

One Stop Systems - From Design-In to Delivery

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Decision scope: Portfolio priorities for engineering, product development, and production scale-up

Case convention: This is an author-created management decision exercise. The planning assignment and alternatives are hypothetical; company disclosures are historical. No private deliberation or board meeting is represented.

The decision

One Stop Systems, Inc. (OSS) designs and manufactures rugged, high-performance computing, switching, and storage systems for edge applications such as sensor processing, autonomy, and AI. Its products operate in demanding environments on aircraft, ships, vehicles, and mobile command systems, as well as in commercial applications. [P1], Note 1, lines 525-533; MD&A, lines 1068-1076.

In the second quarter of 2026, revenue from continuing operations grew 62.3% year over year to \$9.3 million. OSS reported \$15.1 million in bookings for the quarter and raised its full-year revenue-growth guidance. At the same time, the mix of customer-funded development shifted, gross margin moved in a different direction in Q2 than in the first half, and research-and-development expense declined as engineers moved to customer programs and selected internal projects did not recur. [P1], statements and MD&A, lines 1152-1166 and 1227-1272; [P2], lines 26-39 and 65-76.

The July commercial-robotics order is the only disclosed example here of a prototype proceeding through testing and validation to an initial production order. A separate Navy announcement described a \$1.3 million initial award, not a disclosed prototype-to-production transition. Whether either program creates reusable engineering or platform work is unresolved. OSS also described a new defense program with a multi-year revenue estimate. Component lead times and memory costs were volatile, and some supplier commitments could not be cancelled. [P1], Note 10, lines 922-932 and MD&A, lines 1369-1383; [P2]; [P3]; [P4].

For this exercise, assume the chief executive asks you to prepare a recommendation for the next operating-planning cycle. Public disclosures do not establish that OSS faces a binding engineering-capacity limit or that management debated this choice. Your task is to propose a portfolio policy for the work competing for engineering, product-development, and production-scale-up resources.

Assignment: Recommend how OSS should allocate incremental effort among (1) paid customer development and design-ins, (2) internally funded reusable platform and process work, and (3) delivery and scale-up of production orders. Specify the milestones and financial or

operating tests that should govern funding and expansion. Use only evidence available by 31 August 2026. Treat any capacity pool, threshold, or conversion assumption you introduce as a classroom assumption.

A business built around rugged edge systems

OSS focuses on computing systems installed on platforms or at locations where conventional datacenter equipment may not meet space, weight, power, ruggedization, or performance needs. Its offerings include rugged servers, compute accelerators, storage arrays, and high-speed switch fabrics. The 2025 divestiture of Bressner ended its European distribution and integration business; the 2026 filing describes continued focus on proprietary edge-computing solutions and greater defense-market effort. [P1], Note 1, lines 525-544 and MD&A, lines 1068-1076.

The product work can span several stages. A customer may pay OSS to adapt a system, test a prototype, and qualify it for an application. If the program proceeds, the system may enter deployment or production. Some fixed-price engineering, prototype, and product contracts are recognized over time; most product revenue is recognized when products ship. Revenue recognition therefore does not by itself show that a program has reached recurring production. [P1], revenue policy, lines 1081-1084.

OSS markets to defense, aerospace, medical, industrial, and autonomous-platform customers. The company cited protracted defense sales cycles, significant contracting requirements, and multi-year deliverables. Its products also depend on leading-edge components, including memory, for which suppliers had reported longer lead times and price volatility. OSS said it had negotiated long-term supply agreements but cautioned that cost increases could not always be passed through. [P1], Note 1, lines 526-527; MD&A, lines 1369-1383.

Development, platforms, and production

Exhibit 1. Continuing-operations results and revenue mix

USD millions except percentages. Q2 and H1 are periods ended 30 June. Reported amounts are GAAP unless identified as a management metric; category margins marked “calculated” are the case authors’ calculations from reported revenue and cost lines.

Measure	Q2 2025	Q2 2026	H1 2025	H1 2026
Product revenue	5.376	8.405	10.172	15.469
Customer-funded development (C-FD) revenue	0.385	0.944	0.795	1.949
Total revenue	5.761	9.349	10.968	17.418
C-FD share of revenue	6.7%	10.1%	7.3%	11.2%
Product gross margin, calculated by category	-	40.6%	-	44.2%
C-FD gross margin, calculated by category	-	25.5%	-	50.3%
Consolidated gross margin, reported	41.3%	39.1%	43.3%	44.9%

Measure	Q2 2025	Q2 2026	H1 2025	H1 2026
R&D expense	1.362	0.853	2.567	1.670

Sources: [P1], statements, lines 1152-1166; revenue mix and consolidated margin, lines 1185-1195. Calculations: product and C-FD gross profit divided by revenue for that category. OSS reports one segment; these category margins are not issuer-reported segment margins. It recognized some fixed-price engineering/prototype work over time and most product sales at shipment. [P1], lines 1081-1084.

Management attributed the Q2 gross-margin decline primarily to product mix, including a higher volume of C-FD programs; more favorable manufacturing absorption and reserved-inventory usage partly offset the decline. For H1, it attributed margin improvement partly to engineering efficiencies on some C-FD programs and higher production volume. The Q2 and H1 comparisons therefore tell different stories. [P1], lines 1234-1240.

R&D expense fell 37.4% year over year in Q2 and 34.9% for H1. Management cited engineering labor deployed to customer-funded development, nonrecurrence of selected internal new-product investments, and engineering headcount reductions. The lower R&D expense line is not a dollar-for-dollar measure of reduced engineering work, and the filing does not identify which roadmap projects were deferred. [P1], lines 1268-1272.

Exhibit 2. Orders, funding, and program estimates

Disclosure	Amount and status at the cutoff	What it does not establish
Q2 bookings	\$15.1m, described by OSS as its record quarterly level; book-to-bill reported as 1.6x for Q2 and 1.7x year to date. [P2], lines 26-39.	OSS did not disclose a bookings definition or reconcile this measure to backlog, cancellation exposure, or future revenue in the 10-Q. Do not treat it as contracted backlog.
Remaining performance obligations	About \$0.810m under fully funded contracts with performance obligations satisfied over time; expected to be satisfied in 2026. [P1], Note 6, lines 692-713.	This is a defined ASC 606 subset, not all product orders or the same measure as bookings.
Commercial robotics program	About \$2.2m initial production order after prototype delivery, testing, and validation. Deliveries were expected from Q3 2026 through Q3 2027. [P3], lines 26-34.	OSS anticipated \$10-15m of cumulative program orders over five years, but this was a forward-looking estimate, not a committed order or backlog. [P3], lines 29 and 43-48.
U.S. Navy program	\$1.3m award announced 18 August for rugged shipboard data storage; delivery was expected to contribute revenue in 2026. [P4], lines 25-30.	About \$2.5m in potential follow-on orders over four years was uncommitted and depended on requirements, procurement, program changes, and funding. [P4], lines 40-46. The issuer press archive lists the release as 19 August.
DoD intelligence platform	Management said a new program was expected to generate about \$44m over the next four years. [P2], lines 34-35.	The release did not identify the full estimate as a funded order or backlog, and did not disclose annual timing, margins, cancellation terms, or working-capital needs.

Exhibit 3. Cash, supply, and execution guardrails

USD millions; balance-sheet values are as of 30 June 2026, not a pro forma 31 August balance.

Measure	Reported position	Strategic relevance
Cash and cash equivalents	17.279	Distinguish cash from short-term investments.
Short-term investments	14.129	Cash plus investments totaled \$31.408m at 30 June. No debt was outstanding.
Inventory, net	13.864	Compared with \$5.420m at 31 December 2025; included a \$6.630m allowance for obsolete and slow-moving inventory.
Non-cancellable component purchase orders	2.697	Suppliers may deliver on pre-established schedules extending beyond a year.
Q2 customer concentration	Three customers together: about 39% of revenue	Customer/program mix can materially affect results.
Q2 supplier concentration	Three suppliers together: about 77% of purchases	Component availability and supplier terms matter to execution.
Bank revolver	\$2.0m limit; no balance drawn	Secured line required \$2.5m minimum cash with the bank and matured 11 September 2026, subject to renewal.
Legal settlement accrual	\$6.250	A liability was accrued in Q2 after an August 4 term sheet. The payment was due within 30 days after a fully executed definitive agreement; no execution or payment confirmation was found through 31 August.

Source: [P1], balance sheet lines 237-243; inventory Note 5, lines 653-664; purchase commitments and concentration, Note 10, lines 922-932; debt, Note 8, lines 736-746; settlement, Note 10, lines 869-871. The June 30 cash and investment total is not reduced here by an unconfirmed settlement payment. Management said it believed liquidity would meet anticipated needs for at least 12 months, while warning that forecast cash flows might not be achieved. [P1], lines 1317-1325.

The August 24 S-3 registered up to \$100m of securities and carried forward \$87.5m unsold from the prior shelf. The filing stated securities could not be sold under the new registration before effectiveness; it was not effective by the case cutoff and generated no included proceeds. The August 28 amendment added an indenture exhibit only. [P5], lines 98-104 and 113-152; [P6], lines 106-108.

What should OSS prioritize?

For the next planning cycle, consider three policy postures:

1. **Build design-ins:** prioritize paid customer development and early deployments that may position OSS for later programs. State how customer funding, milestones, reusable work, and follow-on evidence should offset the long cycle and uncertain conversion.
2. **Deliver production:** prioritize funded orders, production reliability, yield, and component availability. Limit development programs with weak milestones or little expected reuse, while accepting the risk of fewer future platform positions.
3. **Gate the portfolio:** preserve selected internal platform and process work, accept customer programs against funded milestones and explicit resource budgets, and expand production spending only as qualification, production, margin, and working-capital evidence improves.

These policies can overlap; the decision is how to set priorities and gates, not to abandon a product or market. The case does not supply program-level labor hours, lifecycle contribution, historical design-in conversion rates, BOM-level component costs, production yields, or customer contract terms. Students should identify which missing data they would demand before making long-lived commitments.

Your recommendation

Prepare a two-page memo for the chief executive recommending a portfolio policy. Include:

- the principle for allocating engineering effort among customer development, internal reusable work, and production delivery;
- two to four funding or stage gates, with the evidence that triggers a program to continue, scale, pause, or stop;
- how you would account for customer funding, future production potential, contribution margin, delivery capacity, component commitments, and cash timing;
- the strongest objection to your recommendation and the evidence that would cause you to revise it.

Clearly label any capacity pool, margin threshold, conversion rate, or expected return that you assume. The company has not disclosed a binding engineering-capacity constraint or a preferred allocation policy.

Discussion questions

1. What is the difference between an announced order, management's multi-year estimate, bookings, and the 10-Q's fully funded remaining-performance-obligation figure?
2. Does Q2's mix and margin evidence support reducing customer-funded development? How does the H1 comparison change your answer?
3. Should OSS protect a minimum internal roadmap, prioritize customer-funded programs, or stage both? What would each choice risk?
4. Which milestones should unlock more engineering time, production hiring, or component purchases?
5. What additional program, customer, and supplier data would most change your decision?

Sources and cutoff

Company filings and releases are identified in the source register. The SEC accepted OSS's Q2 10-Q at 08:01:52 ET on 5 August, before the issuer's 10:00 a.m. ET results call. The cutoff includes materials available through 31 August 2026, close. The September 2 S-3 effectiveness and September 16 missile-defense award are excluded.