections 201 and 203 in connection with the Company's alleged failure to pay unpaid wages and an earned bonus following the Company's termination of Mr. Cooper's employment with the Company in February 2020. Mr. Cooper seeks unspecified compensatory damages and statutory penalties.

The Company has denied Mr. Cooper's allegations. On December 8, 2020, the Company filed a cross-complaint ("Cross Complaint") against Mr. Cooper for (1) breach of contract (in connection with a binding commitment letter and Mr. Cooper's employment agreement), (2) intentional misrepresentation, (3) negligent misrepresentation, and (4) breach of fiduciary duty. The Company is seeking compensatory damages, punitive damages, pre-judgment interest, attorneys' fees, and the cost of suit incurred in connection with Mr. Cooper's complaint and the Cross Complaint. The Company intends to vigorously defend all allegations.

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 the terms of Bressner's credit agreements (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 of approximately 29,342 square feet in Escondido, California under a lease that was modified in February 2019 and expires in August 2024. The Company also lease a 3,208 square foot facility in Salt Lake City, Utah that houses our Ion software development team. The Company is the lessee of 12,880 square feet located in Irvine, California with the lease expiring in June 2021. Bressner Technology leases space comprising of 8,073 square feet on a month-to-month basis.

For the years ended December 31, 2020 and 2019, rent expense was \$673,089 and \$692,158, respectively.

Future annual minimum rental commitments under operating leases as of December 31, 2020 are as follows:

<u>Year Ending December 31,</u>	<u>Amount payable</u>
2021	\$ 526,339
2022	302,362
2023	311,433
2024	211,734
Thereafter	-
Total minimum lease payments	<u>\$ 1,351,868</u>

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 as 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. Additionally, the Company paid a 1% loan origination fee and a monthly commitment fee of 0.25% on unused committed funds through the term of the loan.

The Company engages an advertising firm whose president was a member of the Board of Directors of the Company during 2019 and though June 3, 2020. Amounts paid to this company are included in marketing and selling expense in the accompanying consolidated statements of operations and for the years ended December 31, 2020 and 2019, totaled \$33,000 and \$40,006, respectively.

The Company has appointed certain stockholders to the Board of Directors. Director fees paid by the Company, including stock-based compensation, for the years ended December 31, 2020 and 2019 totaled \$271,200 and \$160,726, 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 for the years ended December 31, 2020 and 2019 totaled \$9,000 and \$37,800, respectively, and are included in general and administrative expenses in the accompanying consolidated statements of operations.

Interest expense on all related-party notes payable for the years ended December 31, 2020 and 2019 totaled \$50,298 and \$67,197, respectively.

Effective August 1, 2016, the Company entered into a management services agreement with a company owned by the former Chief Executive Officer of Magma. The agreement calls for payments of \$180,000 per year for the first two years paid in monthly installments. In year three, the amount is reduced to \$37,500 for the year paid in monthly installments. Additionally, the Company granted 30,000 options in conjunction with execution of this agreement. Payments for the year ended December 31, 2020 and 2019 were \$0 and \$21,875, respectively.

NOTE 13 – INCOME TAXES

For the years ended December 31, 2020 and 2019, pre-tax income (loss) was attributed to the following jurisdictions:

	For the Years Ended December 31,	
	2020	2019
Domestic operations	\$ (760,603)	\$ (947,350)
Foreign operations	150,315	284,265
	<u>\$ (610,288)</u>	<u>\$ (663,085)</u>

Set forth below is the (benefit) provision for income taxes for the years ended December 31:

	For the Years Ended December 31,	
	2020	2019
Current:		
Federal	\$ (26,951)	\$ -
State	16,058	19,676
International	149,958	439,662
	<u>139,065</u>	<u>459,338</u>
Deferred:		
Federal	(563,107)	(164,662)
State	(180,059)	(57,424)
International	357	-
	<u>(742,809)</u>	<u>(222,086)</u>
Total (benefit) provision for income taxes	<u>\$ (603,744)</u>	<u>\$ 237,252</u>

The reconciliation of the (benefit) provision for income taxes computed at federal statutory rates to the (benefit) provision for income taxes for the years ended December 31, 2020 and 2019 are as follows:

	For the Years Ended December 31,	
	2020	2019
Provision at federal statutory rates (21% applied to earnings before income taxes)	\$ (128,161)	\$ (200,212)
State income taxes, net of federal benefit	7,685	38,764
Other permanent items	(164,300)	320,208
Research and development credits	(364,843)	(510,568)
Stock based compensation	(178,552)	(48,499)
Amortization and impairment	132,934	550,454
Uncertain tax positions	48,492	54,452
Other	43,001	32,653
	<u>\$ (603,744)</u>	<u>\$ 237,252</u>

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred taxes as of December 31, 2020 and 2019 were as follows:

	For the Years Ended December 31,	
	2020	2019
Deferred tax assets:		
Reserves	\$ 23,735	\$ 21,677
Deferred compensation	166,740	66,460
Stock compensation	183,742	191,855
Deferred revenue	132,814	126,428
Inventories	212,226	182,189
Credits and loss carryforward	4,314,653	3,794,279
Total deferred tax assets before valuation allowance	5,033,910	4,382,888
Less: valuation allowance	-	(178,593)
Total deferred tax assets	5,033,910	4,204,295
Deferred tax liabilities:		
Property and equipment	(229,042)	(369,004)
Intangible assets	(602,277)	(527,447)
Other	(327,288)	(288,021)
Total deferred tax liabilities	(1,158,607)	(1,184,472)
Deferred tax assets	3,875,303	3,019,823
Valuation allowance	(176,710)	-
Net deferred assets	<u>\$ 3,698,593</u>	<u>\$ 3,019,823</u>

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Management believes that it is more likely than not that the Company will realize the benefits of the net deferred tax assets as of December 31, 2020 and 2019.

The Company files income tax returns in the U.S. federal jurisdiction, California, Arizona, Idaho, Massachusetts, Texas, and Utah and Germany and has open tax statutes for U.S. federal taxes for the years ended December 31, 2016 through 2020. For California, the open tax statutes are for years December 31, 2017 through 2020, and for Germany, the open years include December 31, 2017 through 2020.

The Company has Pre-2017 Federal net operating loss ("NOL") carryforwards of \$1,111,176. The Company may use these NOL carryforwards to offset Federal taxable income in future years through 2037, when the last (Pre-2017) NOL carryforwards expire. The Company also has a Post-2017 Federal NOL carryforward as of December 31, 2020 and 2019, of \$4,916,876 and \$3,934,533, respectively. The Company may use these Post-2017 NOL carryforwards indefinitely to offset 80% of Federal taxable income in future years. In addition, the Company has state NOL carryforwards of \$2,366,620. State NOLs will carry forward through at least 2038 and may be used to offset future state taxable income.

As of December 31, 2020 and 2019, the Company has \$1,706,344 and \$1,430,122, respectively, of Federal tax credit carryforwards which begin to expire in 2026 and state credit carryforwards of \$1,479,256 and \$1,290,046, respectively, which carryforward indefinitely.

As of December 31, 2020, unrecognized tax benefits associated with uncertain tax positions was \$371,688, and such amount is included in other accrued expenses and other liabilities in the accompanying consolidated balance sheets. If recognized, this would affect the Company's effective tax rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Unrecognized tax benefits balance at December 31, 2018	\$	262,784
Gross increases for tax positions of the current year		54,452
Unrecognized tax benefits balance at December 31, 2019		317,236
Gross increases for tax positions of the current year		54,452
Unrecognized tax benefits balance at December 31, 2020	\$	371,688

The liability for uncertain tax positions is reviewed quarterly and adjusted as events occur that affect potential liabilities for additional taxes, such as lapsing of applicable statutes of limitations, proposed assessments by tax authorities, negotiations with taxing authorities, identification of new issues, and enactment of new legislation, regulations or promulgation of new case law. Management believes that adequate amounts of tax and related interest, if any, have been provided for any adjustments that may result from these examinations of uncertain tax positions. The Company does not expect the liability for uncertain tax positions to change significantly over the next year. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

As of December 31, 2020, we had \$3,698,593 in net deferred tax assets (DTAs). These DTAs include \$3,185,600 of tax credit carryforwards and \$1,474,896 related to net operating loss carryforwards that can be used to offset taxable income in future periods and reduce our income taxes payable in those future periods. At this time, we consider it more likely than not that we will have sufficient taxable income in the future that will allow us to realize these DTAs. However, it is possible that economic conditions may decrease the likelihood that we will have sufficient taxable income in the future. Therefore, unless we are able to generate sufficient taxable income from our operations, a substantial valuation allowance to reduce our U.S. DTAs may be required, which would materially increase our noncash income tax expenses in the period the allowance is recognized and materially adversely affect our consolidated results of operations and financial condition.

NOTE 14 – NET LOSS PER SHARE

Basic and diluted net loss per share was calculated as follows for the years ended December 31, 2020 and 2019:

	<u>For the Year Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Basic and diluted net loss per share:		
Numerator:		
Net loss	\$ (6,544)	\$ (900,337)
Denominator:		
Weighted average common shares outstanding - basic	16,512,203	15,148,613
Effect of dilutive securities	-	-
Weighted average common shares outstanding - diluted	16,512,203	15,148,613
Net loss per common share:		
Basic	\$ (0.00)	\$ (0.06)
Diluted	\$ (0.00)	\$ (0.06)

NOTE 15 – SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in two 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 years ended December 31, 2020 and 2019 is as follows:

	For the Year Ended December 31, 2020			For the Year Ended December 31, 2019		
	OSS	Bressner	Total	OSS	Bressner	Total
Revenues	\$ 33,650,019	\$ 18,245,369	\$ 51,895,388	\$ 40,055,408	\$ 18,252,611	\$ 58,308,019
Cost of revenues	(21,081,787)	(14,378,987)	(35,460,774)	(24,762,812)	(14,142,944)	(38,905,756)
Gross profit	12,568,232	3,866,382	16,434,614	15,292,596	4,109,667	19,402,263
Gross profit %	37.3%	21.2%	31.7%	38.2%	22.5%	33.3%
Total operating expenses	(13,129,857)	(3,729,038)	(16,858,895)	(16,391,427)	(3,789,855)	(20,181,282)
(Loss) income from operations	\$ (561,625)	\$ 137,344	\$ (424,281)	\$ (1,098,831)	\$ 319,812	\$ (779,019)

Revenue from customers with non-U.S. billing addresses represented approximately 56% and 62% of the Company's revenue for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020, substantially all the Company's long-lived assets were located in the United States of America, with the exception of assets of \$238,211 located in Germany.

NOTE 16 – SUBSEQUENT EVENTS

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

On March 1, 2021, the Company entered into a Securities Purchase Agreement with an accredited investor, pursuant to which the Company agreed to issue and sell, in a registered direct offering, 1,497,006 shares of the Company's common stock, par value \$0.0001 per share, to the purchaser at an offering price of \$6.68 per share. The registered offering was conducted pursuant to the Company's effective shelf registration statement on Form S-3 (Registration No. 333-231513), which was initially filed with the Securities and Exchange Commission on May 15, 2019; and was declared effective on June 19, 2019. As compensation for their services, the Company paid to the placement agents a fee equal to 7% of the gross proceeds received by the Company as a result of the registered offering, and reimbursed the placement agents for certain expenses incurred in connection with such offering. The Company estimates that the net proceeds from the registered offering will be approximately \$9.25 million after deducting certain fees due to the placement agents' and the Company's estimated transaction expenses. The net proceeds received by the Company will be used for general corporate and working capital purposes.

Exhibit Index

Exhibit Number	Description
2.1 (1)	<u>Agreement and Plan of Merger and Reorganization, dated August 22, 2018, with Concept Development Inc.</u>
2.2 (2)	<u>Share Purchase Agreement, dated October 31, 2018, with Bressner Technology GmbH.</u>
3.1 (3)	<u>Amended and Restated Certificate of Incorporation (currently in effect).</u>
3.2 (4)	<u>Bylaws, as amended (currently in effect).</u>
4.1 (5)	<u>Second Amended and Restated Investors' Rights Agreement, dated January 2007.</u>
4.2 (5)	<u>Common Shareholder Piggyback Registration Rights Agreement, dated July 15, 2016.</u>
10.1+ (6)	<u>Form of Indemnification Agreement between One Stop Systems, Inc. and each its directors and executive officers.</u>
10.2+ (5)	<u>One Stop Systems, Inc. 2000 Stock Option Plan and related form agreements.</u>
10.3+ (5)	<u>One Stop Systems, Inc. 2011 Stock Option Plan and related form agreements.</u>
10.4+ (5)	<u>One Stop Systems, Inc. 2015 Stock Option Plan and related form agreements.</u>
10.5+ (5)	<u>One Stop Systems, Inc. 2017 Stock Equity Incentive Plan and related form agreements.</u>
10.6 (12)	<u>Amendment No. 1 to the 2017 Stock Equity Incentive Plan.</u>
10.7 (6)	<u>Lease Agreement dated October 21, 2004, as amended.</u>
10.8 (1)	<u>Piggyback Registration Rights Agreement by and between One Stop Systems, Inc. and James M. Reardon, dated August 31, 2018.</u>
10.9 (7)	<u>Form of Binding Commitment Letter.</u>
10.10 (8)	<u>Executive Employment Agreement between One Stop Systems, Inc., and David Raun, dated March 24, 2020.</u>
10.11 (9)	<u>Form of Senior Secured Convertible Promissory Note</u>
10.12 (9)	<u>Form of Securities Purchase Agreement, dated April 20, 2020, by and between the Company and the investors</u>
10.13 (9)	<u>Form of Security Agreement, dated April 20, 2020, by and between the Company, certain of its subsidiaries and the investors</u>
10.14 (9)	<u>Form of Intercreditor Agreement, dated April 20, 2020, by and between the Company, the investors and certain secured parties</u>
10.15 (10)	<u>Senior Secured Convertible Promissory Note, dated April 24, 2020, by and between the Company and the investor</u>
10.16 (11)	<u>Promissory Note, dated as of April 28, 2020, by and between One Stop Systems, Inc., as Borrower, and Cache Valley Bank, as Lender.</u>
10.17 (12)	<u>Employment Agreement between One Stop Systems, Inc., and David Raun, dated June 24, 2020.</u>
10.18 (13)	<u>Form of Securities Purchase Agreement</u>
10.19 (13)	<u>Form of Placement Agency Agreement</u>

Exhibit Index

21.1*	List of Subsidiaries.
23.1*	Consent of Haskell & White LLP, independent registered public accounting firm
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.

- (1) Incorporated by reference to Amendment No.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 21, 2019.
- (2) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on February 6, 2019.
- (3) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 333-222121) filed with the SEC on December 18, 2017.
- (4) Incorporated by reference to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-222121) filed with the SEC on January 16, 2019.
- (5) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on February 1, 2019.
- (6) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on August 3, 2019.
- (7) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on September 6, 2019.
- (8) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on November 6, 2019.
- (9) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 9, 2020.
- (10) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on June 26, 2020.
- (11) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on August 8, 2020.
- (12) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2020.
- (13) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on March 3, 2021.

+ Indicates management contract or compensatory plan.

† Portions of this exhibit have been redacted in compliance with Regulation S-K Item 601(b)(10).

* These certifications are being furnished solely to accompany this annual 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 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 Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

ONE STOP SYSTEMS, INC.

Date: March 25, 2021

By: /s/ David Raun
David Raun
President and Chief Executive Officer

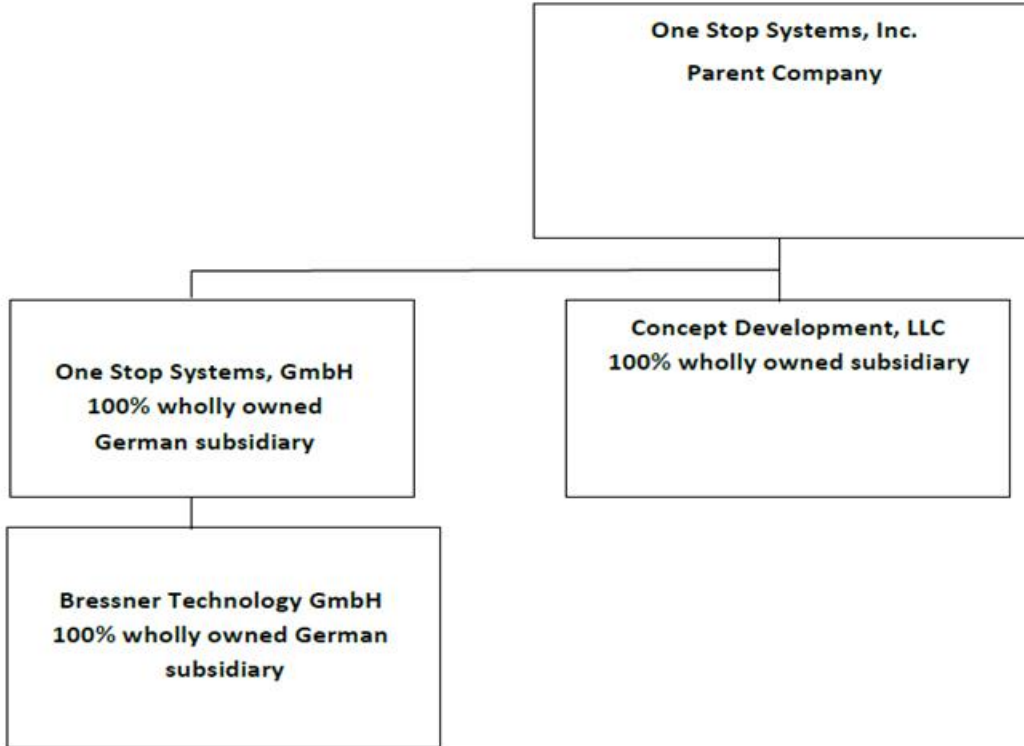
Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ David Raun</u> David Raun	President and Chief Executive Officer (Principal Executive Officer)	March 25, 2021
<u>/s/ John W. Morrison Jr.</u> John W. Morrison Jr.	Chief Financial Officer (Principal Accounting and Financial Officer)	March 25, 2021
<u>/s/ Kenneth Potashner</u> Kenneth Potashner	Chairman	March 25, 2021
<u>/s/ Kimberly Sentovich</u> Kimberly Sentovich	Director	March 25, 2021
<u>/s/ Sita Lowman</u> Sita Lowman	Director	March 25, 2021
<u>/s/ Jack Harrison</u> Jack Harrison	Director	March 25, 2021
<u>/s/ Gioia Messinger</u> Gioia Messinger	Director	March 25, 2021
<u>/s/ Greg Matz</u> Greg Matz	Director	March 25, 2021

One Stop Systems, Inc.

Organizational Structure

- One Stop Systems Inc.
- Concept Development, LLC
- One Stop Systems, GmbH
- Bressner Technology GmbH



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-227671) and the Registration Statement on Form S-3 (File No. 333-231513) of One Stop Systems, Inc. (the “Company”) of our report dated March 25, 2021, relating to the Company’s consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

/s/ Haskell & White LLP
HASKELL & WHITE LLP

Irvine, California
March 25, 2021

**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 annual report on Form 10-K 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: March 25, 2021

By: /s/ David Raun

David Raun
Chief Executive Officer
(Principal Executive Officer)

**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 annual report on Form 10-K 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: March 25, 2021

By: /s/ John W. Morrison Jr.

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

**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 Annual Report of One Stop Systems, Inc. (the "Company") on Form 10-K for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Raun, 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: March 25, 2021

By: /s/ David Raun

David Raun
Chief Executive Officer
(Principal Executive Officer)

**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 Annual Report of One Stop Systems, Inc. (the "Company") on Form 10-K for the year ended December 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: March 25, 2021

By: /s/ John W. Morrison Jr.

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