

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

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

For the fiscal year ended October 2, 2011

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ until ____

Commission File Number 000-22573

OPTEX SYSTEMS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation organization)

33-143215

(I.R.S. Employer
Identification No.)

1420 Presidential Drive

Richardson, TX

(Address of principal executive offices)

75081-2439

(Zip Code)

Registrant's telephone number, including area code

(972) 644-0722

Securities Registered under Section 12(b) of the Act
None

Securities Registered under Section 12(g) of the Act
Common Stock, par value \$.001 per share

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 issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).
Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

The aggregate market value of the 26,111,658 shares of voting stock held by non-affiliates of the registrant based on the closing price on the Over the Counter Bulletin Board on December 20, 2011 was \$52,223.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

| Title of Class | Shares Outstanding December __20, 2011 |
|----------------|---|
| Common Stock | 139,444,940 |

DOCUMENTS INCORPORATED BY REFERENCE

None.

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Cautionary Note Regarding Forward-Looking Information

This Report on Form 10-K, in particular Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements represent our expectations, beliefs, intentions or strategies concerning future events, including, but not limited to, any statements regarding our assumptions about financial performance; the continuation of historical trends; the sufficiency of our cash balances for future liquidity and capital resource needs; the expected impact of changes in accounting policies on our results of operations, financial condition or cash flows; anticipated problems and our plans for future operations; and the economy in general or the future of the defense industry, all of which were subject to various risks and uncertainties.

When used in this Report on Form 10-K and other reports, statements, and information we have filed with the Securities and Exchange Commission (“Commission” or “SEC”), in our press releases, presentations to securities analysts or investors, in oral statements made by or with the approval of an executive officer, the words or phrases “believes,” “may,” “will,” “expects,” “should,” “continue,” “anticipates,” “intends,” “will likely result,” “estimates,” “projects” or similar expressions and variations thereof are intended to identify such forward-looking statements. However, any statements contained in this Report on Form 10-K that are not statements of historical fact may be deemed to be forward-looking statements. We caution that these statements by their nature involve risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors.

We do not assume the obligation to update any forward-looking statement. You should carefully evaluate such statements in light of factors described in this prospectus. In this Form 10-K, Optex Systems Holdings, Inc. (“Optex Systems Holdings”) has identified important factors that could cause actual results to differ from expected or historic results. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete list of all potential risks or uncertainties.

PART I

Item 1 Description of Business

Background

Prior History - Sustut Exploration, Inc.

Sustut was a Delaware corporation formed on April 11, 2006 to search for available properties in North Central British Columbia. In May 2006, Sustut entered into an agreement, which was negotiated at arms-length with Richard Simpson, to acquire a 100% interest in the WILLOW claim purported to be located in the Omineca Mining Division, NTS map sheet 94D/10E. The property could have been acquired from Simpson by paying a total of \$75,000 in two option payments with the last option payment being due on May 15, 2008; however, Sustut did not make the required payments and did not acquire title to those property rights.

The mineral claim, which was to be Sustut's primary business, expired on May 15, 2008 leaving Sustut with no operating business of which to dispose. Optex Systems Holdings does not believe it presently maintains any rights related to the Willowvale project and does not intend to pursue a mining or mineral business. Optex Systems Holdings does not intend to make any payment to exercise any option or extend the term of the rights, if any continue to exist.

Reorganization

On March 30, 2009, a reorganization occurred whereby the then existing shareholders of Optex Systems, Inc., a private Delaware corporation ("Optex Systems, Inc. (Delaware)"), exchanged their shares of Optex Systems, Inc. (Delaware) common stock with the shares of common stock of Optex Systems Holdings as follows: (i) the outstanding 85,000,000 shares of Optex Systems, Inc. (Delaware) common stock were exchanged for 113,333,282 shares of Optex Systems Holdings common stock, (ii) the outstanding 1,027 shares of Optex Systems, Inc. (Delaware) Series A preferred stock were exchanged for 1,027 shares of Optex Systems Holdings Series A preferred stock and (iii) the 8,131,667 shares of Optex Systems, Inc. (Delaware) common stock purchased in the private placement were exchanged for 8,131,667 shares of Optex Systems Holdings common stock. Optex Systems, Inc. (Delaware) has remained a wholly-owned subsidiary of Optex Systems Holdings, and the Optex Systems, Inc. (Delaware) shareholders are now shareholders of Optex Systems Holdings. As a result of the reorganization, Sileas Corporation, a former shareholder of Optex Systems, Inc. (Delaware), beneficially owns approximately 73.52% of the issued and outstanding common stock of Optex Systems Holdings and Arland Holdings, Ltd., a former shareholder of Optex Systems, Inc. (Delaware) owns 5.89% of the issued and outstanding common stock of Optex Systems Holdings. Furthermore, at the time of the reorganization, Andrey Oks resigned as the sole officer and director of Optex Systems Holdings. Additionally, Stanley Hirschman, Ronald Richards and Merrick Okamoto were appointed as its directors, and Stanley Hirschman, Danny Schoening and Karen Hawkins were appointed as its President, COO and V.P. of Finance/Controller, respectively.

Prior to the closing under the reorganization agreement, Optex Systems, Inc. (Delaware) accepted subscriptions from accredited investors for a total 27.1 units, for \$45,000 per unit, with each unit consisting of 300,000 shares of common stock of Optex Systems, Inc. (Delaware) and warrants to purchase 300,000 shares of common Stock for \$0.45 per share for a period of five years from the initial closing, which were issued by Optex Systems, Inc. (Delaware) after the closing referenced above. Gross proceeds to Optex Systems, Inc. (Delaware) were \$1,219,750, and after deducting (i) a cash finder's fee of \$139,555, (ii) non-cash consideration of indebtedness owed to an investor of \$146,250, and (iii) stock issuance costs of \$59,416, the net proceeds were \$874,529. The finder also received five year warrants to purchase 2.39 units, at an exercise price of \$49,500 per unit.

Contracts

Each contract with Optex Systems Holdings' customers has specific quantities of material that need to be purchased, assembled, and then shipped. Prior to bidding a contract, Optex Systems Holdings contacts potential sources of material and receives qualified quotations for this material. In some cases, the entire volume is given to a single supplier and in other cases, the volume might be split between several suppliers. If a contract has a single source supplier and that supplier fails to meet their obligations (e.g., quality, delivery), then Optex Systems Holdings would attempt to find an acceptable alternate supplier, and if successful, it would then renegotiate contractual deliverables (e.g., specifications, delivery, price). As of December 8, 2011, approximately 7% of our material requirements are single-sourced across 5 suppliers representing approximately 8% of our active supplier base. Single sourced component requirements span across all of our major product lines. Of these single sourced components, we have material contracts (purchase orders) with firm pricing and delivery schedules in place with each of the suppliers to supply the parts necessary to satisfy our current contractual needs.

We are subject to, and must comply with, various governmental regulations that impact, among other things, our revenue, operating costs, profit margins and the internal organization and operation of our business. The material regulations affecting our U.S. government business are summarized in the table below.

| Regulation | Summary |
|---|--|
| Federal Acquisition Regulation | The principal set of rules in the Federal Acquisition Regulation System. This system consists of sets of regulations issued by agencies of the federal government of the United States to govern what is called the "acquisition process," which is the process through which the government acquires goods and services. That process consists of three phases: (1) need recognition and acquisition planning, (2) contract formation, and (3) contract administration. The FAR System regulates the activities of government personnel in carrying out that process. It does not regulate the purchasing activities of private sector firms, except to the extent that those activities involve government solicitations and contracts by reference. |
| International Traffic in Arms Regulations | United States government regulations that control the export and import of defense-related articles and services on the United States Munitions List. These regulations implement the provisions of the Arms Export Control Act. |
| Truth in Negotiations Act | A public law enacted for the purpose of providing for full and fair disclosure by contractors in the conduct of negotiations with the government. The most significant provision included is the requirement that contractors submit certified cost and pricing data for negotiated procurements above a defined threshold, which was increased from \$650,000 to \$700,000 on October 1, 2010. It requires contractors to provide the government with an extremely broad range of cost or pricing information relevant to the expected costs of contract performance, and it requires contractors and subcontractors to submit cost or pricing data to the government and to certify that, to the best of their knowledge and belief, the data are current, accurate, and complete. |

Optex Systems Holdings is responsible for full compliance with the Federal Acquisition Regulation. Upon award, the contract may identify certain regulations that Optex Systems Holdings needs to meet. For example, a contract may allow progress billing pursuant to specific Federal Acquisition Regulation clauses incorporated into the contract. Other contracts may call for specific first article acceptance and testing requirements. The Federal Acquisition Regulation will identify the specific regulations that Optex Systems Holdings must follow based on the type of contract awarded. The Federal Acquisition Regulation also contains guidelines and regulations for managing a contract after award, including conditions under which contracts may be terminated, in whole or in part, at the government's convenience or for default. These regulations also subject us to financial audits and other reviews by the government of our costs, performance, accounting and general business practices relating to our government contracts, which may result in adjustment of our contract-related costs and fees and, among other things and impose accounting rules that define allowable and unallowable costs governing our right to reimbursement under certain contracts.

First Article Testing and Acceptance requirements consist of specific steps. For example, the first article testing associated with Howitzer-type product is comprehensive and time consuming. The dimensions and material specifications of each piece of the assembly must be verified, and each product has in excess of 100 piece parts. Once the individual piece parts are verified to be compliant to the specification, the assembly processes are documented and verified. A sample of the production (typically three units) is verified to meet final performance specifications. Once the units meet the final performance specification, they are then subjected to accelerated life testing, a series of tests which simulate the lifetime use of the product in the field. This consists of exposing the units to thermal extremes, humidity, mechanical shock, vibration, and other physical exposure tests. Once completed, the units undergo a final verification process to ensure that no damage has occurred as a result of the testing and that they continue to meet the performance specification. All of the information and data is recorded into a final first article inspection and test report and submitted to the customer along with the test units for final approval. First Article Acceptance and Testing is generally required on new contracts/product awards but may also be required on existing products or contracts where there has been a significant gap in production, or where the product has undergone significant manufacturing process, material, tooling, equipment or product configuration changes.

Optex Systems Holdings, Inc. is also subject to laws, regulations and executive orders restricting the use and dissemination of information deemed classified for national security purposes and the exportation of certain products and technical data as covered by the International Traffic in Arms Regulation. In order to import or export items listed on the U.S. Munitions List, we are required to be registered with the Directorate of Defense Trade Controls office. The registration is valid for one year, and the registration fees are established based on the number of license applications submitted the previous year. Optex Systems Holdings currently has an approved and current registration on file with the Directorate of Defense Trade Controls office. Once the registration is approved, each import/export license must be filed separately. License approval requires the company to provide proof of need, such as a valid contract or purchase order requirement for the specific product or technical data requested on the license and requires a detailed listing of the items requested for export/import, the end-user, the end-user statement, the value of the items, consignees/freight forwarders and a copy of a valid contract or purchase order from the end-user. The approval process for the license can vary from several weeks to six months or more. The licenses Optex Systems Holdings currently uses are the DSP-5 (permanent export) and DSP-73 (temporary export).

The aforementioned licenses are valid for 48 months from date that each such license is issued as set forth on the table below (updated as of December 20, 2011).

| DSP-5 Licenses | Issue Date | Expiration Date (48 months from date of issue) |
|-----------------------|-------------------|---|
| 50128943 | 11/24/2008 | 11/23/2012 |
| 50137740 | 1/5/2009 | 1/4/2013 |
| 50146207 | 3/13/2009 | 3/12/2013 |
| 50137823 | 1/5/2009 | 1/4/2013 |
| 50169739 | 6/4/2009 | 6/3/2013 |
| 50184920 | 8/19/2009 | 8/18/2013 |
| 50185923 | 8/28/2009 | 8/27/2013 |
| 50187735 | 3/19/2010 | 3/18/2014 |
| 50230854 | 3/30/2010 | 3/29/2014 |
| 50187735 | 10/1/2009 | 9/30/2013 |
| 50220671 | 10/1/2009 | 9/30/2013 |
| 50221743 | 4/1/2010 | 3/31/2014 |
| 50209709 | 2/23/2010 | 2/22/2014 |
| 50233257 | 6/10/2010 | 6/9/2014 |
| 50269333 | 1/7/2011 | 1/6/2015 |
| 50274142 | 1/5/2011 | 1/4/2015 |
| 50275888 | 2/28/2011 | 2/27/2015 |
| 50284334 | 3/1/2011 | 2/28/2015 |
| 50290287 | 4/13/2011 | 4/12/2015 |
| 50290963 | 5/2/2011 | 5/1/2015 |
| 50302078 | 5/27/2011 | 5/26/2015 |
| 50303894 | 6/1/11 | 5/30/15 |
| 5029802 | 6/6/11 | 6/5/15 |
| 50310470 | 7/7/11 | 7/6/15 |
| 50309527 | 7/12/11 | 7/11/15 |
| 50313126 | 7/14/11 | 7/13/15 |
| 50314547 | 8/11/11 | 8/10/15 |
| 50324632 | 9/8/11 | 9/7/15 |
| 50323843 | 9/23/11 | 9/22/15 |

| DSP-73 Licenses | Issue Date | Expiration Date (48 months from date of issue) |
|------------------------|-------------------|---|
| 730007737 | 8/13/2008 | 8/12/2012 |
| 730008340 | 9/26/2008 | 9/25/2012 |
| 730008736 | 11/18/2008 | 11/17/2012 |
| 730010051 | 2/27/2009 | 2/26/2013 |
| 730024737 | 2/16/2010 | 2/15/2014 |
| 730026913 | 6/15/2010 | 6/15/2014 |
| 730030429 | 2/22/2011 | 2/21/2015 |
| 730031574 | 6/15/11 | 6/14/15 |
| 730033471 | 9/16/11 | 9/15/15 |
| 730033903 | 9/23/11 | 9/22/15 |

Licenses are subject to termination if a licensee is found to be in violation of the Arms Export Control Act or the International Traffic in Arms Regulations requirements. If a licensee is found to be in violation, in addition to a termination of its licenses, it can be subject to fines and penalties by the government.

Optex Systems Holdings' contracts may also be governed by the Truth in Negotiation Act requirements where certain of our contracts or proposals exceed the \$700,000 threshold and/or are deemed as sole source, or non competitive awards, covered under this act. For these contracts, Optex Systems Holdings must provide a vast array of cost and pricing data in addition to certification that our pricing data and disclosure materials are current, accurate and complete upon conclusion of the negotiation. Due to the additional disclosure and certification requirements, if a post contract award audit were to uncover that the pricing data provided was in any way not current, accurate or complete as of the certification date, Optex Systems Holdings could be subjected to a defective pricing claim adjustment with accrued interest. Currently, Optex Systems Holdings does not have any pending defective pricing claim adjustments. Additionally, as a result of this requirement, contract price negotiations may span from two to six months and will often result in undefinitized or not to exceed ceiling priced contracts subject to future downward negotiations and price adjustments. Currently, Optex Systems Holdings does not have any undefinitized contracts subject to further price negotiation.

Our failure to comply with applicable regulations, rules and approvals or misconduct by any of our employees could result in the imposition of fines and penalties, the loss of security clearances, the loss of our U.S. government contracts or our suspension or debarment from contracting with the U.S. government generally, any of which could have a material adverse effect our business, financial condition, results of operations and cash flows. We are currently in compliance with all applicable regulations and do not have any pending claims as a result of non compliance.

The material terms of our material contracts are as follows (updated as of December 20, 2011):

| Customer | Customer PO/Contract | Contract Type | Contract Quantities | | Total Award Value (2) | Progress /Milestone Billable (1) | Order Period Expiration | Remaining Value (3) | Delivery Period |
|--------------------------------------|-------------------------------------|--|----------------------------|----------------|--------------------------------------|---|--|------------------------------------|----------------------------|
| | | | Min Qty | Max Qty | | | | | |
| General Dynamics Land Systems | 40050551 (Multiple Prime Contracts) | Firm Fixed Price and Fixed Quantity Purchase Order | N/A | N/A | \$ 6,330,336 | Yes | N/A | \$ 3,673,347 | Jan 2011 - Feb 2013 |
| DLA Land – Warren (4) | SPRDL1-12-C-0023 | Firm Fixed Price and Fixed Quantity Purchase Order | N/A | N/A | \$ 1,152,272 | Yes | N/A | \$ 1,152,272 | Nov 2011 - Oct 2012 |
| International Defense Contractor (5) | Subcontract PO 35334144 | Firm Fixed Price and Fixed Quantity Purchase Order | N/A | N/A | \$ 7,830,695 | Yes | N/A | \$ 7,830,695 | Mid 2012 - Oct 2017 |

(1) Payment terms on shipments are net 30 days.

(2) "Total Award Value" as included in the table represents the total value of all delivery orders against the prime contract that have already been awarded to

Optex. The total award value represents already awarded delivery order contracts. Based on Optex's historical experience with these contracts and other similar contracts, the amount awarded has directly correlated to the amount received.

(3) The "Remaining Value" depicts the open undelivered values remaining to be delivered against the contract awards as of October 27, 2011. Only these undelivered values of the contracts may be subject to the contract termination clause. It has been the experience of Optex Systems that these clauses are rarely invoked.

(4) Contract was awarded on October 24, 2011.

(5) Contract was awarded on October 24, 2011 but effective November 3, 2011 as the date on which approved for disclosure by contractor. This contract provides for milestone billing, in part.

Organizational History

On October 14, 2008, in a transaction that was consummated via public auction, Optex Systems, Inc. (Delaware) purchased all of the assets of Optex Systems, Inc. (Texas) in exchange for \$15 million of Irvine Sensors Corporation debt and the assumption of approximately \$3.8 million of certain liabilities of Optex Systems, Inc. (Texas). Optex Systems, Inc. (Delaware) was formed by the Longview Fund, LP and Alpha Capital Antstalt, former secured creditors of Irvine Sensors Corporation, to consummate the transaction with Optex Systems Holdings, and subsequently, on February 20, 2009, Longview Fund conveyed its ownership interest in Optex Systems Holdings to Sileas Corporation, an entity owned by three of Optex Systems Holdings' officers (one of whom is also one of Optex Systems Holdings' three directors). On March 30, 2009, a reorganization occurred whereby Optex Systems, Inc. (Delaware) became a wholly-owned subsidiary of Optex Systems Holdings.

Products

Optex Systems Holdings' products are installed on various types of U.S. military land vehicles, such as the Abrams and Bradley fighting vehicles, light armored and advanced security vehicles and have been selected for installation on the Future Combat Systems Stryker vehicle. Optex Systems Holdings also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Optex Systems Holdings delivers its products both directly to the military services and to prime contractors.

Optex Systems Holdings delivers high volume products, under multi-year contracts, to large defense contractors and government customers. We have a reputation for quality and credibility with our customers as a strategic supplier. We also anticipate the opportunity to integrate some of our night vision and optical sights products into commercial applications.

Specific product lines include:

- Electronic sighting systems
- Mechanical sighting systems
- Laser protected glass periscopes
- Laser protected plastic periscopes

- Non-laser protected plastic periscopes
- Howitzer sighting systems
- M36 Thermal Day / Night Periscopes
- Ship binoculars
- Replacement optics (e.g. filters, mirrors)

Location and Facility

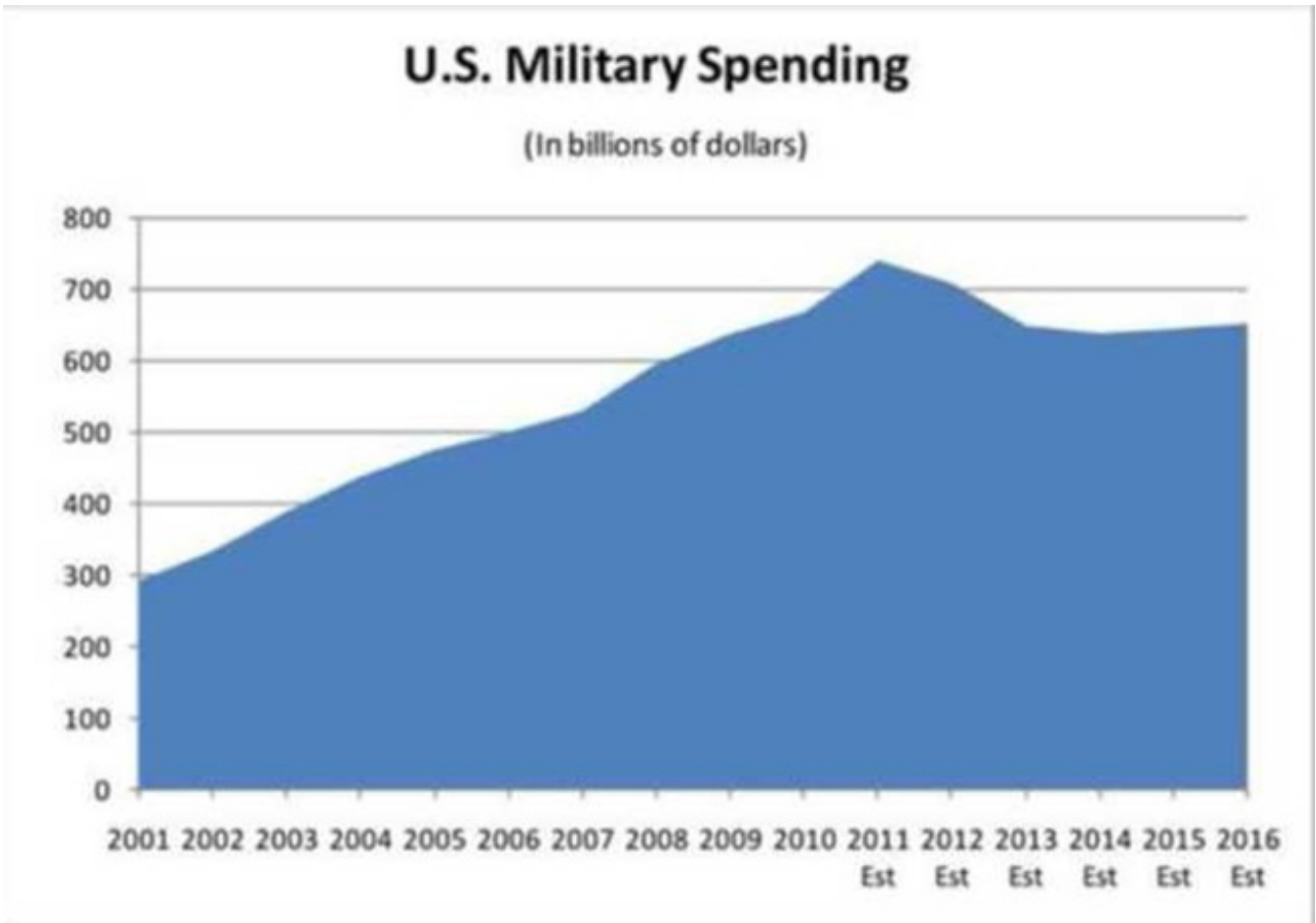
We are located in Richardson, TX in an approximately 49,000 square foot facility, and as of December 8, 2011, we had 76 full time equivalent employees. We operate with a single shift, and capacity could be expanded by adding a second shift. Our proprietary processes and methodologies provide barriers to entry for other competing suppliers. In many cases, we are the sole source provider or one of only two providers of a product. We have capabilities which include machining, bonding, painting, tracking, engraving and assembly and can perform both optical and environmental testing in-house.

We lease our facility. Effective as of January 4, 2010, Optex Systems Holdings, Inc. renewed its Richardson, TX lease. Under the terms of the amendment:

- The lease term is extended until July 31, 2015.
- The annual base rent rate is as follows: until 7/31/2010, \$0.00 per square foot, from 8/1/2010 – 7/31/2013, \$4.70 per square foot and from 8/1/2013 – 7/31/2015, \$4.95 per square foot.
- A \$0.2 million improvement allowance is included.
- For the first two years of the extended term, the landlord has granted the option to take over additional space at similar terms as in the amendment.

Market Opportunity – U.S. Military

Optex Systems Holdings believes the U.S. government's commitment to military defense spending in the coming years will remain strong; however, in light of recent government uncertainties related to the congressional budget and current deficit spending, we cannot anticipate whether the historical trends in military spending will continue at the same pace as in prior years. The chart below was derived from public government spending sources and depicts total U.S. military spending from 2001 through 2010. It is difficult to directly tie this spending to any specific military vehicles; (with the extraordinary exception of the Mine Resistant Ambush Protected \$22 billion program funded in FY2007-2008); however, Optex Systems Holdings serves the U.S. armed forces and various state national guards. The purpose of including this chart is to provide the reader with actual trend data showing military spending by the government from 2001 through 2010. The total military spending increased from \$290.2 billion in 2001 to \$666.7 billion in 2010 representing a total increase in military spending of 229.8% in the last 10 years. However, unlike the trend previously depicted in this chart, we have experienced reduced spending in 2011 and given the forecast of reduced spending of the U.S. military in the coming years, Optex Systems Holdings continues to aggressively pursue international opportunities in addition to maintaining its current footprint with U.S. vehicle manufactures. We are currently bidding on several substantial government contracts to expand sales and production beyond the current production and backlog. A good example of this activity is where Optex Systems Holdings is supporting General Dynamics Land Systems in their attempt to secure the production of the Israeli Namer Armored Personnel Carrier (Merkava APC). In this opportunity, General Dynamics Land Systems is quoting the production of 386 vehicles which contain a "Periscope Kit" which could be supplied by Optex Systems Holdings. This kit would contain seven periscopes and sixteen additional supporting part numbers. Optex Systems Holdings will continue to pursue these international opportunities through direct sales (example General Dynamics Land Systems – Canada) and through existing customers (General Dynamics Land Systems – Israeli Namer Project). We are also exploring possibilities to adapt some of our products for commercial use in those markets that demonstrate potential for solid revenue growth.



Source: Government Printing Office, U.S. Budget Historical Tables, FY 2011, Table 3.2 Outlays by function and subfunction, 1962-2015

The following factors are important to the U.S. military:

- Reliability – failure can cost lives
- Time delivery to schedule
- System life cycle extension
- Low cost/best value
- Visual aids for successful execution of mission objectives
- Mission critical products.

Optex Systems Holdings focuses on delivering products that satisfy these factors and believes it is well positioned to continue to service U.S. military needs.

Market Opportunity – Commercial

Optex Systems Holdings' products are currently sold to military and related government markets. We believe there may be opportunities to commercialize various products we presently manufacture to address other markets. Our initial focus will be directed in three product areas.

- Big Eye Binoculars – While the military application we produce is based on mature military designs, Optex Systems Holdings owns all castings, tooling and glass technology. These large fixed mount binoculars could be sold to cruise ships, personal yachts and cities/municipalities.
- Night Vision Sight – Optex Systems Holdings has manufactured the optical system for the NL-61 Night Vision Sight for the Ministry of Defense of Israel. This technology could be implemented for commercial applications.
- Infrared Imaging Equipment – Optex Systems Holdings manufactures and assembles infrared imaging equipment and components for Raytheon's Thermal Imaging M36 Mount product. This equipment and technology has potential to be assembled for border patrol, police and governmental security agencies.

Optex Systems Holdings believes that these are potential opportunities for it to pursue; however, it has not yet performed a full analysis of these product areas to validate whether they are appropriate for commercial pursuit in light of current market conditions.

Customer Base

Optex Systems Holdings serves customers in three primary categories: as prime contractor (TACOM Life Cycle Command, DLA (Defense Logistics Agency) Warren, U.S. Army, Navy and Marine Corps), as subcontractor (General Dynamics, BAE, and NorcaTec) and also as a supplier to foreign governments (Israel, Australia and NAMSA). Although we do serve all three of these categories, for the twelve months ended October 2, 2011, we derived approximately 95% of the gross business revenue from four customers, with 67% from General Dynamics Land Systems Divisions, 18% from TACOM, 6% from DLA, and 4% from BAE Systems with which we have approximately 51 discrete contracts for items that are utilized in vehicles, product lines and spare parts. Given the size of General Dynamics Land System Division, and Tank-automotive and Armaments Command, and DLA as well as the fact that there are multiple contracts with each entity, which are not interdependent, we are of the opinion that this provides us with a fairly well diversified revenue pool.

Marketing Plan



Potential Entrants – Low Risk to Optex Systems Holdings. In order to enter this market, potential competitors must overcome several barriers to entry. The first hurdle is that an entrant would need to prove to the government agency in question the existence of a government approved accounting system for larger contracts. Second, the entrant would need to develop the processes required to produce the product. Third, the entrant would then need to produce the product and then submit successful test requirements (many of which require lengthy government consultation for completion). Finally, in many cases the customer has an immediate need and therefore cannot wait for this qualification cycle and therefore must issue the contracts to existing suppliers.

Industry Competitors – Medium Risk to Optex Systems Holdings. Optex Systems Holdings tends to compete with two other companies in different spaces. First, Optex Systems Holdings competes with Miller-Holzwarth for plastic periscope business. These contracts are typically lower value products, but higher quantities. Second, Optex Systems Holdings competes with Seiler Instruments for fire control products. These contracts are higher value products, but lower quantities. Given the expense of development and qualification testing, the barrier to entry is high for new competitors. However, as the overall plastic periscope demand quantities have declined in the last twelve months, competition on the lower level periscope products has significantly increased as Optex Systems Holdings and Miller-Holzwarth have aggressively competed for market share amongst the existing customer base and quantities.

Buyers – Medium Risk to Optex Systems Holdings. In most cases the buyers (usually government agencies or defense contractors) have two fairly strong suppliers. It is in their best interest to keep at least two, and therefore, in some cases, the contracts are split between suppliers. In the case of larger contracts, the customer can request an open book policy on costs and expects a reasonable margin to have been applied.

Substitutes – Low Risk to Optex Systems Holdings. Optex Systems Holdings has both new vehicle contracts and replacement part contracts for the exact same product. The U.S. government has declared that the Abrams/Bradley base vehicles will be the ground vehicle of choice through 2040. The Bradley vehicle has been in service for 28 years, the Abrams for 27 years. Therefore, it appears that the systems are capable of a life of approximately 30 years. In February 2008, the U.S. Army signed a multiyear third party contract for the delivery of improved Abrams and Bradleys. The contract is for up to 435 tanks and 540 Bradley vehicles. These are the only production tanks currently being procured by the government. This, in conjunction with the 30 year life span, supports their continued use through 2040. There are no replacement systems known to be proposed or funded at this time. The Abrams is the principal battle tank of the United States Army and 3d Marine Corps, and the armies of Egypt, Kuwait, Saudi Arabia, and since 2007, Australia. The new contract terms allow efficiencies within the supply chain and a very long return on investment on new vehicle proposals.



Suppliers – Low to Medium Risk to Optex Systems Holdings. Given the current state of the economy, the suppliers of standard processes (e.g., casting, machining and plating) need to be very competitive to gain and /or maintain contracts. Those suppliers of products that use top secret clearance processes are slightly better off; however, there continues to be multiple avenues of supply and therefore only moderate power.

The second model is a two by two matrix for products and customers.

| | | |
|--------------------------|--|---|
| New Products | <u>TACOM</u> - M187, M137, Aiming Circle | <u>L3</u> - Night Vision / Thermal Sights |
| Existing Products | <u>TACOM</u> - Periscopes, Collimators, Back Up Sights. <u>GDLS</u> - Periscopes, Collimators, ICWS | <u>BAE</u> - Periscopes, Collimators, Back Up Sights. <u>Norcatec</u> - Periscopes |
| | Existing Customers | New Customers |

This product/customer matrix sets forth our four basic approaches:

- 1) Sell existing products to existing customers.
- 2) Sell existing products to new customers.
- 3) Develop new products to meet the needs of our existing customers.
- 4) Develop new products to meet the needs of new customers.

The product categories described in the above matrix are associated with the product lines set forth below:

| <u>Name</u> | <u>Product Line</u> |
|--------------------------------|------------------------------------|
| M137, M187, M119 Aiming Device | Howitzer Sighting Systems |
| Aiming Circle | Howitzer Sighting Systems |
| Periscopes | Laser Protected Plastic Periscopes |
| Collimators | Electronic Sighting Systems |
| Day/Night Thermal Vision | M36 Thermal Sighting Systems |
| Back Up Sights | Mechanical Sighting Systems |
| ICWS | Laser Protected Glass Periscopes |

Operations Plan

Our operations plan can be broken down into three distinct areas: material management, manufacturing space planning and efficiencies associated with economies of scale.

Materials Management–

The largest portion of our costs is materials. We have completed the following activities in order to demonstrate continuous improvement:

- Successful completion of annual surveillance audit for ISO9001:2008 certificate, with no major nonconformance issues
- Weekly cycle counts on inventory items
- Weekly material review board meeting on non-moving piece parts
- Kanban kitting on products with consistent ship weekly ship quantities
- Daily cross functional floor meetings focused on delivery, yields and labor savings
- Redesigned floor layout using tenant improvement funds
- Daily review of yields and product velocity
- Bill of material reviews prior to work order release

Future continuous improvement opportunities include installation and training of shop floor control module within the ERP system and organizational efficiencies of common procurement techniques among buyers.

Manufacturing Space Planning

We currently lease approximately 49,000 square feet of manufacturing space (see “Location and Facility”). Our current facility is sufficient to meet our immediate production needs without excess capacity. As our processes are primarily labor driven, we are able to easily adapt to changes in customer demand by adjusting headcounts, overtime schedules and shifts in line with production needs. In the event additional floor space is required to accommodate new contracts, Optex has the option to lease adjacent floor space at the current negotiated lease cost per square foot. As part of our lease agreement renewed January 4, 2010, Optex was able to negotiate additional leasehold improvements of \$0.2 million paid by the landlord. These funds were primarily expended on plant rearrangement allowing for a more streamlined approach to material movement and production within the organization.

Consistent with the space planning, we will drive economies of scale to reduce support costs on a percentage of sales perspective. These cost reductions can then be either brought directly to the bottom line or used for business investment.

This process is driven by the use of six sigma techniques and process standardization. Initial activities in this area have been the successful six sigma projects in several production areas which have led to improved output and customer approval on the aesthetics of the work environment. In addition to the 5S projects, we have used the define, measure, analyze, improve, control problem solving technique to identify bottlenecks within the process flow and improve product yields. These successful techniques can then be duplicated across the production floor and drive operational improvements.

Economies of Scale

Plant efficiencies at Optex Systems Holdings fluctuate as a function of program longevity, complexity and overall production volume. Our internal processes are primarily direct labor intensive and can be more easily adapted to meet fluctuations in customer demand; however, our material purchases, subcontracted operations and manufacturing support costs are extremely sensitive to changes in volume. As our volume increases, our support labor, material and scrap costs decline as a function of revenue as we are able to obtain better material pricing, and scrap, start up and support labor (fixed) costs are spread across a higher volume base. On the contrary, as production volumes decline, our labor and material costs per unit of production generally increase. Additional factors that contribute to economies of scale relate to the longevity of the program. Long running, less complex programs (i.e: periscopes) do not experience as significant of a labor impact as production volumes change, as the workforce is generally less skilled and learning curves can be more easily be overcome as headcounts shift. Our more complex Howitzer programs are more significantly impacted by volume changes as the workforce is highly skilled and the training is more complex. Optex Systems Holdings continually monitors customer demand over a rolling twelve month window and adapts manpower and material needs accordingly to capitalize on any improvements for increased volume and minimize any negative impact as anticipated product quantities decline.



Intellectual Property

We utilize several highly specialized and unique processes in the manufacture of our products. While we believe that these trade secrets have value, it is probable that our future success will depend primarily on the innovation, technical expertise, manufacturing and marketing abilities of our personnel. We cannot assure you that we will be able to maintain the confidentiality of our trade secrets or that our non-disclosure agreements will provide meaningful protection of our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or other disclosure. The confidentiality agreements that are designed to protect our trade secrets could be breached, and we might not have adequate remedies for the breach. Additionally, our trade secrets and proprietary know-how might otherwise become known or be independently discovered by others. We do not possess any patents.

Our competitors, many of which have substantially greater resources, may have applied for or obtained, or may in the future apply for and obtain, patents that will prevent, limit or interfere with our ability to make and sell some of our products. Although we believe that our products do not infringe on the patents or other proprietary rights of third parties, we cannot assure you that third parties will not assert infringement claims against us or that such claims will not be successful.

Competition

The markets for our products are competitive. We compete primarily on the basis of our ability to design and engineer products to meet performance specifications set by our customers. Our customers include military and government end users as well as prime contractors that purchase component parts or subassemblies, which they incorporate into their end products. Product pricing, quality, customer support, experience, reputation and financial stability are also important competitive factors.

There are a limited number of competitors in each of the markets for the various types of products that we design, manufacture and sell. At this time, we consider our primary competitors to be Seiler Instruments, Miller-Holzwarth, Kent Periscopes, Senergy International and Optronics.

Our competitors are often well entrenched, particularly in the defense markets. Some of these competitors have substantially greater resources than we do. While we believe that the quality of our technologies and product offerings provides us with a competitive advantage over certain manufacturers, some of our competitors have significantly more financial and other resources than we do to spend on the research and development of their technologies and for funding the construction and operation of commercial scale plants.

We expect our competitors to continue to improve the design and performance of their products. We cannot assure investors that our competitors will not develop enhancements to, or future generations of, competitive products that will offer superior price or performance features, or that new technology or processes will not emerge that render our products less competitive or obsolete. Increased competitive pressure could lead to lower prices for our products, thereby adversely affecting our business, financial condition and results of operations. Also, competitive pressures may force us to implement new technologies at a substantial cost, and we may not be able to successfully develop or expend the financial resources necessary to acquire new technology. We cannot assure you that we will be able to compete successfully in the future.

Employees

Optex Systems Holdings had 76 full time equivalent employees as of December 8, 2011. Optex Systems Holdings also uses a small temporary work force to handle peak loads. To the best of its knowledge, Optex Systems Holdings is compliant with local prevailing wage, contractor licensing and insurance regulations, and has good relations with its employees, who are not currently unionized.

Item 1A Risk Factors

Investing in our common stock involves a high degree of risk. Prospective investors should carefully consider the risks described below, together with all of the other information included or referred to in this annual report, before purchasing shares of our common stock. There are numerous and varied risks, known and unknown, that may prevent us from achieving our goals. The risks described below are not the only risks we will face. If any of these risks actually occurs, our business, financial condition or results of operations may be materially adversely affected. In such case, the trading price of our common stock could decline and investors in our common stock could lose all or part of their investment. The risks and uncertainties described below are not exclusive and are intended to reflect the material risks that are specific to us, material risks related to our industry and material risks related to companies that undertake a public offering or seek to maintain a class of securities that is registered or traded on any exchange or over-the-counter market.

Risks Related to our Business

We expect that we may need to raise additional capital in the future beyond any proceeds received from this offering; additional funds may not be available on terms that are acceptable to us, or at all.

We anticipate we may have to raise additional capital in the future to service our debt and to finance our future working capital needs. We cannot assure you that any additional capital will be available on a timely basis, on acceptable terms, or at all. Future equity or debt financings may be difficult to obtain. If we are not able to obtain additional capital as may be required, our business, financial condition and results of operations could be materially and adversely affected.

We anticipate that our capital requirements will depend on many factors, including:

- our ability to fulfill backlog;
- our ability to procure additional production contracts;
- our ability to control costs;
- the timing of payments and reimbursements from government and other contracts, including but not limited to changes in federal government military spending and the federal government procurement process;
- increased sales and marketing expenses;
- technological advancements and competitors' response to our products;
- capital improvements to new and existing facilities;
- our relationships with customers and suppliers; and
- general economic conditions including the effects of future economic slowdowns, acts of war or terrorism and the current international conflicts.

Even if available, financings may involve significant costs and expenses, such as legal and accounting fees, diversion of management's time and efforts, and substantial transaction costs. If adequate funds are not available on acceptable terms, or at all, we may be unable to finance our operations, develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures.

Current economic conditions may adversely affect our ability to continue operations.

Current economic conditions may continue to cause a decline in business and consumer spending and capital market performance, which could adversely affect our business and financial performance. Our ability to raise funds, upon which we are fully dependent to continue to expand our operations, may be adversely affected by current and future economic conditions, such as a reduction in the availability of credit, financial market volatility and economic recession.

Our ability to fulfill our backlog may have an effect on our long term ability to procure contracts and fulfill current contracts.

Our ability to fulfill our backlog may be limited by our ability to devote sufficient financial and human capital resources and limited by available material supplies. If we do not fulfill our backlog in a timely manner, we may experience delays in product delivery which would postpone receipt of revenue from those delayed deliveries. Additionally, if we are consistently unable to fulfill our backlog, this may be a disincentive to customers to award large contracts to us in the future until they are comfortable that we can effectively manage our backlog.

Our historical operations depend on government contracts and subcontracts. We face risks related to contracting with the federal government, including federal budget issues and fixed price contracts.

Future general political and economic conditions, which cannot be accurately predicted, may directly and indirectly affect the quantity and allocation of expenditures by federal agencies. Even the timing of incremental funding commitments to existing, but partially funded, contracts can be affected by these factors. Therefore, cutbacks or re-allocations in the federal budget could have a material adverse impact on our results of operations. Given the continued adverse economic conditions, the federal government has slowed its pace with regard to the release of orders for the U.S. military. Since we depend on orders for equipment for the U.S. military for a significant portion of our revenues, this slower release of orders will continue to have a material adverse impact on our results of operations. Obtaining government contracts may also involve long purchase and payment cycles, competitive bidding, qualification requirements, delays or changes in funding, budgetary constraints, political agendas, extensive specification development, price negotiations and milestone requirements. In addition, our government contracts are primarily fixed price contracts, which may prevent us from recovering costs incurred in excess of budgeted costs. Fixed price contracts require us to estimate the total project cost based on preliminary projections of the project's requirements. The financial viability of any given project depends in large part on our ability to estimate such costs accurately and complete the project on a timely basis. Some of those contracts are for products that are new to our business and are thus subject to unanticipated impacts to manufacturing costs. Given the current economic conditions, it is also possible that even if our estimates are reasonable at the time made, that prices of materials are subject to unanticipated adverse fluctuation. In the event our actual costs exceed fixed contractual costs of our product contracts, we will not be able to recover the excess costs which could have a material adverse effect on our business and results of operations. We examine these contracts on a regular basis and accrue for anticipated losses on these contracts, if necessary. As of October 2, 2011, previous loss contracts have been shipped completed and there are no future losses anticipated on our current backlog, thus we had no loss provision accrued for these fixed price contracts.

Approximately 95% of our contracts contain contract termination clauses for convenience. In the event these clauses should be invoked by our customer, future revenues against these contracts could be affected, however these clauses allow for a full recovery of any incurred contract costs plus a reasonable fee up through and as a result of the contract termination. We are currently unaware of any pending terminations on our existing contracts. In some cases, contract awards may be issued that are subject to renegotiation at a date (up to 180 days) subsequent to the initial award date. Generally, these subsequent negotiations have had an immaterial impact (zero to 5%) on the contract price of the affected contracts. Currently, none of our awarded contracts are subject to renegotiation.

We have sought to mitigate the adverse impact on our results of operations from U.S. military orders by seeking to obtain foreign military orders. We recently won our first successful bid in securing the \$7.8 million five year contract with a foreign military contractor; however, since we have yet to begin delivery under this contract, we cannot yet determine if this contract win and our other efforts will mitigate the impact that the slower pace of U.S. military orders has had on our results from operations.

If we fail to scale our operations appropriately in response to growth and changes in demand, we may be unable to meet competitive challenges or exploit potential market opportunities, and our business could be materially and adversely affected.

Our past growth has placed, and any future growth in our historical business is expected to continue to place, a significant strain on our management personnel, infrastructure and resources. To implement our current business and product plans, we will need to continue to expand, train, manage and motivate our workforce, and expand our operational and financial systems, as well as our manufacturing and service capabilities. All of these endeavors will require substantial management effort and additional capital. If we are unable to effectively manage our expanding operations, we may be unable to scale our business quickly enough to meet competitive challenges or exploit potential market opportunities, and our current or future business could be materially and adversely affected.

We do not have long-term employment agreements with our key personnel, other than our Chief Operating Officer. If we are not able to retain our key personnel or attract additional key personnel as required, we may not be able to implement our business plan and our results of operations could be materially and adversely affected.

We depend to a large extent on the abilities and continued participation of our executive officers and other key employees. The loss of any key employee could have a material adverse effect on our business. We currently have only one employment agreement, with our Chief Operating Officer, and we do not presently maintain “key man” insurance on any key employees. We believe that as our activities increase and change in character, additional, experienced personnel will be required to implement our business plan. Competition for such personnel is intense, and we cannot assure you that they will be available when required, or that we will have the ability to attract and retain them. In addition, due to our small size, we do not presently have depth of staffing in our executive, operational and financial management areas in order to have an effective succession plan should the need arise. Thus, in the event of the loss of one or more of our management employees, our results of operations could be vulnerable to challenges associated with recruiting additional key personnel, if such recruiting efforts are not successful in a timely manner.

Certain of our products are dependent on specialized sources of supply that are potentially subject to disruption which could have a material, adverse impact on our business.

Optex Systems Holdings has selectively single-sourced some of our material components in order to mitigate excess procurement costs associated with significant tooling and startup costs. Furthermore, because of the nature of government contracts, we are often required to purchase selected items from U.S. government approved suppliers, which may further limit our ability to utilize multiple supply sources for these key components.

To the extent any of these single sourced or government approved suppliers should have disruptions in deliveries due to production, quality, or other issues, Optex Systems Holdings may also experience related production delays or unfavorable cost increases associated with retooling and qualifying alternate suppliers. The impact of delays resulting from disruptions in supply for these items could negatively impact our revenue, our customer reputation, and our results of operations. In addition, significant price increases from single-source suppliers could have a negative impact on our profitability to the extent that we are unable to recover these cost increases on our fixed price contracts.

Each contract has a specific quantity of material which needs to be purchased, assembled, and finally shipped. Prior to bidding a contract, Optex Systems Holdings contacts potential sources of material and receives qualified quotations for this material. In some cases, the entire volume is given to a single supplier and in other cases, the volume might be split between several suppliers. If a contract has a single source supplier and that supplier fails to meet their obligations (e.g., quality, delivery), then Optex Systems Holdings would find an alternate supplier and bring this information back to the final customer. Contractual deliverables would then be re-negotiated (e.g., specifications, delivery, price). As of December 8, 2011, approximately 7% of our material requirements are single-sourced across 5 suppliers representing approximately 8% of our active supplier base. Single-sourced component requirements span across all of our major product lines. The vast majority of these single-sourced components could be provided by another supplier with minimal interruption in schedule (supply delay of 3 months or less) or increased costs. We do not believe these single sourced materials to pose any significant risk to Optex Systems Holdings as other suppliers are capable of satisfying the purchase requirements in a reasonable time period with minimal increases in cost. Of these single sourced components, we have contracts (purchase orders) with firm pricing and delivery schedules in place with each of the suppliers to supply parts in satisfaction of our current contractual needs.

We consider only those specialized single source suppliers where a disruption in the supply chain would result in a period of three months or longer for Optex Systems Holdings to identify and qualify a suitable replacement to present a material financial or schedule risk. In the table below, we identify only those specialized single source suppliers and the product lines supported by those materials utilized by us as of December 8, 2011.

| <u>Product Line</u> | <u>Supplier</u> | <u>Supply Item</u> | <u>Risk</u> | <u>Purchase Orders</u> |
|---------------------|------------------|---|--|---|
| Periscopes | TSP, Inc. | Window used on all glass & plastic periscopes | Proprietary coatings would take in excess of 6 months to identify and qualify an alternative source | Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule. |
| Periscopes | Spartec Polycast | Acrylic raw material used in plastic periscope assemblies | This material has quality characteristics which would take in excess of 6 months to identify and qualify an alternative source. | Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule. |
| Other | SWS Trimac | Subcontracted Electron Beam Welding | Subcontracted welder that is the only qualified supplier for General Dynamics Land Systems muzzle reference system collimator assemblies. This operation would take in excess of 6 months to identify and qualify an alternative supplier. | Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule. |

The defense technology supply industry is subject to technological change and if we are not able to keep up with our competitors and/or they develop advanced technology as response to our products, we may be at a competitive disadvantage.

The market for our products is generally characterized by technological developments, evolving industry standards, changes in customer requirements, frequent new product introductions and enhancements, short product life cycles and severe price competition. Our competitors could also develop new, more advanced technologies in reaction to our products. Currently accepted industry standards may change. Our success depends substantially on our ability, on a cost-effective and timely basis, to continue to enhance our existing products and to develop and introduce new products that take advantage of technological advances and adhere to evolving industry standards. An unexpected change in one or more of the technologies related to our products, in market demand for products based on a particular technology or of accepted industry standards could materially and adversely affect our business. We may or may not be able to develop new products in a timely and satisfactory manner to address new industry standards and technological changes, or to respond to new product announcements by others. In addition, new products may or may not achieve market acceptance.

Unexpected warranty and product liability claims could adversely affect our business and results of operations.

The possibility of future product failures could cause us to incur substantial expense to repair or replace defective products. Some of our customers require that we warrant the quality of our products to meet customer requirements and be free of defects for up to fifteen months subsequent to delivery. Approximately 60% of our current (as of October 2, 2011) contract deliveries are covered by these warranty clauses. We establish reserves for warranty claims based on our historical rate of less than one percent of returned shipments against these contracts. There can be no assurance that this reserve will be sufficient if we were to experience an unexpectedly high incidence of problems with our products. Significant increases in the incidence of such claims may adversely affect our sales and our reputation with consumers. Costs associated with warranty and product liability claims could materially affect our financial condition and results of operations.

We derive almost all of our revenue from four customers and the loss of any of these customers could have a material adverse effect on our revenues.

For the year ended October 2, 2011, we derived approximately 95% of the gross business revenue from four customers, with 67% from General Dynamics Land Systems Divisions, 18% from TACOM, 6% from DLA, and 4% from BAE Systems. Procuring new customers and contracts may partially mitigate this risk. In particular, a decision by either General Dynamics Land System Division or Tank-automotive and Armaments Command or DLA/Warren to cease issuing contracts to us could have a significant material impact on our business and results of operations given that they represent 95% of our gross business revenue. There can be no assurance that we could replace these customers on a timely basis or at all.

We have approximately 51 discrete contracts with General Dynamics Land System Division, Tank-automotive and Armaments Command and DLA/Warren. If they choose to terminate these contracts, Optex Systems Holdings is entitled to fully recover all contractual costs and reasonable profits incurred up to or as a result of the terminated contract.

Due to the November 2011 award of the \$7.8 million international defense customer contract, the risk profile of our customer base has increased; however, we have yet to deliver under this contract and cannot yet assess the total impact on diversification of our revenue base.

We do not possess any patents and rely solely on trade secrets to protect our intellectual property.

We utilize several highly specialized and unique processes in the manufacture of our products, for which we rely solely on trade secrets to protect our innovations. We cannot assure you that we will be able to maintain the confidentiality of our trade secrets or that our non-disclosure agreements will provide meaningful protection of our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or other disclosure. The confidentiality agreements that are designed to protect our trade secrets could be breached, and we might not have adequate remedies for the breach.

It is also possible that our trade secrets will otherwise become known or independently developed by our competitors, many of which have substantially greater resources, and these competitors may have applied for or obtained, or may in the future apply for or obtain, patents that will prevent, limit or interfere with our ability to make and sell some of our products. Although based upon our general knowledge (and we have not conducted exhaustive patent searches), we believe that our products do not infringe on the patents or other proprietary rights of third parties; however, we cannot assure you that third parties will not assert infringement claims against us or that such claims will not be successful.

In the future, we may look to acquire other businesses in our industry and the acquisitions will require us to use substantial resources, among other things.

At some time in the future, we may decide to pursue acquisitions of other businesses in our industry. In order to successfully acquire other businesses, we would be forced to spend significant resources in both acquisition and transactional costs, which could divert substantial resources in terms of both financial and personnel capital from our current operations. Additionally, we might assume liabilities of the acquired business, and the repayment of those liabilities could have a material adverse impact on our cash flow. Furthermore, when a new business is integrated into our ongoing business, it is possible that there would be a period of integration and adjustment required which could divert resources from ongoing business operations.

Conversion of our Series A preferred stock could cause substantial dilution to our existing common stock holders, and certain other rights of the preferred stock holders present other risks to our existing common stock holders.

As of October 2, 2011, we had 139,444,940 shares of our common stock issued and outstanding, as well as 1,027 shares of our Series A preferred stock issued and outstanding. The Series A preferred stock is currently convertible into 41,080,000 shares of our common stock, and upon conversion, the Series A preferred stock would represent 21.7% of our outstanding common stock. Upon effectiveness of our pending Registration Statement on Form S-1, with the increase in the stated value of the Series A preferred stock to \$6,860.34 and the decrease in the exercise price to \$0.01 per share, the Series A preferred stock would be convertible into 704,556,918 shares of our common stock, which would represent 94.17% of our outstanding common stock assuming a full conversion of the Series A preferred stock into shares of our common stock. This would greatly dilute the holdings of our existing common stockholders. In addition, the preferred shareholders vote on a one-to-one basis with our common shareholders on an as converted basis.

Furthermore, in the event of a liquidation, the holders of our Series A preferred stock would receive priority liquidation payments before payments to common shareholders equal to the amount of the stated value of the preferred stock before any distributions would be made to our common shareholders. The total stated value of our preferred stock is \$7,045,569, so the preferred shareholders would be entitled to receive that amount before any distributions could be made to common shareholders. The liabilities on our balance sheet exceed the liquidation value of our assets; therefore, upon a liquidation, there would be no assets remaining for distribution to common shareholders.

The preferred shareholders also have the right, by majority vote of the shares of preferred stock, to generally approve any issuances by us of equity and/or indebtedness, which is not ordinary course of trade indebtedness. Therefore, the preferred shareholders can effectively prevent us from entering into a transaction which they feel is not in their best interests, even if the transaction might otherwise be in the best interests of Optex Systems Holdings and its common shareholders.

It is likely that the proposed reduction in the conversion price of our Series A preferred stock will have a material adverse effect upon the price at which shares of our Common Stock are quoted on the OTC Bulletin Board.

As a result of the post-offering (which offering will become effective upon the effectiveness of our currently pending Registration Statement on Form S-1) reduction in exercise price of our warrants to \$0.01 per share for 30 days which triggers the resulting permanent decrease in the conversion price of our Series A preferred stock from \$0.15 per share to \$0.01 per share, the number of shares of common stock which can be received by our holders of Series A preferred stock before and after giving effect to the offering set forth in this prospectus is set forth in the below table. Note that given the high level of dilution to be experienced, it is likely that this will have a material adverse effect upon the price at which shares of our Common Stock are quoted on the OTC Bulletin Board.

| Security | Pre-Offering Per Share Exercise/Conversion Price | Number of Shares | Post-Offering per Share Exercise/Conversion Price | Number of Shares | Percentage Dilution to Common Stockholders as a Result of Decrease in Exercise/Conversion Price |
|--------------------------|--|------------------|---|------------------|---|
| Warrants | \$ 0.45 | 8,131,667 | \$ 0.01(1) | 8,131,667 | 0% |
| Series A preferred stock | \$ 0.15 | 41,080,000 | \$ 0.01 | 704,556,918 | 94.17% |

(1) The \$0.01 warrant exercise price is a temporary reduction that will only be in effect for 30 days from the date of effectiveness of this registration statement.

If resales of our stock by the selling shareholders listed in our original SB-2 were held to be in violation of the Securities Act of 1933, we could experience significant negative consequences.

We have attempted to determine whether the selling shareholders listed in our original Form SB-2, declared effective in May 2007, complied with the prospectus delivery requirements set forth in Section 5 of the Securities Act of 1933. If the prospectus delivery requirements were not met by the selling shareholders, then we could also be liable for violating Section 5. As current management was not appointed until 2009, we have to rely on third parties to obtain information from 2007. We have contacted prior company counsel for historical information, but they were unable to supply specific details, thus we still have insufficient information to form a definitive opinion regarding this matter. If a section 5 violation was found by a court or other legal body to have occurred, and the alleged violation was not barred by the statute of limitations of 5 years under Section 13 of the Securities Act of 1933, purchasers of the shares registered under the 2007 SB-2 could have a right of rescission or a claim for other damages, and the SEC could commence an enforcement action against us. Any of these actions could potentially have a material adverse effect on us and our stock price.

We have utilized various investor relations firms which have published materials regarding us; however, there may be materials published without our knowledge or consent. To the extent any of these materials describes our securities without disclosing the receipt of consideration by these investor relations firms, there may be liability under Section 17(b) of the Securities Act of 1933.

Section 17(b) of the Securities Act of 1933 states: “It shall be unlawful for any person, by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, to publish, give publicity to, or circulate any notice, circular, advertisement, newspaper, article, letter, investment service, or communication which, though not purporting to offer a security for sale, describes such security for a consideration received or to be received, directly or indirectly, from an issuer, underwriter, or dealer, without fully disclosing the receipt, whether past or prospective, of such consideration and the amount thereof.” With regard to services provided by ECON Corporate Services, there may have been materials published, without our knowledge or consent, that contained a description of our securities without appropriate disclosure of consideration received or to be received directly or indirectly from us. This nondisclosure could give rise to liability under Section 17(b).

Risks Relating to the Reorganization

One of our directors, who is also one of our executive officers, beneficially owns a substantial percentage of Optex Systems Holdings’ outstanding common stock, which gives him control over certain major decisions on which Optex Systems Holdings’ stockholders may vote, which may discourage an acquisition of Optex Systems Holdings.

As a result of the reorganization, Sileas Corp., which is owned by Optex Systems Holdings’ three officers (one of whom is also one of Optex Systems Holdings’ three directors), beneficially owns (before taking into account the additional dilution upon consummation of the transactions contemplated by this registration statement), in the aggregate, 73.52% of Optex Systems Holdings’ outstanding common stock. One director who is also an executive officer, Stanley Hirschman, owns the majority equity interest in Sileas. The interests of Optex Systems Holdings’ management may differ from the interests of other stockholders. As Optex Systems Holdings’ executive management has the right and ability to control virtually all corporate actions requiring stockholder approval, irrespective of how Optex Systems Holdings’ other stockholders may vote, including the following actions:

- confirming or defeating the election of directors;
- amending or preventing amendment of Optex Systems Holdings’ certificate of incorporation or bylaws;
- effecting or preventing a reorganization, sale of assets or other corporate transaction; and

- controlling the outcome of any other matter submitted to the stockholders for vote.

Optex Systems Holdings' management's beneficial stock ownership may discourage a potential acquirer from seeking to acquire shares of Optex Systems Holdings' common stock or otherwise attempting to obtain control of Optex Systems Holdings, which in turn could reduce the stock price or prevent Optex Systems Holdings' stockholders from realizing a premium over Optex Systems Holdings' stock price.

If Sileas is unable to meet its obligations under the purchase money note to the party from which it purchased its stock holdings in Optex Systems Holdings, there could be a change in control in Optex Systems Holdings.

On February 20, 2009, Sileas purchased 100% of the equity and debt interest held by Longview Fund, L.P., representing 90% of Optex Systems, Inc. (Delaware), in a private transaction. The purchase price for the acquisition of Longview's position was \$13.5 million, and the consideration was paid in the form of a promissory note. The obligations of Sileas under the promissory note are secured by a security interest in Optex Systems Holdings' common and preferred stock owned by Sileas. The promissory note owned by Sileas is now due on February 20, 2014, due to a November 22, 2011 extension, which also caused an increase in the principal amount to \$13.8 million from \$13.5 million as the result of the addition of a \$270 thousand extension fee.

As Sileas has no operations or business activities other than holding the purchased assets, Sileas is depending upon the value of its common stock and preferred stock holdings in Optex Systems Holdings to increase over time in order to pay its obligations under the promissory note. As of October 2, 2011, the market value of Optex Systems Holdings common stock owned by Sileas is \$1,373,924 on an as converted basis. If the value of the holdings does not sufficiently increase, and Sileas is unable to meet its payment obligations, Longview could exercise its remedies with respect to its security interest and take control of the pledged stock, and thus there would be a change in control of Optex Systems Holdings, as Sileas is currently the majority owner of Optex Systems Holdings. There can be no guarantee that the investment objectives of Longview will be the same as those of Sileas or our other shareholders. In the event that control shifts to Longview from Sileas, Longview may vote its shares differently than Sileas would have voted under similar circumstances. Merrick Okamoto, a director of Optex Systems Holdings, is a control person of Viking Asset Management, which controls Longview Fund.

We did not give separate notice by mailing to then current shareholders of Sustut of the written consent by Andrey Oks as the majority shareholder of the reorganization.

Section 228(e) of the Delaware General Corporation Law requires "[p]rompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders . . . who have not consented in writing." Prior management of Sustut did not give notice to the other then existing shareholders of Sustut of the written consent of Andrey Oks in lieu of a meeting of stockholders approving the reorganization on March 26, 2009 in compliance with Section 228(e). On April 3, 2009, current management filed a Form 8-K which detailed the transaction although it did not specifically mention approval of the transaction by Andrey Oks as the majority shareholder of Sustut. Potential ramifications of this lack of compliance with Section 228(e) could include possible inquiry or litigation from then existing shareholders of Sustut for failure of being made aware of the consent. To the knowledge of current management of Optex Systems Holdings, there have been no claims or inquiries made and/or any litigation filed by then current shareholders of Sustut for failure to receive notice under Section 228(e) of the Delaware General Corporation Law.

As we do not have an escrow or trust account with subscriptions for investors, if we file for or are forced into bankruptcy, investors will lose the entire investment.

Invested funds for this offering will not be placed in an escrow or trust account, and if we file for bankruptcy or a petition for involuntary bankruptcy is filed by creditors against us, your funds will become part of the bankruptcy estate and administered according to the bankruptcy laws. As such, you will lose your investment and your funds will be used to pay creditors.

Optex Systems Holdings' stock price may be volatile.

The market price of Optex Systems Holdings' common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond Optex Systems Holdings' control, including the following:

- additions or departures of key personnel;
- limited "public float" following the reorganization, in the hands of a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for the common stock;
- operating results that fall below expectations;
- economic and other external factors, including but not limited to changes in federal government military spending and the federal government procurement process; and
- period-to-period fluctuations in Optex Systems Holdings' financial results.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of Optex Systems Holdings' common stock.

There is currently no liquid trading market for Optex Systems Holdings' common stock, and Optex Systems Holdings cannot ensure that one will ever develop or be sustained.

Our common stock is currently approved for quotation on the OTC Bulletin Board trading under the symbol OPXS.OB. However, there is limited trading activity and not currently a liquid trading market. There is no assurance as to when or whether a liquid trading market will develop, and if such a market does develop, there is no assurance that it will be maintained. Furthermore, for companies whose securities are quoted on the Over-The-Counter Bulletin Board maintained by Financial Industry Regulatory Authority, it is more difficult (1) to obtain accurate quotations, (2) to obtain coverage for significant news events because major wire services generally do not publish press releases about such companies, and (3) to raise needed capital. As a result, purchasers of Optex Systems Holdings' common stock may have difficulty selling their shares in the public market, and the market price may be subject to significant volatility.

Offers or availability for sale of a substantial number of shares of Optex Systems Holdings' common stock may cause the price of Optex Systems Holdings' common stock to decline or could affect Optex Systems Holdings' ability to raise additional working capital.

There are currently 14,999,991 unrestricted shares of Optex Systems Holdings which were outstanding prior to the March 2009 reorganization. Additionally, through a combination of the shares available under our pending registration statement when it becomes effective, and Rule 144, additional shares will become available.

Under Rule 144(i)(2), Optex Systems Holdings' stockholders can commence selling significant amounts of shares into the market one year after the filing of "Form 10" information with the SEC as long as the other requirements of Rule 144(i)(2) are met. While affiliates would be subject to volume limitations under Rule 144(e), which is one percent of the shares outstanding as shown by our then most recent report or statement published, nonaffiliates would then be able to sell their stock without volume limitations. If Optex Systems Holdings' current stockholders seek to sell substantial amounts of common stock in the public market either upon expiration of any required holding period under Rule 144 or pursuant to an effective registration statement, it could create a circumstance commonly referred to as "overhang," in anticipation of which the market price of Optex Systems Holdings' common stock could decrease substantially. The existence of an overhang, whether or not sales have occurred or are occurring, could also make it more difficult for Optex Systems Holdings to raise additional financing in the future through sale of securities at a time and price that Optex Systems Holdings deems acceptable.

The date on which current shareholders can sell a substantial amount of shares into the public market would be the earlier of the date on which the registration statement is effective and the one year anniversary of the date on which all Form 10 information is filed with the SEC (we have determined that September 28, 2009 is the date on which all Form 10 information was filed), which would then allow sales under Rule 144. The amount of shares which would be available would be 25,000,000 shares (all of those being registered for resale under the currently pending S-1, when it becomes effective) and 8,131,667 shares (under Rule 144, which are the remaining shares of common stock underlying warrants purchased in the private placement which took place just prior to the reorganization). There are also 1,780,000 shares which were issued in transactions exempt from registration under Rule 144 since the date of the reorganization which became eligible for legend removal under Rule 144 on September 29, 2010.

The shares to become available either through a prospectus on Form S-1 upon effectiveness and under Rule 144 are set forth in the following table:

| | |
|--|------------|
| Prospectus | 25,000,000 |
| Shares from warrants issued in the reorganization | 8,131,677 |
| Shares issued since the reorganization, all with restrictive legends | 1,780,000 |

The elimination of monetary liability against Optex Systems Holdings' directors, officers and employees under Delaware law and the existence of indemnification rights to Optex Systems Holdings' directors, officers and employees may result in substantial expenditures by Optex Systems Holdings and may discourage lawsuits against Optex Systems Holdings' directors, officers and employees.

Optex Systems Holdings provides indemnification to its directors and officers to the extent provided by Delaware law. The foregoing indemnification obligation could result in Optex Systems Holdings incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which Optex Systems Holdings may be unable to recoup. These provisions and resultant costs may also discourage Optex Systems Holdings from bringing a lawsuit against directors and officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by Optex Systems Holdings' stockholders against Optex Systems Holdings' directors and officers even though such actions, if successful, might otherwise benefit Optex Systems Holdings and its stockholders.

Item 2 Properties

We are located in Richardson, TX in approximately 49,000 square foot facility, and as of December 8, 2011, we had 76 full time equivalent employees. We operate with a single shift, and capacity could be expanded by adding a second shift. Our proprietary processes and methodologies provide barriers to entry by other competing suppliers. In many cases, we are the sole source provider or one of only two providers of a product. We have capabilities which include machining, bonding, painting, tracking, engraving and assembly and can perform both optical and environmental testing in-house.

We lease our facility. Effective as of January 4, 2010, Optex Systems Holdings, Inc. renewed its Richardson, TX lease. Under the terms of the amendment:

- The lease term is extended until July 31, 2015.
- The annual base rent rate is as follows: until 7/31/2010, \$0.00 per square foot, from 8/1/2010 – 7/31/2013, \$4.70 per square foot and from 8/1/2013 – 7/31/2015, \$4.95 per square foot.
- A \$0.2 million improvement allowance is included.
- For the first two years of the extended term, the landlord has granted the option to take over additional space at similar terms as in the amendment.

Item 3 Legal Proceedings

None.

Item 4 Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Effective with the start of trading on May 1, 2009, our stock received a ticker symbol change from "SSTX" to "OPXS" from FINRA and commenced trading under the new symbol on the OTC Bulletin Board. Trading in our stock has historically been sporadic, trading volumes have been low, and the market price has been volatile.

The following table shows the range of high and low prices for our common stock as reported by the OTC Bulletin Board for each quarter since the fourth quarter of 2007, as adjusted. All prices through the date of the reorganization are as reported on Sustut's periodic filings, as adjusted for the 2.5:1 forward split of Sustut's common stock authorized on February 27, 2009. All prices since the reorganization are derived from market information as to OTCBB prices as reported through the AOL Finance look up system. The quotations reflect inter-dealer prices, without retail markup, markdown or commission and may not represent actual transactions.

| <u>Period</u> | <u>High</u> | <u>Low</u> |
|---------------------|-------------|------------|
| First Quarter 2010 | \$ 0.50 | \$ 0.09 |
| Second Quarter 2010 | \$ 0.15 | \$ 0.08 |
| Third Quarter 2010 | \$ 0.09 | \$ 0.04 |
| Fourth Quarter 2010 | \$ 0.055 | \$ 0.02 |
| First Quarter 2011 | \$ 0.025 | \$ 0.011 |
| Second Quarter 2011 | \$ 0.02 | \$ 0.014 |
| Third Quarter 2011 | \$ 0.02 | \$ 0.005 |
| Fourth Quarter 2011 | \$ 0.019 | \$ 0.0055 |

On December 08, 2011, the sale price for our common stock as reported on the OTCBB was \$0.007 per share.

Securities outstanding and holders of record

On December 08, 2011, there were approximately 79 record holders of our common stock and 139,444,940 shares of our common stock issued and outstanding.

Dividend Policy

We have not paid and do not expect to pay dividends on our common stock. Any future decision to pay dividends on our common stock will be at the discretion of our board and will depend upon, among other factors, our results of operations, financial condition and capital requirements.

Information respecting equity compensation plans

Summary Equity Compensation Plan Information

Optex Systems Holdings adopted its 2009 Stock Option Plan on March 26, 2009. On December 9, 2011, the Board of Directors of Optex Systems Holdings, Inc. authorized an amendment to its Stock Option Plan to increase the number of issuable shares from 6,000,000 to 50,000,000 and authorized the grant of 10,000,000 options to two board members and a total of 36,070,000 to Optex Systems Holdings employees including 20,000,000 options to executive officers, at an exercise price of \$0.01 per share with each grant to vest 25% per year over four years for each year with which the grantee is still employed by or serving as a director of Optex Systems Holdings, Inc. (with all unvested options automatically expiring on the date of termination of employment by or service as a director of Optex Systems Holdings, Inc.) and all unvested options immediately vesting upon a change of control due to a merger or acquisition of the Company, with the options to be issued within 60 days of December 9, 2011.

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and the related notes that are set forth in our financial statements elsewhere in this annual report.

This management's discussion and analysis reflects information known to management as of our fiscal year end, October 2, 2011, and the date of filing. This MD&A is intended to supplement and complement our audited financial statements and notes thereto for the year ended October 2, 2011, prepared in accordance with U.S. generally accepted accounting principles (GAAP). You are encouraged to review our financial statements in conjunction with your review of this MD&A. The financial information in this MD&A has been prepared in accordance with GAAP, unless otherwise indicated. In addition, we use non-GAAP financial measures as supplemental indicators of our operating performance and financial position. We use these non-GAAP financial measures internally for comparing actual results from one period to another, as well as for planning purposes. We will also report non-GAAP financial results as supplemental information, as we believe their use provides more insight into our performance. When a non-GAAP measure is used in this MD&A, it is clearly identified as a non-GAAP measure and reconciled to the most closely corresponding GAAP measure.

The following discussion highlights the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described. This discussion contains forward-looking statements. Please see "Special cautionary statement concerning forward-looking statements" and "Risk factors" for a discussion of the uncertainties, risks and assumptions associated with these forward-looking statements. The operating results for the periods presented were not significantly affected by inflation.

Background

On March 30, 2009, a reorganization was consummated pursuant to which the then existing shareholders of Optex Systems, Inc. (Delaware) exchanged their shares of common stock for shares of common stock of Optex Systems Holdings as follows: (i) the outstanding 85,000,000 shares of Optex Systems, Inc. (Delaware) common stock were exchanged by Optex Systems Holdings for 113,333,282 shares of Optex Systems Holdings common stock, (ii) the outstanding 1,027 shares of Optex Systems, Inc. (Delaware) Series A preferred stock were exchanged by Optex Systems Holdings for 1,027 shares of Optex Systems Holdings Series A preferred stock, and (iii) the 8,131,667 shares of Optex Systems, Inc. (Delaware) common stock purchased in the private placement were exchanged by Optex Systems Holdings for 8,131,667 shares of Optex Systems Holdings common stock. Optex Systems, Inc. (Delaware) has remained a wholly-owned subsidiary of Optex Systems Holdings.

As a result of the reorganization, Optex Systems Holdings changed its name from Sustut Exploration Inc. to Optex Systems Holdings, Inc., and its year end from December 31 to a fiscal year ending on the Sunday nearest September 30.

Optex Systems, Inc. (Delaware) manufactures optical sighting systems and assemblies, primarily for Department of Defense applications. Its products are installed on various types of U.S. military land vehicles, such as the Abrams and Bradley fighting vehicles, light armored and armored security vehicles and have been selected for installation on the Stryker family of vehicles. Optex Systems, Inc. (Delaware) also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Optex Systems, Inc. (Delaware) products consist primarily of build-to-customer print products that are delivered both directly to the armed services and to other defense prime contractors. Less than 1% of today's revenue is related to the resale of products substantially manufactured by others. In this case, the product would likely be a simple replacement part of a larger system previously produced by Optex Systems, Inc. (Delaware).

Many of our contracts allow for government contract financing in the form of contract progress payments pursuant to Federal Acquisition Regulation 52.232-16, "Progress Payments". As a small business, and subject to certain limitations, this clause provides for government payment of up to 90% of incurred program costs prior to product delivery. To the extent our contracts allow for progress payments, we intend to utilize this benefit, thereby minimizing the working capital impact on Optex Systems Holdings for materials and labor required to complete the contracts.

Our contracts allow for Federal Acquisition Regulation 52.243-1 which entitles the contractor to an "equitable adjustment" to the contract if the contract changes result in a change in contract costs or time of performance. In essence, an equitable price adjustment request is a request for a contract price modification (generally an increase) that allows for the contractor to be "made whole" for additional costs incurred which were necessitated by some modification of the contract effort. This modification may come from an overt change in Government requirements or scope, or it may come from a change in the conditions surrounding the contract (e.g., differing site conditions or late delivery of Government-furnished property) which result in statement of work additions, deletions, part substitutions, schedule or other changes to the contract which impact the contractor's overall cost to complete. Optex has submitted an equitable adjustment request on the Aiming Circle Howitzer program due to significant design issues impacting the manufacturability of the product. As of October 2, 2011, we have not yet received resolution from the contracting officer regarding the status of our request.

Optex Systems Holdings also anticipates the opportunity to integrate some of its night vision and optical sights products into commercial applications. Optex Systems Holdings plans to carry on the business of Optex Systems, Inc. (Delaware) as its sole line of business, and all of Optex Systems Holdings' operations are expected to be conducted by and through Optex Systems, Inc. (Delaware).

The business which is now carried on through Optex Systems, Inc. (Delaware) differs from the business of Irvine Sensors Corporation, which was the former owner of the assets through its subsidiary, Optex Systems, Inc. (Texas). Optex Systems, Inc. (Delaware) delivers high volume products, under multi-year contracts, to large defense contractors. It has the reputation and credibility with those customers as a strategic supplier. Irvine Sensors Corporation is predominately a research and design company with capabilities enabling only prototype or low quantity volumes. Optex Systems, Inc. (Delaware) is predominately a high volume manufacturing company. Therefore the systems and processes needed to meet customer's needs are quite different. While both companies serve the military market, the customers within these markets are different. For example, two of the largest customers for Optex are General Dynamics Land Systems and U.S. Army Tank-armaments and Automotive Command. Irvine Sensors Corporation did not have any contracts or business relations with either of these two customers. Therefore, the separation has allowed Optex Systems, Inc. (Delaware) to focus on high volume manufacturing and the use of the six sigma manufacturing methodology. This shift in priorities has allowed Optex Systems, Inc. (Delaware) to improve delivery performance and reduce operational costs.

Results of Operations

The table below summarizes our quarterly and full year operating results for fiscal years ending October 2, 2011 and October 3, 2010, in terms of both a GAAP net income measure and a non-GAAP EBITDA measure. We use EBITDA as an additional measure for evaluating the performance of our business as “net income” includes the significant impact of noncash intangible amortization on our income performance. Consequently, in order to have a meaningful measure of our operating performance on a continuing basis, we need to also consider an income measure which does not take into account this intangible amortization. We have summarized the quarterly revenue and margin below along with a reconciliation of the GAAP net loss to the non-GAAP EBITDA calculation for comparative purposes below. We believe that including both measures allows the reader to have a “complete picture” of our overall performance.

| | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | FY 2011 | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | FY 2010 |
|---|----------------|----------------|------------------|----------------|----------------|----------------|----------------|------------------|------------------|------------------|
| Net Loss Applicable to Common Shareholders – GAAP | \$ (0.05) | \$ (0.12) | \$ (0.13) | \$ 0.48 | \$ 0.18 | \$ - | \$ (0.10) | \$ (0.30) | \$ (9.60) | \$ (10.00) |
| Add: | | | | | | | | | | - |
| Interest Expense | 0.02 | 0.03 | 0.01 | 0.01 | 0.07 | - | - | - | 0.10 | 0.10 |
| Preferred Stock Dividend | 0.10 | 0.10 | 0.10 | 0.11 | 0.41 | 0.10 | 0.10 | 0.10 | 0.10 | 0.40 |
| Federal Income Taxes (Benefit) | 0.03 | (0.01) | (0.02) | (0.59) | (0.59) | - | (0.10) | (0.20) | - | (0.30) |
| Asset Impairment | - | - | - | - | - | - | - | - | 8.00 | 8.00 |
| Depreciation & Amortization | 0.02 | 0.02 | 0.01 | 0.02 | 0.07 | 0.30 | 0.30 | 0.30 | 0.20 | 1.10 |
| EBITDA - Non GAAP | <u>\$ 0.12</u> | <u>\$ 0.02</u> | <u>\$ (0.03)</u> | <u>\$ 0.03</u> | <u>\$ 0.14</u> | <u>\$ 0.40</u> | <u>\$ 0.20</u> | <u>\$ (0.10)</u> | <u>\$ (1.20)</u> | <u>\$ (0.70)</u> |

The potential ramifications of the circumstances surrounding the 2011 Congressional budget have resulted in yet more cuts in spending by the U.S. military, and we have had to explore other avenues of revenue. As a result of new periscope orders from non-traditional sources and an aggressive pursuit of increased market share for all of our existing product lines, we expect to mitigate some of the current decreased U.S. government requirements with other new business, such as the new \$7.8 million contract from a major international defense contractor which we announced on November 8, 2011. We also continue to explore other opportunities for manufacturing outside of our traditional product lines for products which could be manufactured using our existing lines in order to fully utilize our existing capacity.

Our EBITDA increased by \$0.84 million in the year ending October 2, 2011 as compared to the year ending October 3, 2010 despite a significant decrease in revenue of 29.3%. The increase in EBITDA is primarily the result of a shift in revenue to more profitable product lines from the prior year combined with the completion of the Howitzer loss programs during the year. The prior year gross margin included substantial EAC and inventory loss adjustments related to these loss programs. In fiscal year 2010, Optex had experienced a significant shift in revenue toward the less favorable Howitzer programs that exacerbated the losses on those programs as their share of the overhead pools increased, and as overall volume declined, our labor efficiencies were impacted across all product lines due to layoff/reorganization and lower economies of scale. Further, in September 2010, Optex received an unanticipated order against a loss Howitzer program which resulted in an immediate, realized loss of \$0.2 million. During fiscal year 2011, Optex experienced improved labor efficiencies across the periscopes product line as the impact of the prior reductions in force and reorganization stabilized at the reduced volume level. As a business for which the major source of revenues is government contracts, we rely heavily on program cost estimates to determine our product margins. These estimates are very sensitive to any significant changes in revenue, production volume and product mix. We continued to pursue cost reductions in our production and general and administrative areas to mitigate any further margin impacts related to lower volume and to improve overall product profitability.

Product mix is dictated by customer contracted delivery dates and volume of each product to be delivered on such delivery dates. Shifts in gross margin from period to period are primarily attributable to the differing product mix recognized as revenues during each respective period. In addition, the Howitzer contracts which were awarded in August 2005 and September 2006 experienced losses as a result of unanticipated manufacturing costs due to design and technical data package issues impacting product manufacturability. During the year ended October 2, 2011, we recognized revenue of \$4.2 million on our Howitzer programs as compared to \$6.1 million in the year ended October 3, 2010. As of October 2, 2011 the remaining backlog for the last remaining Howitzer contract is \$1.7 million scheduled to ship in fiscal year 2012. The remaining backlog relates to the final delivery order against the program at a slight gross margin, hence there are no expected future losses to be incurred on these deliveries. Contract loss reserves on these programs were \$1.3 million as of October 3, 2010, and \$0 as of October 2, 2011.

We are aggressively pursuing additional, potentially higher margin periscope business. While the U.S. periscope market has declined since 2009, we have seen a 625% increase in new orders from a significant foreign military contractor from \$0.6 million per year, to \$3.8 million per year for fiscal years 2010 and 2011, and received additional orders of \$1.5 million in the first 60 days of fiscal year 2012.

As a result of the October 14, 2008 acquisition of the assets of Optex Systems, Inc. (Texas), our amortizable intangible assets had increased significantly over prior years. The non cash amortization expense of intangible assets was \$1 million in 2010. We reviewed the fair market value of our goodwill and intangible assets as of October 3, 2010 and based on significant reductions in anticipated government military spending, a reduction in customer order trends, and lower contract backlog, we determined that that goodwill was impaired. The review was based on a projected cash flow analysis of our future operations. The impairment loss for goodwill was \$7.1 million and was charged to general and administrative costs and impairment for intangible assets was \$0.9 million. The impairment loss was split between cost of goods sold and general and administrative costs in the amount of \$0.1 million and \$0.8 million, respectively. As of the year ended October 3, 2010, the total balance of unamortized intangible assets and goodwill was \$0.

Backlog as of October 2, 2011 was \$11.5 million as compared to a backlog of \$19.0 million as of October 3, 2010, representing a decline of 39.5%. The following table depicts the current expected delivery by quarter of all contracts awarded as of October 2, 2011.

| Program Backlog (millions) | 2012 | | | | 2013 | | | Total |
|----------------------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Qtr 1 | Qtr 2 | Qtr 3 | |
| Howitzer Programs | 0.7 | 1.0 | - | - | - | - | - | 1.7 |
| Periscope Programs | 2.1 | 2.6 | 2.3 | 1.1 | 0.3 | 0.4 | 0.1 | 8.9 |
| Sighting Systems | 0.2 | - | - | - | - | - | - | 0.2 |
| All Other | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0 | 0.7 |
| Total | 3.2 | 3.7 | 2.4 | 1.2 | 0.4 | 0.5 | 0.1 | 11.5 |

In the first 60 days of fiscal year 2012, Optex Systems Holdings received additional orders totaling \$11.0 million consisting of a \$7.8 million M36 contract deliverable over 5 years from a major international defense contractor which we announced on November 8, 2011, a \$1.2 million award other product line award deliverable in 12 months from the Defense Logistics Agency for a Gunner's Head Assembly on the M1 Abrams Tank which we announced on October 26, 2011 and \$2.0 million in additional orders from several customers primarily in support of our periscope product line which will be delivered in fiscal years 2012 and 2013. As of November 27, 2011, Optex Systems Holdings' backlog has increased to \$21.5 million.

A majority of our contracts are prime or subcontracted directly with the Federal government and, as such, are subject to Federal Acquisition Regulation Subpart 49.5, "Contract Termination Clauses" and more specifically Federal Acquisition Regulation clauses 52.249-2 "Termination for Convenience of the Government Fixed-Price)", and 49.504 "Termination of fixed-price contracts for default". These clauses are standard clauses on our prime military contracts and generally apply to us as subcontractors. It has been our experience that the termination for convenience is rarely invoked, except where it is mutually beneficial for both parties. We are currently not aware of any pending terminations for convenience or for default on our existing contracts.

By way of background, the Federal Acquisition Regulation is the principal set of regulations that govern the acquisition process of government agencies and contracts with the U.S. government. In general, parts of the Federal Acquisition Regulation are incorporated into government solicitations and contracts by reference as terms and conditions effecting contract awards and pricing solicitations.

In the event a termination for convenience were to occur, Federal Acquisition Regulation clause 52.249-2 provides for full recovery of all contractual costs and profits reasonably occurred up to and as a result of the terminated contract. In the event a termination for default were to occur, we could be liable for any excess cost incurred by the government to acquire supplies from another supplier similar to those terminated from us. We would not be liable for any excess costs if the failure to perform the contract arises from causes beyond the control and without the fault or negligence of the company as defined by Federal Acquisition Regulation clause 52.249-8. In addition, the Government may require us to transfer title and deliver to the Government any completed supplies, partially completed supplies and materials, parts, tools, dies, jigs, fixtures, plans, drawings, information, and contract rights that we have specifically produced or acquired for the terminated portion of this contract. The Government shall pay contract price for completed supplies delivered and accepted, and we and the Government would negotiate an agreed upon amount of payment for manufacturing materials delivered and accepted and for the protection and preservation of the property. Failure to agree on an amount for manufacturing materials is subject to the Federal Acquisition Regulation Disputes clause 52.233-1.

In some cases, we may receive an “undefinitized” (i.e., price, specifications and terms are not agreed upon before performance commenced) contract award for contracts that exceed the \$700,000 (changed from \$650,000 effective October 1, 2010), which is the federal government simplified acquisition threshold. These contracts are considered firm contracts at an undefinitized, but not to exceed specified limits threshold. Cost Accounting Standards Board covered contracts are subject to the Truth in Negotiations Act disclosure requirements and downward only price negotiation. As of October 2, 2011, none of our outstanding backlog fell under this criterion.

Twelve month period ended October 2, 2011 compared to the twelve month period ended October 3, 2010

Revenues:

The table below details the revenue changes by product line for the year ended October 2, 2011 as compared to the year ended October 3, 2010.

| Product Line | Year ended 10/02/2011 | Year ended 10/03/2010 | Change |
|-------------------------|----------------------------------|----------------------------------|------------------|
| Howitzer Programs | \$ 4.2 | \$ 6.1 | \$ (1.90) |
| Periscope Programs | 10.7 | 11.8 | (1.00) |
| Sighting Systems | 0.2 | 0.9 | (0.70) |
| All Other | 1.1 | 4.1 | (3.1) |
| Total | \$ 16.2 | \$ 22.9 | \$ (6.70) |
| <i>Percent decrease</i> | | | <i>-29.30%</i> |

Total revenues decreased by \$6.7 million or 29.3 % across all product groups primarily as a result of an overall decline in markets due to reduced government and prime contractor spending in support of tactical vehicles, components and supporting optical equipment. In addition, funding on several programs has been suspended or delayed due to uncertainty in the U.S. military budgets and challenging economic conditions surrounding the recession and deficit spending.

Revenue declined by \$1.0 million or 8.5% on our periscope line during fiscal year 2011 as compared to fiscal year 2010 primarily due to lower U.S. government spending. Although the U.S. periscope revenue declined, we were able to offset approximately \$2.2 million of the decline with an increase in periscope sales to a significant foreign military contractor. Based on our current backlog demand, we expect fiscal year 2012 revenue to slightly increase or remain flat over the fiscal year 2011 level. We continue to quote and receive awards for additional periscopes from multiple customers and we are aggressively pursuing increased market share in the periscope market by drawing business away from our competitors; however, we cannot yet determine if we will be successful in gaining sufficient new additional periscope business to offset the downturn caused by the decline in new federal government orders in the last year.

Revenues from the Howitzer programs decreased by \$1.9 million, or 31.1%, over the prior year due to completion of two of our major Howitzer programs with no current follow on contract. We expect the volume to decline significantly over the next twelve months as we wind down deliveries on the remaining \$1.7 million backlog associated with the final delivery order during the first six months of fiscal year 2012. Currently, we do not foresee any material, near term orders for additional Howitzer products, however we look forward to new orders in the program as current military supplies diminish and require replacement.

Sighting systems revenues decreased \$0.7 million, or 77.89%, during fiscal year 2011 over the prior fiscal year as our U.S. government delivery order on back up sighting units was completed during fiscal 2010. We currently do not have a follow-on delivery order for additional sighting units; however, the primary contract ordering period does not expire until December 31, 2012. We continue to ship sighting systems pursuant to other contracts to both federal government and non-U.S. government customers and continue to pursue business on several substantial programs for commander weapon sighting systems and M36 thermal sighting units. We expect deliveries on sighting systems to increase significantly in fiscal year 2012 and beyond due to the recent award of a significant \$7.8 million 5 year M36 contract booked in November 2011. Fiscal year 2012 deliveries against the program are expected to be approximately \$0.6 million, while full production for the contract is not expected to commence until the first quarter of fiscal year 2013 and will continue at a rate of approximately \$1.5 million per year thereafter through contract completion.

Decreases in the other product line of \$3.1 million, or 75.61%, for 2011 as compared to 2010 are primarily a result of decreased sales of big eye binoculars, mirror assemblies and TVS4 and PVS Objective assembly sales to multiple customers associated with contracts completed in fiscal year 2010. We expect revenues in fiscal year 2012 to increase by approximately 45% with the award of the Defense Logistics Agency Gunner's Head Assemblies of \$1.2 million, deliverable in the next 12 months.

We experienced losses in our Howitzer programs as a result of unanticipated manufacturing costs due to design and technical data package issues impacting the product manufacturability. These issues have resulted in increased labor and material costs due to higher scrap and extensive engineering costs incurred during the initiation phase of the programs. In addition some of our older "legacy" periscope programs, which were completed in the third fiscal quarter of 2010, experienced losses due to significant material price increases since the initial five year contract award in 2004. As of October 2, 2011, all of the loss contracts have been shipped complete. During 2010 we realized additional losses of \$1.1 million to cover increased estimated completion costs as a result of higher production labor and material scrap rates, combined with increased sharing of fixed manufacturing overhead due to the significant decline in volume across the other product lines. Included in the total realized losses against the Howitzer programs for fiscal year 2010 is \$0.8 million related specifically to production issues encountered on one of our Howitzer product lines. Optex has requested an equitable adjustment on this program due to significant design issues impacting the manufacturability of the product. As there is no guarantee that the request will be granted in part or in full, Optex realized the entire loss in fiscal year 2010. In the event we are unsuccessful in obtaining an equitable adjustment, there will be no future margin impact for on these programs as the losses have been previously recognized through the completion of the programs.

Cost of Goods Sold. During the fiscal year ended October 2, 2011, we recorded cost of goods sold of \$13.7 million as compared to \$22.0 million during the fiscal year ended October 3, 2010, a decrease of \$8.3 million or 37.7%. This decrease in cost of goods sold was primarily associated with decreased revenue across all of our product groups, combined with a change in revenue mix toward higher margin products. The gross margin during the period ending October 2, 2011 was 15.4% of revenue as compared to a gross margin of 3.9% of revenue for the period ending October 3, 2010. The increase in gross margin percentage is primarily due a shift in product mix toward more profitable programs and improved performance on our periscope lines in fiscal year 2011. In addition, prior year cost of sales included higher contract EAC losses on Howitzer programs, combined with unfavorable year-end physical inventory valuation losses in all product lines. As the Howitzer loss programs completed during 2011 the shift of revenue has moved toward more profitable programs. In addition, reductions in force and plant reorganization completed in the second half of 2010 contributed to more favorable performance on all product lines in 2011 as more efficient economies of scale were achieved. We expect this trend to continue into fiscal year 2012 as there are no remaining loss contracts in our backlog and efficiencies have stabilized a the reduced production volumes.

G&A Expenses. During the fiscal year ended October 2, 2011, we recorded operating expenses of \$2.4 million as opposed to \$10.7 million during the period ending October 3, 2010, a decrease of \$8.3 million or 77.6%. The decline in general and administrative costs related primarily to the write-off of \$8 million in 2010 for impairment of goodwill and intangible assets combined with a decrease of \$0.3 million of intangible asset amortization in 2011 following the write-off. In addition, Optex realized significant cost reductions globally across almost all spending accounts in general and administrative, with the exception of salaries, travel and research and development. The spending reductions were offset by approximately 0.3 million of increased spending with the addition of a Vice President of Business Development in mid 2011 of \$0.1 million, increased research and development costs of \$0.1 million, and increased management incentives of \$0.1 million, which were all necessary to facilitate new product and customer growth into day and night thermal vision (M36) markets. We believe these investments in product development have contributed significantly to the new orders booked in the first 60 days of fiscal year 2012 and expect these changes to increase our overall footprint in the optical vision market for tactical vehicles moving forward.

Operating Income (Loss). During the period ending October 2, 2011, we recorded operating income of \$0.1 million, as compared to an operating loss of (\$9.9) million during the period ending October 3, 2010. Operating income is significantly higher in 2011 as compared to losses in 2010, due to higher gross margin on revenue due to changes in product mix and improved production efficiencies, combined with decreased general and administrative costs as related to the 2010 impairment and amortization of goodwill and intangible asset as discussed in the previous sections.

Net Income (Loss) applicable to common shareholders. During the period ended October 2, 2011, we recorded a net income of \$0.2 million, as compared to a net loss of (\$10.0) million for the period October 3, 2010. In fiscal 2011, we recognized a tax benefit of \$0.6 million as compared to \$0.3 million in the same period of fiscal year 2010. The tax benefit is primarily attributable to the effect of temporary and permanent timing differences related to goodwill, intangible amortization, net operating loss carry forwards, and changes in deferred tax asset reserve balances. The goodwill and intangible amortization expense is amortized over 15 years for income tax purposes whereas the remaining unamortized balance of both goodwill and intangibles was written off prior to year end for book purposes.

Liquidity and Capital Resources

On October 27, 2009, Optex Systems Holdings secured a short term note payable from the Longview Fund in the amount of \$250,000 bearing interest at 10% per annum. On March 22, 2010, Optex Systems Holdings repaid \$125,000 in principal plus \$10,000 in accrued interest on the outstanding Longview note. The balance of principal and interest due on the note were satisfied on June 4, 2010.

On March 10, 2010, the Company entered into a revolving credit facility with Peninsula Bank Business Funding, a division of the Private Bank of the Peninsula, which provides up to \$2,000,000 in financing against eligible receivables. The material terms of the revolving credit facility are as follows:

- The interest rate for all advances shall be the greater of 8.5% and the then in effect prime rate plus 3.5% and subject to a minimum quarterly interest payment of \$16,000.
- Interest shall be paid monthly in arrears.
- The expiration date of the facility is March 4, 2011, at which time any outstanding advances, and accrued and unpaid interest thereon, will be due and payable.
- In connection with the entry into the facility by Peninsula Bank Business Funding, Optex Systems, Inc.(Delaware) paid Peninsula Bank Business Funding a facility fee of \$20,000 and issued a warrant to Peninsula Bank Business Funding to purchase 1,000,000 shares of its common stock. The warrant bears an exercise price of \$0.10 per share and expires on March 3, 2016.
- The obligations of Optex Systems, Inc. (Delaware) to Peninsula Bank Business Funding are secured by a first lien on all of its assets (including intellectual property assets should it have any in the future) in favor of Peninsula Bank Business Funding.

- The facility contains affirmative and negative covenants that require Optex Systems, Inc. (Delaware) to maintain certain minimum cash and EBITDA levels on a quarterly basis and contains other customary covenants. The facility also contains customary events of default. Upon the occurrence of an event of default that remains uncured after any applicable cure period, Peninsula Bank Business Funding’s commitment to make further advances may terminate, and Peninsula Bank Business Funding would also be entitled to pursue other remedies against Optex Systems, Inc. (Delaware) and the pledged collateral.
- Pursuant to a guaranty executed by Optex Systems Holdings in favor of Peninsula Bank Business Funding, Optex Systems Holdings has guaranteed all obligations of Optex Systems, Inc. (Delaware) to Peninsula Bank Business Funding.

On August 3, 2010, Peninsula Bank Business Funding waived the Company’s requirement to meet the EBITDA requirement set forth in Section 6.8 of its agreement with the Company for the quarter ended June 27, 2010. In addition, Peninsula Bank Business Funding agreed to amend Sections 6.8(c) and (d) of the aforesaid agreement to adjust the minimum EBITDA covenant for the fiscal quarter ending October 3, 2010 to \$20,000, and for the fiscal quarter ending January 2, 2011 to \$200,000.

On November 23, 2010, Peninsula Bank Business Funding waived the Company’s requirement to meet the EBITDA requirement set forth in Section 6.8 (c) of the August 3, 2010 amended Agreement for the fourth quarter ended October 3, 2010. In addition, on November 29, 2010 Peninsula Bank Business Funding agreed to a second amendment for Sections 6.8 (d) of the Agreement to adjust the minimum EBITDA covenant for the fiscal quarter ending January 2, 2011 to \$95,000.

On March 22, 2011, Peninsula Bank Business Funding (now known as Avid Bank) and the Company, entered into a fourth amendment to the existing credit facility agreement between them to extend the maturity date to March 15, 2012 (a prior third amendment entered into on February 15, 2011 was in all material respects superseded by the amendments made in the fourth amendment). Section 1.1 was amended (i) to define “Borrowing Base” as \$175,000, (ii) to delete the definition of “EBITDA”, and (iii) to amend subsection (i) of the definition of “Eligible Accounts” so as to exclude any accounts for any account debtor (other than GDLS) which exceed 30% of all accounts and for GDLS to exclude those total obligations which exceed the lesser of 50% of all accounts or the aggregate sum of \$500,000. Section 2.3(a)(ii) was amended so that the minimum semiannual interest payment is \$20,000, and Section 6.8 was amended in its entirety so as to require the Company to maintain a zero balance on the revolving line for a period of at least 30 consecutive days during the period from March 15, 2011 and March 15, 2012.

As of October 2, 2011, the outstanding balance on the line of credit is \$0.5 million, and on December 20, 2011, the latest practicable date, the balance was \$0.3 million. For the period ended October 2, 2011 the total interest expense was \$0.06 million.

We have historically met our liquidity requirements from a variety of sources, including government and customer funding through contract progress bills, short term loans, notes from related parties, and the sale of equity securities. Based upon our current working capital position and potential for expanded business revenues, we believe that our working capital is sufficient to fund our current operations for at least the next 12 months. However, based on our strategy and the anticipated growth in our business, we believe that our liquidity needs may increase in the future. The amount of such increase will depend on many factors, including the costs associated with the fulfillment of our projects, whether we upgrade our technology, and the amount of inventory required for our expanding business. If our liquidity needs do increase, we believe additional capital resources will be obtained from a variety of sources including, but not limited to, cash flow from operations and the issuance of our common stock and/or debt, including receivables funding through a commercial lender .

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Our ability to utilize progress billing on government contracts was temporarily on hold since March 2011 pending completion of a 2011 Defense Contract Audit Agency (DCAA) Progress Billing Audit and Accounting System Review. Progress billing audits and accounting system reviews are conducted periodically by the government to ensure the Company's systems meet the necessary requirements. The progress billing audit was successfully completed in July 2011 and based upon the audit results, the contracting officer approved a pending progress payment of \$1.3 million related to incurred contract cost through April 2011 on one of our Howitzer programs. The progress bill payment was subsequently received by the Company on August 3, 2011. The Accounting System Review was completed by DCAA without issue in September, 2011 and an additional \$0.3 million of progress bills against the program for cost incurred through August 2011 was submitted in September. Payment was received in early October.

In addition, Optex Systems Holdings has requested an equitable adjustment on another Howitzer program due to significant design issues that impacted the manufacturability of the product. As there is no guarantee that the request will be granted in part or in full, we realized the entire loss in fiscal year 2010. The program was completed in fiscal year 2011. However, we believe there is a reasonable possibility that we will be able to recover a substantial amount of the incurred loss in the next fiscal year, pending the outcome of the negotiations. To the extent we are able to recover increased costs (losses) against the program; we expect the settlement would have a positive impact on working capital.

Period of October 3, 2010 through October 2, 2011

Cash and Cash Equivalents. As of October 2, 2011, we had cash and cash equivalents of \$1.5 million as compared to \$1.0 million on October 3, 2010. We increased cash and cash equivalents by \$0.5 million primarily due to collections on progress bills in August of \$1.3 million offset by a reduction in the credit facility of \$0.6 million and increased material purchases in support of the M137 Howitzer final delivery order quantities shipping in fiscal year 2012, net of the progress billed amounts.. As of October 2, 2011 our outstanding balance on the line of credit was \$0.5 million.

Net Cash (Used by) Provided by Operating Activities. Net cash provided by operating activities during the period beginning October 3, 2010 and ending October 2, 2011 totaled \$1.1 million. The primary sources of cash during this period resulted from a significant decrease in inventory of \$1.5 million due to lower production volume and the completion of several loss Howitzer contracts, increased reserve requirements for excess and obsolete inventories of \$0.3 million primarily related to the completed Howitzer programs, combined with net income of \$0.6 million. These increases were offset by the depletion of reserve balances related to the loss contracts of (\$1.4) million.

Net Cash used in Investing Activities. In the twelve months ended October 2, 2011, net cash used by investing activities totaled \$0.03 million and consisted of fixed asset purchases during the period.

Net Cash Provided by Financing Activities. Net cash used by financing activities totaled \$0.6 million during the twelve months ended October 2, 2011 due to a payment of \$0.6 million against the revolving credit facility..

Critical Accounting Policies

Stock-Based Compensation: In December 2004, FASB issued FASB ASC 718 which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. FASB ASC 718 focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. FASB ASC 718 requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued.

Optex Systems Holdings' accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of FASB ASC 505-50, which establish the measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, whichever is more readily determinable in accordance with FASB ASC 718.

Income Tax/Deferred Tax: FASB ASC 740 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on differing treatment of items for financial reporting and income tax reporting purposes. The deferred tax balances are adjusted to reflect tax rates by tax jurisdiction, based on currently enacted tax laws, which will be in effect in the years in which the temporary differences are expected to reverse. We have provided deferred income tax benefits on net operating loss carry-forwards to the extent we believe we will be able to utilize them in future tax filings.

Revenue Recognition: Optex Systems Holdings recognizes revenue based on the modified percentage of completion method utilizing the units-of-delivery method, in accordance with FASB ASC 605-35:

- The units-of-delivery method recognizes as revenue the contract price of units of a basic production product delivered during a period and as the cost of earned revenue the costs allocable to the delivered units; costs allocable to undelivered units are reported in the balance sheet as inventory or work in progress. The method is used in circumstances in which an entity produces units of a basic product under production-type contracts in a continuous or sequential production process to buyers' specifications.

Optex Systems Holdings' contracts are fixed price production type contracts whereas a defined order quantity is delivered to the customer in a continuous or sequential production process to buyers specifications (build to print). Our deliveries against these contracts generally occur in monthly increments across fixed delivery periods spanning from 3 to 36 months.

Estimated Costs at Completion and Accrued Loss on Contracts: Optex Systems Holdings reviews and reports on the performance of its contracts and production orders against the respective resource plans for such contracts/orders. These reviews are summarized in the form of estimates at completion. Estimates at completion include Optex Systems Holdings incurred costs to date against the contract/order plus management's current estimates of remaining amounts for direct labor, material, other direct costs and subcontract support and indirect overhead costs based on the completion status and future contractual requirements for each order. If an estimate at completion indicates a potential overrun (loss) against a fixed price contract/order, management generally seeks to reduce costs and /or revise the program plan in a manner consistent with customer objectives in order to eliminate or minimize any overrun and to secure necessary customer agreement to proposed revisions.

If an estimate at completion indicates a potential overrun against budgeted resources for a fixed price contract/order, management first attempts to implement lower cost solutions to still profitably meet the requirements of the fixed price contract. If such solutions do not appear practicable, management makes a determination whether to seek renegotiation of contract or order requirements from the customer. If neither cost reduction nor renegotiation appears probable, an accrual for the contract loss/overrun is recorded against earnings and the loss is recognized in the first period the loss is identified based on the most recent estimates at completion of the particular contract or product order.

For the fiscal years ended October 2, 2011 and October 3, 2010, estimated loss reserves were \$0 and \$1.4 million, respectively. During 2010, Optex Systems Holdings realized increases losses against the Howitzer programs of \$1.1 million of which \$763 thousand relates specifically to production issues encountered on one of our Howitzer product lines. Increased losses were primarily attributable to manufacturing issues on our U.S. government Howitzers culminating in higher material scrap and labor hours, combined with a reduction in total production volume in 2010 which further impacted production efficiencies across all product lines. Optex Systems Holdings has requested an equitable adjustment on this program due to significant design issues impacting the manufacturability of the product. As there is no guarantee that the request will be granted in part or in full, we realized the entire loss in fiscal year 2010. However, we believe there is a reasonable possibility that we will be able to recover a substantial amount of the incurred loss in fiscal year 2011 pending the outcome of the negotiations. As of the end of fiscal year 2011, all shipments against the loss contracts had been completed, thus there is no carryforward of the loss reserves required for future periods.

Government Contracts: Virtually all of our contracts are prime or subcontracted directly with the Federal government and as such, are subject to Federal Acquisition Regulation Subpart 49.5, “Contract Termination Clauses” and more specifically Federal Acquisition Regulation clauses 52.249-2 “Termination for Convenience of the Government (Fixed-Price)”, and 49.504 “Termination of fixed-price contracts for default”.

Warranty Costs: Some of Optex Systems Holdings’ customers require that the company warrant the quality of its products to meet customer requirements and be free of defects for up to fifteen months subsequent to delivery. Future warranty costs are based on the estimated cost of replacement for expected returns based upon our most recent experience rate of defects as a percentage of warranty covered sales. Throughout the year, warranty costs are expensed as incurred, and as of each year end, Optex Systems Holdings reviews the prior 15 month warranty experience rate and may adjust the warranty accrual as required to cover any additional anticipated warranty costs related to prior shipments. In the year ending October 3, 2010, Optex Systems Holdings, Inc. recognized income \$57 thousand, related to improvements in the warranty experience rate for warranties expiring in fiscal year 2010. As of October 2, 2011 the existing warranty reserve balance of \$25 thousand was reviewed and determined to be adequate to satisfy any future warranty claims that may have existed as of October 2, 2011 for shipments occurring in the prior 15 months.

Recent Accounting Pronouncements.

In February 2010, FASB issued ASU 2010-09 “Subsequent Event (Topic 855) Amendments to Certain Recognition and Disclosure Requirements”. ASU 2010-09 removes the requirement for an SEC filer to disclose a date in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of GAAP. All of the amendments in ASU 2010-09 are effective upon issuance of the final ASU, except for the use of the issued date for conduit debt obligors, which is effective for interim or annual periods ending after June 15, 2010. The Company adopted ASU 2010-09 in February 2010 and therefore omitted the disclosure previously required as referenced above.

In June 2009, FASB issued ASC 105-10 (Prior authoritative literature: SFAS No. 168, “*The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162*”). FASB ASC 105-10 establishes the FASB Accounting Standards Codification TM (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. FASB ASC 105-10 is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As such, Optex Systems Holdings is required to adopt these provisions at the beginning of the interim period ending October 3, 2010. Adoption of FASB ASC 105-10 did not have a material effect on Optex Systems Holding’s financial statements.

In September 2006, the FASB issued FASB ASC 820-10 (Prior authoritative literature: FASB Statement 157, “*Fair Value Measurements*”). FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. FASB ASC 820-10 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, FASB ASC 820-10 does not require any new fair value measurements. However, for some entities, the application of FASB ASC 820-10 will change current practice. The changes to current practice resulting from the application of FASB ASC 820-10 relate to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. The provisions of FASB ASC 820-10 are effective as of January 1, 2008, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. However, delayed application of this statement is permitted for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of FASB ASC 820-10 did not have a material impact on Optex Systems Holdings’ financial position, results of operations, or cash flows.



Cautionary Factors That May Affect Future Results

This Report on Form 10-K and other written reports and oral statements made from time to time by Optex Systems Holdings may contain so-called “forward-looking statements,” all of which are subject to risks and uncertainties. You can identify these forward-looking statements by their use of words such as “expects,” “plans,” “will,” “estimates,” “forecasts,” “projects” and other words of similar meaning. You can identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address Optex Systems Holdings’ growth strategy, financial results and product and development programs. You must carefully consider any such statement and should understand that many factors could cause actual results to differ from Optex Systems Holdings’ forward-looking statements. These factors include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward-looking statement can be guaranteed and actual future results may vary materially.

We do not assume the obligation to update any forward-looking statement. You should carefully evaluate such statements in light of factors described in this prospectus. In this prospectus Optex Systems Holdings has identified important factors that could cause actual results to differ from expected or historic results. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete list of all potential risks or uncertainties.

Item 8 Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Optex Systems Holdings, Inc.

Richardson, Texas

We have audited the accompanying balance sheets of Optex Systems Holdings, Inc. (the Company) as of October 2, 2011 and October 3, 2010, and the related statements of operations, stockholders’ equity, and cash flows for the year ended October 2, 2011 and October 3, 2010. The Company’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Optex Systems Holdings, Inc. as of October 2, 2011 and October 3, 2010, and the results of its operations and its cash flows for the year ended October 2, 2011 and October 3, 2010 in conformity with accounting principles generally accepted in the United States of America.

/s/EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
December 27, 2011

Optex Systems Holdings, Inc.
Consolidated Balance Sheets

| | (Thousands) | |
|--|------------------------|------------------------|
| | <u>October 2, 2011</u> | <u>October 3, 2010</u> |
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 1,514 | \$ 1,030 |
| Accounts Receivable | 2,392 | 2,375 |
| Deferred Tax Asset - Short Term | - | 376 |
| Net Inventory | 4,088 | 5,890 |
| Prepaid Expenses | 17 | 245 |
| Total Current Assets | \$ 8,011 | \$ 9,916 |
| Property and Equipment | | |
| Property Plant and Equipment | \$ 1,488 | \$ 1,457 |
| Accumulated Depreciation | (1,227) | (1,161) |
| Total Property and Equipment | \$ 261 | \$ 296 |
| Other Assets | | |
| Deferred Tax Asset - Long Term | \$ 1,204 | \$ 617 |
| Security Deposits | 21 | 21 |
| Total Other Assets | \$ 1,225 | \$ 638 |
| Total Assets | \$ 9,497 | \$ 10,850 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts Payable | \$ 716 | \$ 763 |
| Accrued Expenses | 547 | 574 |
| Accrued Warranties | 25 | 25 |
| Accrued Contract Losses | - | 1,357 |
| Credit Facility | 507 | 1,107 |
| Total Current Liabilities | \$ 1,795 | \$ 3,826 |
| Total Liabilities | \$ 1,795 | \$ 3,826 |
| Stockholders' Equity | | |
| Optex Systems Holdings, Inc. – (par \$0.001, 2,000,000,000 authorized, 139,444,940 shares issued and outstanding) | \$ 139 | \$ 139 |
| Optex Systems Holdings, Inc. Preferred Stock (\$0.001 par 5,000 authorized, 1,027 series A preferred issued and outstanding) | - | - |
| Additional Paid-in-capital | 17,662 | 17,162 |
| Retained Earnings (Deficit) | (10,099) | (10,277) |
| Total Stockholders' Equity | \$ 7,702 | \$ 7,024 |
| Total Liabilities and Stockholders' Equity | \$ 9,497 | \$ 10,850 |

The accompanying notes are an integral part of these financial statements

Optex Systems Holdings, Inc.
Consolidated Statements of Operations

| | (Thousands) | |
|--|------------------------|------------------------|
| | Twelve months ended | |
| | <u>October 2, 2011</u> | <u>October 3, 2010</u> |
| Revenues | \$ 16,227 | \$ 22,902 |
| Total Cost of Sales | <u>13,741</u> | <u>22,033</u> |
| Gross Margin | \$ 2,486 | \$ 869 |
| General and Administrative | 2,408 | 10,706 |
| Operating Income (Loss) | \$ 78 | \$ (9,837) |
| Other Expenses | | |
| Interest (Income) Expense - Net | 74 | 89 |
| Total Other | \$ 74 | \$ 89 |
| Income (Loss) Before Taxes | \$ 4 | \$ (9,926) |
| Current Income Taxes (Benefit) | - | (32) |
| Deferred Income Taxes (Benefit) | <u>(587)</u> | <u>(282)</u> |
| Net Income (Loss) After Taxes | <u>\$ 591</u> | <u>\$ (9,612)</u> |
| Less preferred stock dividend | \$ (413) | \$ (390) |
| Net income (loss) applicable to common shareholders | <u>\$ 178</u> | <u>\$ (10,002)</u> |
| Basic and diluted income (loss) per share | <u>\$ 0.00</u> | <u>\$ (0.07)</u> |
| Weighted Average Common Shares Outstanding | 139,444,940 | 139,444,940 |

The accompanying notes are an integral part of these financial statements

Optex Systems Holdings, Inc.
Consolidated Statements of Cash Flows

| | (Thousands) | |
|--|--|--|
| | Twelve months ended October 2, 2011 | Twelve months ended October 3, 2010 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 591 | \$ (9,612) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 66 | 1,104 |
| (Gain) loss on impairment of intangible assets | - | 8,038 |
| Provision for allowance for inventory valuation | 328 | (129) |
| Noncash interest expense | 28 | 20 |
| Stock option compensation expense | 87 | 97 |
| (Increase) decrease in accounts receivable | (17) | (573) |
| (Increase) decrease in inventory (net of progress billed) | 1,474 | 2,253 |
| (Increase) decrease in other current assets | 216 | 86 |
| (Increase) decrease in deferred tax asset (net of valuation allowance) | (211) | (282) |
| Increase (decrease) in accounts payable and accrued expenses | (91) | (1,830) |
| Increase (decrease) in accrued warranty costs | - | (57) |
| Increase (decrease) in accrued estimated loss on contracts | (1,357) | 9 |
| Total adjustments | \$ 523 | \$ 8,736 |
| Net cash (used)/provided by operating activities | \$ 1,114 | \$ (876) |
| Cash flows from investing activities: | | |
| Purchased of property and equipment | (31) | (116) |
| Net cash (used in) provided by investing activities | \$ (31) | \$ (116) |
| Cash flows from financing activities: | | |
| Proceeds (to) from credit facility (net) | (599) | 1,107 |
| Proceeds from loans payable | - | 250 |
| Repayments on loans payable | - | (250) |
| Net cash (used In) provided by financing activities | \$ (599) | \$ 1,107 |
| Net increase (decrease) in cash and cash equivalents | \$ 484 | \$ 115 |
| Cash and cash equivalents at beginning of period | 1,030 | 915 |
| Cash and cash equivalents at end of period | \$ 1,514 | \$ 1,030 |
| Noncash Investing and Financing Activities: | | |
| Issuance of Warrants as Debt Issuance Cost | | |
| Additonal paid in capital (1,100,000 warrants) | \$ - | \$ 32 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 58 | 70 |
| Cash paid (refund received) for taxes | \$ (376) | 120 |

The accompanying notes are an integral part of these financial statements

Optex Systems Holdings, Inc.
Consolidated Statement of Stockholders' Equity

| | (Thousands) | | | | | | Total Stockholders Equity |
|--|--|---------------------------------|----------------------|-----------------------------|----------------------------------|---------------------------|---------------------------------|
| | Common Shares <u>Outstanding</u> | Series A Preferred Shares | Common Stock | Preferred Series A Stock | Additional Paid in Capital | Retained Earnings | |
| Balance at September 27, 2009 | 139,444,940 | 1,027 | \$ 139 | \$ 1 | \$ 16,643 | \$ (276) | \$ 16,507 |
| Stock Option Compensation Expense | | | | | 97 | | 97 |
| Accumulated Dividends on Preferred Stock | | | | | 390 | (390) | - |
| Warrants Issued | | | | | 32 | | 32 |
| Net Earnings (Loss) from continuing operations | | | | | | (9,612) | (9,612) |
| Balance at October 3, 2010 | <u>139,444,940</u> | <u>1,027</u> | <u>\$ 139</u> | <u>\$ 1</u> | <u>\$ 17,162</u> | <u>\$ (10,278)</u> | <u>\$ 7,024</u> |
| Stock Option Compensation Expense | | | | | 87 | | 87 |
| Accumulated Dividends on Preferred Stock | | | | | 413 | (413) | - |
| Preferred Dividends Paid through increased share value | | | | | (884) | | (884) |
| Increase of Preferred Share Stated Value | | | | | 884 | - | 884 |
| Net Earnings (Loss) from continuing operations | | | | | | 591 | 591 |
| Balance at October 2, 2011 | <u>139,444,940</u> | <u>1,027</u> | <u>\$ 139</u> | <u>\$ 1</u> | <u>\$ 17,662</u> | <u>\$ (10,100)</u> | <u>\$ 7,702</u> |

The accompanying notes are an integral part of these financial statements

Note 1 - Organization and Operations

On March 30, 2009, Optex Systems Holdings, Inc. (formerly known as Sustut Exploration, Inc.), a Delaware corporation (“Optex Systems Holdings”), along with Optex Systems, Inc., a privately held Delaware corporation (“Optex Systems, Inc.”), which is a wholly-owned subsidiary of Optex Systems Holdings, entered into a reorganization agreement, pursuant to which Optex Systems, Inc. was acquired by Optex Systems Holdings in a share exchange transaction. Optex Systems Holdings became the surviving corporation. At the closing, there was a name change from Sustut Exploration, Inc. to Optex Systems Holdings, Inc., and its year end changed from December 31 to a fiscal year ending on the Sunday nearest September 30.

On October 14, 2008, certain senior secured creditors of Irvine Sensors Corporation, Longview Fund, L.P. and Alpha Capital Anstalt formed Optex Systems, Inc. , which acquired all of the assets and assumed certain liabilities of Optex Systems, Inc., a Texas corporation (“Optex Systems, Inc. (Texas)”), and a wholly-owned subsidiary of Irvine Sensors Corporation, in a transaction that was consummated via purchase at a public auction. Following this asset purchase, Optex Systems, Inc. (Texas) remained a wholly-owned subsidiary of Irvine Sensors Corporation.

In accordance with FASB ASC 805 Optex Systems, Inc.’s purchase of substantially all of the assets and assumption of certain liabilities represented the acquisition of a business. FASB ASC 805 outlines the guidance in determining whether a “business” has been acquired in a transaction. For a transferred set of activities and assets to be a business, it must contain all of the inputs and processes necessary for it to continue to conduct normal operations after the transferred set of assets is separated from the transferor, which include the ability to sustain a revenue stream by providing its outputs to customers. Optex Systems, Inc. obtained the inputs and processes necessary for normal operations.

On February 20, 2009, Sileas Corporation, a newly-formed Delaware corporation, owned by present members of Optex Systems Holdings’ management, purchased 100% of Longview’s equity and debt interest in Optex Systems, Inc. (Longview’s interest in Optex Systems, Inc. then representing 90% of the issued and outstanding common equity interests in Optex Systems, Inc.), in a private transaction.

Optex Systems, Inc. operated as a privately-held Delaware corporation until March 30, 2009, when, as a result of a reverse merger transaction consummated pursuant to a reorganization agreement dated March 30, 2009, it became a wholly-owned subsidiary of Optex Systems Holdings. Sileas is the majority owner (parent) of Optex Systems Holdings, owning approximately 73.5% of the issued and outstanding equity interests in Optex Systems Holdings. The financial statements of Optex Systems Holdings represent subsidiary statements and do not include the accounts of its majority owner.

Optex Systems Holdings’ operations are based in Richardson, Texas in a leased facility comprising 49,100 square feet. As of October 2, 2011, Optex Systems Holdings operated with 76 full-time equivalent employees.

Optex Systems Holdings manufactures optical sighting systems and assemblies, primarily for Department of Defense applications. Its products are installed on a variety of U.S. military land vehicles, such as the Abrams and Bradley fighting vehicles, light armored and advanced security vehicles, and have been selected for installation on the Stryker family of vehicles. Optex Systems Holdings also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Optex Systems Holdings’ products consist primarily of build to customer print products that are delivered both directly to the military and to other defense prime contractors.

In February 2009, Optex Systems Holdings’ ISO certification status was upgraded from 9001:2000 to 9001:2008, bringing Optex Systems Holdings into compliance with the new ISO standards rewritten to align with ISO 14001.

Note 2 - Accounting Policies

Basis of Presentation

Principles of Consolidation: The consolidated financial statements include the accounts of Optex Systems Holdings and its wholly-owned subsidiary, Optex Systems, Inc. (Delaware). All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

Segment Reporting: Management has determined that Optex Systems Holdings, Inc. is organized, managed and internally reported as one business segment. Segments are determined based on differences in products, internal reporting and how operational decisions are made.

Fiscal Year: Optex's fiscal year ends on the Sunday nearest September 30. Fiscal year 2011 ended on October 2, 2011 and included 52 weeks. Fiscal year 2010 ended on October 3, 2010 and included 53 weeks.

Fair Value of Financial Instruments: FASB ASC 825-10 requires disclosure of fair value information about certain financial instruments, including, but not limited to, cash and cash equivalents, accounts receivable, refundable tax credits, prepaid expenses, accounts payable, accrued expenses, notes payable to related parties and convertible debt-related securities. Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of fiscal years ended October 2, 2011 and October 3, 2010. The carrying value of the balance sheet financial instruments included in Optex Systems, Inc. (Texas)'s consolidated financial statements approximated their fair values.

Cash and Cash Equivalents: For financial statement presentation purposes, Optex considers those short-term, highly liquid investments with original maturities of three months or less to be cash or cash equivalents.

Concentration of Credit Risk: Optex's cash and cash equivalents are on deposit with banks. Only a portion of the cash and cash equivalents would be covered by deposit insurance and the uninsured balances are substantially greater than the insured amounts. Although cash and cash equivalent balances exceed insured deposit amounts, management does not anticipate non-performance by the banks.

Optex revenues and accounts receivables for fiscal year ended October 2, 2011 are derived from sales to U.S. government agencies (24%), General Dynamics (67%) and other contractors (9%). Optex does not believe that this concentration results in undue credit risk because of the financial strength of the payees.

Accounts Receivable: Optex records its accounts receivable at the original sales invoice amount less liquidations for previously collected advance/progress bills and an allowance for doubtful accounts. An account receivable is considered to be past due if any portion of the receivable balance is outstanding beyond its scheduled due date. On a quarterly basis, Optex evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on its history of past write-offs and collections, and current credit conditions. No interest is accrued on past due accounts receivable. As the customer base is primarily U.S. government and government prime contractors, Optex has concluded that there is no need for an allowance for doubtful accounts for the years ended October 2, 2011 and October 3, 2010. Optex charges uncollectible accounts to bad debt expense in the period as they are first deemed uncollectible. In the fiscal years 2011 and 2010, there were no bad debt expenses associated with uncollectible accounts.

Inventory: Inventory is recorded at the lower of cost or market, and adjusted as appropriate for decreases in valuation and obsolescence. Adjustments to the valuation and obsolescence reserves are made after analyzing market conditions, current and projected sales activity, inventory costs and inventory balances to determine appropriate reserve levels. Cost is determined using the first-in first-out method. Under arrangements by which progress payments are received against certain contracts, the customer retains a security interest in the undelivered inventory identified with these contracts. Payments received for such undelivered inventory are classified as unliquidated progress payments and deducted from the gross inventory balance. As of October 2, 2011 and October 3, 2010 inventory included:

(Thousands)

| | <u>As of</u> <u>October 2, 2011</u> | <u>As of</u> <u>October 3, 2010</u> |
|--------------------------------|--|--|
| Raw Materials | \$ 3,917 | \$ 4,343 |
| Work in Process | 1,930 | 2,824 |
| Finished Goods | 176 | 366 |
| Gross Inventory | \$ 6,023 | \$ 7,533 |
| Less: | | |
| Unliquidated Progress Payments | (1,181) | (1,217) |
| Inventory Reserves | (754) | (426) |
| Net Inventory | \$ 4,088 | \$ 5,890 |

Optex Systems Holdings conducts an annual work in process inventory in the fourth quarter of each fiscal year and cycle counts raw material and finished goods on a monthly basis. The accounting records are adjusted to reflect any changes in the physical inventory valuation as compared to the book carrying values based on the results of the physical inventory and cycle counts. In 2011, Optex Systems recognized a gain of \$123 thousand as compared to a net loss in the period ending October 3, 2010 of (\$919) thousand. The 2011 gain was primarily attributable to lower than expected manufacturing costs associated with completion of two of our Howitzer lines due to improvements in labor hour and material efficiencies. The 2010 inventory loss was primarily attributable to higher than expected manufacturing costs across both our Periscope and Howitzer production lines attributable to lower production volume in the second half of fiscal year 2010, impacting material pricing, scrap, and labor efficiencies resulting in cost overruns for these products carried in inventory as compared to the estimates at completion.

Warranty Costs: Some of Optex Systems Holdings' customers require that the company warrant the quality of its products to meet customer requirements and be free of defects for up to fifteen months subsequent to delivery. Future warranty costs are based on the estimated cost of replacement for expected returns based upon our most recent experience rate of defects as a percentage of warranty covered sales. Throughout the year, warranty costs are expensed as incurred, and as of each year end, Optex Systems Holdings reviews the prior 15 month warranty experience rate and may adjust the warranty accrual as required to cover any additional anticipated warranty costs related to prior shipments. In the year ending October 3, 2010, Optex Systems Holdings, Inc. recognized income \$57 thousand, related to improvements in the warranty experience rate for warranties expiring in fiscal year 2010. As of October 2, 2011 the existing warranty reserve balance of \$25 thousand was reviewed and determined to be adequate to satisfy any future warranty claims that may have existed as of October 2, 2011 for shipments occurring in the prior 15 months.

Property and Equipment: Property and equipment are recorded at cost. Depreciation is computed using the straight line method over the estimated useful lives of the assets, ranging from three to seven years. Expenditures for renewals and betterments are capitalized. Expenditures for minor items, repairs and maintenance are charged to operations as incurred. Gain or loss upon sale or retirement due to obsolescence is reflected in the operating results in the period the event takes place.

Goodwill and Other Intangible Assets: Goodwill represents the cost of acquired businesses in excess of fair value of the related net assets at acquisition. Optex Systems Holdings does not amortize goodwill, but tests it annually for impairment using a fair value approach during the fiscal fourth quarter and between annual testing periods, if circumstances warrant. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. We generally determine the fair value of our reporting units using the income approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies, which requires significant judgment by management. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill. These impairment tests may result in impairment charges that could have a material adverse impact on our results of operations. The goodwill of Optex Systems Holdings was reviewed as of October 3, 2010. The review indicated that goodwill was impaired, as determined based on the projected cash flows over the next three years. The cash flow projections took into effect the expected net sales and corresponding expenses against those sales in the respective years. The impairment loss for goodwill was \$7 million. The goodwill was written off as a component of general and administrative operating expenses during fiscal year 2010. As of October 2, 2011 (as a result of the impairment in 2010), there was no remaining goodwill for testing or further impairment.

Optex amortizes the cost of other intangibles over their estimated useful lives, unless such lives are deemed indefinite. Amortizable intangible assets are tested for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values. The identified amortizable intangible assets at the beginning of fiscal year 2010 related to the acquisition of Optex Systems, Inc. (Delaware) from Irvine Sensors as of October 14, 2008 and consisted of customer backlog, with initial useful lives ranging from one to five years

Intangible assets with indefinite lives are tested annually for impairment, during the fiscal fourth quarter and between annual periods, if impairment indicators exist, and are written down to fair value as required. As of October 3, 2010, the intangible assets were reviewed in light of a reduction of expected delivery orders against contracted orders and higher than expected costs on those orders. The review indicated that intangible assets were impaired, as determined based on a projected cash flow analysis of our future operations. The cash flow projections took into effect the expected net sales from the customer backlog as of October 14, 2008 and the corresponding expenses against those sales in the respective years. The impairment loss recorded in 2010 for intangible assets was \$928,016 and was split between cost of goods sold and general and administrative costs in the amount of \$150,534, and \$777,482, respectively. As of October 3, 2010 and October 2, 2011, after impairment, the total balance of unamortized intangible assets and goodwill was zero.

Impairment or Disposal of Long-Lived Assets: Optex Systems Holdings adopted the provisions of FASB ASC 360-10, “*Accounting for the Impairment or Disposal of Long-lived Assets* .” This standard requires, among other things, that long-lived assets be reviewed for potential impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these expected cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The primary measure of fair value is based on discounted cash flows. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

Revenue Recognition:

Optex Systems Holdings recognizes revenue based on the modified percentage of completion method utilizing the units-of-delivery method, in accordance with FASB ASC 605-35:

The units-of-delivery method recognizes as revenue the contract price of units of a basic production product delivered during a period and as the cost of earned revenue the costs allocable to the delivered units; costs allocable to undelivered units are reported in the balance sheet as inventory or work in progress. The method is used in circumstances in which an entity produces units of a basic product under production-type contracts in a continuous or sequential production process to buyers' specifications.

Optex Systems Holdings contracts are fixed price production type contracts whereby a defined order quantity is delivered to the customer during a continuous or sequential production process tailored to the buyer's specifications (build to print). Optex Systems Holdings' deliveries against these contracts generally occur in monthly increments across fixed delivery periods spanning from 3 to 36 months.

Optex Systems Holdings may at times have contracts that allow for invoicing based on achievement of milestone events. In such cases, Optex recognizes revenue based on the milestone method in accordance with FASB ASC 605-28 as applicable. During the fiscal years 2011 and 2010 there were no existing contracts providing for milestone billing and no revenue recognized as a result of milestone events.

Estimated Costs at Completion and Accrued Loss on Contracts: Optex Systems Holdings reviews and reports on the performance of its contracts and production orders against the respective resource plans for such contracts/orders. These reviews are summarized in the form of estimates at completion. Estimates at completion include Optex Systems Holdings' incurred costs to date against the contract/order plus management's current estimates of remaining amounts for direct labor, material, other direct costs and subcontract support and indirect overhead costs based on the completion status and future contractual requirements for each order.

If an estimate at completion indicates a potential overrun against budgeted resources for a fixed price contract/order, management first attempts to implement lower cost solutions that will profitably meet the requirements of the fixed price contract. If such solutions do not appear practicable, management makes a determination whether to seek renegotiation of contract or order requirements from the customer. If neither cost reduction nor renegotiation appears probable, an accrual for the contract loss/overrun is recorded against earnings and the loss is recognized in the first period the loss is identified based on the most recent estimates at completion of the particular contract or product order.

For the fiscal years ended October 2, 2011 and October 3, 2010, estimated loss reserves were \$0 and \$1.3 million respectively. During 2010, Optex Systems Holdings realized increased losses against the Howitzer programs of \$1.1 million of which \$0.8 million related specifically to production issues encountered on one of our Howitzer product lines. Increased losses were primarily attributable to manufacturing issues on our U.S. government Howitzers culminating in higher material scrap and labor hours, combined with a reduction in total production volume in 2010 which further impacted production efficiencies across all product lines. Optex Systems Holdings has requested an equitable adjustment on this program due to significant design issues impacting the manufacturability of the product. As there is no guarantee that the request will be granted in part or in full, we realized the entire loss in fiscal year 2010. However, we believe there is a reasonable possibility that we will be able to recover a portion of the incurred loss in fiscal year 2012 pending the outcome of the request. As of the end of fiscal year 2011, all shipments against the loss contracts had been completed, thus there is no carryforward of the loss reserves required for future periods.

Government Contracts: Virtually all of Optex Systems Holdings' contracts are prime or subcontracted directly with the Federal government and as such, are subject to Federal Acquisition Regulation (Federal Acquisition Regulation) Subpart 49.5, "Contract Termination Clauses" and more specifically Federal Acquisition Regulation clauses 52.249-2 "Termination for Convenience of the Government (Fixed-Price)", and 49.504 "Termination of fixed-price contracts for default". These clauses are standard clauses on prime military contracts and are generally, "flowed down" to Optex Systems Holdings as subcontractors on other military business. It has been Optex Systems Holdings' experience that the termination for convenience is rarely invoked, except where it has been mutually beneficial for both parties. Optex Systems Holdings is not currently aware of any pending terminations for convenience or default on its existing contracts.

In the event a termination for convenience were to occur, these Federal Acquisition Regulation clause 52.249-2 provides for full recovery of all contractual costs and profits reasonably occurred up to and as a result of the terminated contract. In the event a termination for default were to occur, Optex Systems Holdings could be liable for any excess cost incurred by the government to acquire supplies from another supplier similar to those terminated from Optex Systems Holdings. Optex Systems Holdings would not be liable for any excess costs if the failure to perform the contract arises from causes beyond its control and without its fault or negligence as defined by Federal Acquisition Regulation clause 52.249-8. In addition, the government may require Optex Systems Holdings to transfer title and deliver to the government any completed supplies, partially completed supplies and materials, parts, tools, dies, jigs, fixtures, plans, drawings, information, and contract rights that Optex Systems Holdings has specifically produced or acquired for the terminated portion of this contract. The government shall pay contract price for completed supplies delivered and accepted, and Optex Systems Holdings and the government would negotiate an agreed upon amount of payment for manufacturing materials delivered and accepted and for the protection and preservation of the property. Failure to agree on an amount for manufacturing materials is subject to the Federal Acquisition Regulation Disputes clause 52.233-1.

In some cases, Optex Systems Holdings may receive orders subject to subsequent price negotiation on contracts exceeding the federal government simplified acquisition threshold of \$650,000 prior to October 1, 2010 and \$700,000 subsequent to October 1, 2010. These “undefinitized” contracts are considered firm contracts but as Cost Accounting Standards Board covered contracts, they are subject to the Truth in Negotiations Act disclosure requirements and downward only price negotiation. As of October 2, 2011 and October 3, 2010, Optex Systems had no booked orders that fell under this criterion. Optex Systems Holdings’ experience has been that the historically negotiated price differentials have been immaterial and accordingly, it does not anticipate any significant downward adjustments on these booked orders.

Shipping and Handling Costs: All shipping and handling costs are included as a component of cost of goods sold.

Stock-Based Compensation: FASB ASC 718 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, but primarily focuses on transactions whereby an entity obtains employee services for share-based payments. FASB ASC 718 requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments or that may be settled by the issuance of those equity instruments.

The Company’s accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of FASB ASC 505-50. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor’s performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, whichever is more readily determinable in accordance with FASB ASC 718.

Income Tax/Deferred Tax: FASB ASC 740 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on differing treatment of items for financial reporting and income tax reporting purposes. The deferred tax balances are adjusted to reflect tax rates by tax jurisdiction, based on currently enacted tax laws, which will be in effect in the years in which the temporary differences are expected to reverse. Under FASB ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations. Optex Systems Holdings has recognized deferred income tax benefits on net operating loss carry-forwards to the extent Optex Systems Holdings believes it will be able to utilize them in future tax filings. The difference between the income tax expense and pretax accounting income is primarily attributable non-deductible expenses representing permanent timing differences between book income and taxable income during the twelve months ended October 2, 2011 of \$17 thousand, offset with a decrease in the valuation for deferred tax assets of (\$604) thousand .

Earnings per Share: Basic earnings per share is computed by dividing income available for common shareholders (the numerator) by the weighted average number of common shares outstanding (the denominator) for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The potentially dilutive securities that Optex Systems Holdings has outstanding are convertible preferred stock, stock options and warrants. In computing the dilutive effect of convertible preferred stock, the numerator is adjusted to add back any convertible preferred dividends, and the denominator is increased to assume the conversion of the number of additional common shares. Optex Systems Holdings uses the Treasury Stock Method to compute the dilutive effect of stock options and warrants. Convertible preferred stock, stock options and warrants that are anti-dilutive are excluded from the calculation of diluted earnings per common share.

For the twelve months ended October 2, 2011, 1,027 shares of Series A preferred stock, 2,527,649 stock options and 9,948,667 warrants were excluded as anti-dilutive. For the twelve months ended October 3, 2010, 1,027 shares of Series A preferred stock, 2,598,649 stock options and 9,948,667 warrants were excluded as anti-dilutive.

Reclassification: Certain expenses reflected in the financial statements for the twelve months ended October 2, 2011 have been reclassified to conform with the current year presentation. Effective October 4, 2010 (the beginning of the current fiscal year), all financials have been converted from whole dollars and presented to the nearest thousand.

The balance sheet for the period ending October 3, 2010 includes \$376 thousand of Deferred Tax Assets-Short Term that had previously been reported as Deferred Tax Assets – Long Term. The reclassified amount relates to the fiscal year 2010 net operating loss carry-back filed on the U.S. federal tax return in February 2011 for the fiscal year 2009 tax year. The tax amount was refunded in fiscal year 2011.

Note 3 - Recent Accounting Pronouncements

In June 2009, FASB issued ASC 105-10 which establishes the FASB Accounting Standards Codification TM (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. FASB ASC 105-10 is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As such, Optex Systems Holdings adopted these provisions at the beginning of the interim period ending October 2, 2011. Adoption of FASB ASC 105-10 did not have a material effect on Optex Systems Holding's financial statements.

Note 4 - Property and Equipment

A summary of property and equipment at October 2, 2011 and October 3, 2010 is as follows:

| | | (Thousands) | |
|-------------------------------------|-----------------------|-------------------------------|-------------------------------|
| | Estimated Useful Life | Year Ended October 2, 2011 | Year Ended October 3, 2010 |
| Property and Equipment | | | |
| Furniture and Equipment | 3-5yrs | \$ 185 | \$ 176 |
| Machinery and Equipment | 5 yrs | 1066 | 1,063 |
| Leasehold Improvements | 7 yrs | 237 | 218 |
| Less: Accumulated Depreciation | | (1,227) | (1,161) |
| Net Property & Equipment | | \$ 261 | \$ 296 |
| Depreciation Expense | | \$ 66 | \$ 66 |

Depreciation expense included in cost of goods sold and general and administrative expense for fiscal 2011 is \$36 thousand and \$30 thousand, respectively. Depreciation expense included in cost of goods sold and general and administrative expense for fiscal 2010 is \$43 thousand and \$23 thousand, respectively.

Note 5 – Accrued Liabilities

The components of accrued liabilities for the years ended October 2, 2011 and October 3, 2010 are summarized below:

| | (Thousands) | |
|---------------------------|-------------------------------|-------------------------------|
| | Year Ended October 2, 2011 | Year Ended October 3, 2010 |
| Deferred Rent Expense | \$ 92 | \$ 116 |
| Accrued Vacation | 156 | 178 |
| Property Taxes | 2 | 18 |
| Accrued Interest | 16 | - |
| Franchise Taxes | 20 | 2 |
| Operating Expenses | 104 | 119 |
| Payroll & Payroll Related | 157 | 141 |
| Total Accrued Expenses | <u>\$ 547</u> | <u>\$ 574</u> |

Note 6 - Commitments and Contingencies

Leases

Pursuant to a lease amendment effective January 4, 2010, Optex Systems Holdings leases its office and manufacturing facilities under a non-cancellable operating lease expiring July 31, 2015 several non-cancellable operating leases for office and manufacturing equipment. Total expenses under facility lease agreements for the fiscal year ended October 2, 2011 was \$292 thousand. Total expenses for manufacturing and office equipment for the year ended October 2, 2011 was \$33 thousand. Total expenses under facility lease agreements for the fiscal year ended October 3, 2010 was \$257 thousand and total expenses for manufacturing and office equipment was \$31 thousand.

At October 2, 2011, the remaining minimum lease payments under the non-cancelable operating leases for equipment, office and facility space were as follows:

| | Operating Leases (Thousands) |
|-------------------------------------|------------------------------------|
| Fiscal Year | |
| 2012 | \$ 236 |
| 2013 | 232 |
| 2014 | 242 |
| 2015 | 201 |
| 2016 | 0 |
| Total minimum lease payments | <u>\$ 911</u> |

Pursuant to the terms of the amendment to the facilities lease, there was no base rent payment due from January 1, 2010 through July 31, 2010, and the total value of this rent abatement is \$134 thousand. The value of the deferred rent expense will be amortized monthly at a rate of \$2 thousand per month over the life of the lease. The total unamortized deferred rent as of October 2, 2011 was \$92 thousand. Commencing on August 1, 2010, the base rent payment is \$19 thousand per month.

Note 7 - Transactions with a Related Party

There are were no transactions with Related Parties during fiscal years 2011 or 2010 except as described below in Note 8 Debt Financing.

Note 8 - Debt Financing

Related Parties

Secured Promissory Note Issued in Connection with Purchase by Optex Systems, Inc. (Delaware)

In connection with the public sale of the Optex Systems, Inc. (Texas) assets to Optex Systems, Inc. (Delaware), Optex Systems, Inc. (Delaware) delivered to Longview and Alpha Secured Promissory Notes, due September 19, 2011, in the principal amounts of \$5.4 million and \$541 thousand, respectively. On February 20, 2009, Longview sold its Optex Systems, Inc. (Delaware) promissory note to Sileas, as described below. On March 27, 2009, Sileas and Alpha exchanged their Notes plus accrued and unpaid interest of \$160 thousand for 1,027 shares of Optex Systems, Inc. (Delaware) Series A preferred stock.

Acquisition by Sileas on February 20, 2009

On February 20, 2009, Sileas purchased 100% of the equity and debt interest held by Longview, representing 90% of Optex Systems, Inc. (Delaware). Currently, Sileas is the majority owner of Optex Systems Holdings.

Secured Promissory Note Due February 20, 2012/Longview Fund, LP

As a result of the transaction described above between Sileas and Longview Fund, LP on February 20, 2009, Sileas, currently majority owner of Optex Systems Holdings executed and delivered to Longview, a Secured Promissory Note originally due February 20, 2012 in the principal amount of \$13.5 million. The Note bears simple interest at the rate of 4% per annum, and the interest rate upon an event of default increases to 10% per annum. In the event Optex Systems Holdings sells or conveys all or substantially all its assets to a third party entity for more than nominal consideration, other than a reorganization into Sileas or reincorporation in another jurisdiction, then this Note shall be immediately due and owing without demand. In the event that such a major transaction occurs prior to the maturity date resulting in the Sileas receiving net consideration with a fair market value in excess of the principal and interest due under the terms of the secured note (the "Optex Consideration"), then in addition to paying the principal and interest due, Sileas shall also pay an amount equal to 90% of the Optex Consideration. The obligations of Sileas under the note are secured by a security interest in Optex Systems Holdings' common and preferred stock owned by Sileas that was granted to Longview pursuant to a Stock Pledge Agreement delivered by Sileas to Longview and also by a lien on all of the assets of Sileas.

On November 22, 2011 Sileas Corp and Longview Fund, LP entered into an amendment to the Secured Promissory Note that extended the maturity date for an additional two year period ending on February 20, 2014. In exchange for the extension, Sileas Corp agreed to pay Longview Fund an extension fee equal to 2% of the principal amount of this Secured Note. As a result of the agreement, the principal amount of the Note was increased \$270 thousand to \$13.8 million as of November 22, 2011.

Optex Systems Holdings has not guaranteed the note and Longview is not entitled to pursue Optex Systems Holdings in the event of a default by Sileas. Therefore, there are no actual or potential cash flow commitments from Optex Systems Holdings. In the event of default by Sileas on its obligations under the note, Longview would only be entitled to receive the Optex Systems Holdings common and preferred stock held by Sileas.

Credit Facility – Avid Bank (formerly known as Peninsula Bank Business Funding)

On March 10, 2010, the Company entered into a revolving credit facility with Avid Bank, which provides up to \$2 million in financing against eligible receivables. The material terms of the revolving credit facility are as follows:

- The interest rate for all advances shall be the greater of 8.5% and the then in effect prime rate plus 3.5% and subject to a minimum quarterly interest payment of \$16 thousand.
- Interest shall be paid monthly in arrears.

- The expiration date of the facility is March 4, 2011, at which time any outstanding advances, and accrued and unpaid interest thereon, will be due and payable.
- In connection with the entry into the facility by Avid Bank, Optex Systems, Inc.(Delaware) paid Avid Bank a facility fee of \$20 thousand and issued a warrant to Avid Bank to purchase 1,000,000 shares of its common stock. The warrant bears an exercise price of \$0.10 per share and expires on March 3, 2016.
- The obligations of Optex Systems, Inc. (Delaware) to Avid Bank are secured by a first lien on all of its assets (including intellectual property assets should it have any in the future) in favor of Avid Bank.
- The facility contains affirmative and negative covenants that require Optex Systems, Inc. (Delaware) to maintain certain minimum cash and EBITDA levels on a quarterly basis and contains other customary covenants. The facility also contains customary events of default. Upon the occurrence of an event of default that remains uncured after any applicable cure period, Avid Bank's commitment to make further advances may terminate, and Avid Bank would also be entitled to pursue other remedies against Optex Systems, Inc. (Delaware) and the pledged collateral.
- Pursuant to a guaranty executed by Optex Systems Holdings in favor of Avid Bank, Optex Systems Holdings has guaranteed all obligations of Optex Systems, Inc. (Delaware) to Avid Bank.

On August 3, 2010, Avid Bank waived the Company's requirement to meet the EBITDA requirement set forth in Section 6.8 of its agreement with the Company for the quarter ended June 27, 2010. In addition, Avid Bank agreed to amend Sections 6.8(c) and (d) of the aforesaid agreement to adjust the minimum EBITDA covenant for the fiscal quarter ending January 2, 2011 to \$200 thousand.

On November 23, 2010, Avid Bank waived the Company's requirement to meet the EBITDA requirement set forth in Section 6.8 (c) of the August 3, 2010 amended Agreement for the fourth quarter ended October 3, 2010. In addition, on November 29, 2010 Avid Bank agreed to a second amendment for Sections 6.8 (d) of the Agreement to adjust the minimum EBITDA covenant for the fiscal quarter ending January 2, 2011 to \$95 thousand.

On March 22, 2011, Avid Bank and the Company, entered into a fourth amendment to the existing credit facility agreement between them to extend the maturity date to March 15, 2012 (a prior third amendment entered into on February 15, 2011 was in all material respects superseded by the amendments made in the fourth amendment). Section 1.1 was amended (i) to define "Borrowing Base" as \$175 thousand, (ii) to delete the definition of "EBITDA", and (iii) to amend subsection (i) of the definition of "Eligible Accounts" so as to exclude any accounts for any account debtor (other than GDLS) which exceed 30% of all accounts and for GDLS to exclude those total obligations which exceed the lesser of 50% of all accounts or the aggregate sum of \$500 thousand. Section 2.3(a)(ii) was amended so that the minimum semiannual interest payment is \$20 thousand, and Section 6.8 was amended in its entirety so as to require the Company to maintain a zero balance on the revolving line for a period of at least 30 consecutive days during the period from March 15, 2011 and March 15, 2012.

As of October 2, 2011, the outstanding balance on the line of credit is \$507 thousand. For the period ended October 2, 2011, the total interest expense against the outstanding line of credit balance was \$61 thousand. Optex Systems Holdings satisfied the 30 consecutive zero balance on the revolving line of credit between August 4, 2011 and September 4, 2011.

Note 10-Stock Based Compensation

On March 26, 2009, the Board of Directors adopted the 2009 Stock Option Plan providing for the issuance of up to 6,000,000 shares to Optex Systems Holdings officers, directors, employees and to independent contractors who provide services to Optex Systems Holdings. See Note 14 - Subsequent Events for a discussion of the December 2011 amendment to the 2009 Stock Option Plan.

Options granted under the 2009 Stock Option Plan vest as determined by the Board of Directors of Optex Systems Holdings or a committee set up to act as a compensation committee of the Board of Directors and terminate after the earliest of the following events: (i) expiration of the option as provided in the option agreement, (ii) 90 days following the date of termination of the employee, or (iii) ten years from the date of grant (five years from the date of grant for incentive options granted to an employee who owns more than 10% of the total combined voting power of all classes of Optex Systems Holdings stock at the date of grant). In some instances, granted stock options are immediately exercisable into restricted shares of common stock, which vest in accordance with the original terms of the related options. Optex Systems Holdings recognizes compensation expense ratably over the requisite service period.

The option price of each share of common stock is determined by the Board of Directors or a committee set up to act as a compensation committee, provided that with respect to incentive stock options, the option price per share will in all cases be equal to or greater than 100% of the fair value of a share of common stock on the date of the grant, except an incentive option granted under the 2009 Stock Option Plan to a shareholder that owns more than 10% of the total combined voting power of all classes of Optex Systems Holdings' stock, will have an exercise price of not less than 110% of the fair value of a share of common stock on the date of grant. No participant may be granted incentive stock options, which would result in shares with an aggregate fair value of more than \$100,000 first becoming exercisable in one calendar year.

On March 30, 2009, 1,414,649 stock options with an exercise price of \$0.15 were granted to an officer of Optex Systems Holdings which vest as follows: 34% after the first year, and 33% each after the second and third years. These options carry a grant expiration date of seven years after issuance. On May 14, 2009, 1,267,000 stock options were issued to other Optex Systems Holdings employees, including 250,000 shares to one officer. These stock options vest 25% per year after each year of employment and carry a grant expiration date of seven years after issuance. For shares granted as of May 14, 2009, Optex Systems Holdings anticipates an annualized employee turnover rate of 5% per year, and as such anticipates that only 1,113,000 of the 1,267,000 shares will vest as of the end of the contract term.

As of October 2, 2011, 1,504,315 of the awarded stock options had vested and 154,000 shares had been forfeited due to employee turnover. As of October 3, 2010, 776,981 of the awarded stock options had vested and 83,000 shares had been forfeited due to employee turnover.

Optex Systems Holdings recorded compensation costs for options and shares granted under the plan amounting to \$87 thousand and \$97 thousand for the fiscal years ended October 2, 2011 and October 3, 2010, respectively. The impact of this expense was immaterial to the basic and diluted net loss per share for the fiscal years ended October 2, 2011 and October 3, 2010. A deduction is not allowed for income tax purposes until nonqualified options are exercised. The amount of this deduction will be the difference between the fair value of Optex Systems Holdings' common stock and the exercise price at the date of exercise. For the year ended October 2, 2011, estimated deferred tax assets related to option compensation costs were \$30 thousand and have been recorded for the tax effect of the financial statement expense. For the year ended October 3, 2010 the estimated deferred tax assets related to option compensation costs were \$33 thousand and have been recorded for the tax effect of the financial statement expense. No tax deduction is allowed for incentive stock options. Accordingly no deferred tax asset is recorded for GAAP expense related to these options.

Management has valued the options at their date of grant utilizing the Black-Scholes-Merton option pricing model. The fair value of the underlying shares was determined based on the opening price of Optex Systems Holdings' publicly-traded shares as of September 28, 2009. Further, the expected volatility was calculated using the historical volatility of a diversified index of companies in the defense, homeland security, and space industry in accordance with FASB ASC 718-10-S99-1. In making this determination and trying to find another comparable company, Optex Systems Holdings considered the industry, stage of life cycle, size and financial leverage of such other entities. Based on the development stage of Optex Systems Holdings, similar companies with sufficient historical data were not available. Optex Systems Holdings utilized the three year volatility of the SPADE Defense Index, which is a diversified index of 58 companies in the same industry as Optex Systems Holdings. The risk-free interest rate is based on the implied yield available on U.S. Treasury issues with an equivalent term approximating the expected life of the options depending on the date of the grant and expected life of the options. The expected life of options used was based on the contractual life of the option grant. Optex Systems Holdings determined the expected dividend rate based on the assumption and expectation that earnings generated from operations are not expected to be adequate to allow for the payment of dividends in the near future and the assumption that Optex Systems Holdings does not presently have any intention of paying cash dividends on its common stock.

Optex Systems Holdings has granted stock options to officers and employees as follows:

| Date of Grant | Shares Granted | Exercise Price | Shares Outstanding As of 10/02/11 | Expiration Date | Vesting Date |
|---------------|------------------|----------------|-----------------------------------|-----------------|--------------|
| 03/30/09 | 480,981 | \$ 0.15 | 480,981 | 03/29/2016 | 03/30/2010 |
| 03/30/09 | 466,834 | \$ 0.15 | 466,834 | 03/29/2016 | 03/30/2011 |
| 03/30/09 | 466,834 | \$ 0.15 | 466,834 | 03/29/2016 | 03/30/2012 |
| 05/14/09 | 316,750 | \$ 0.15 | 278,250 | 05/13/2016 | 05/14/2010 |
| 05/14/09 | 316,750 | \$ 0.15 | 278,250 | 05/13/2016 | 05/14/2011 |
| 05/14/09 | 316,750 | \$ 0.15 | 278,250 | 05/13/2016 | 05/14/2012 |
| 05/14/09 | 316,750 | \$ 0.15 | 278,250 | 05/13/2016 | 05/14/2013 |
| Total | 2,681,649 | | 2,527,649 | | |

The following table summarizes the status of Optex Systems Holdings' aggregate stock options granted under the incentive stock option plan:

| Subject to Exercise | Number of Shares Remaining Options | Weighted Average Intrinsic Price | Weighted Average Life (Years) | Aggregate Value |
|---|------------------------------------|----------------------------------|-------------------------------|-----------------|
| Outstanding as of September 30, 2009 | 2,667,649 | 0.21 | 5.14 | 560,206 |
| Granted – 2010 | — | — | — | — |
| Forfeited – 2010 | (69,000) | — | — | — |
| Exercised – 2010 | — | — | — | — |
| Outstanding as of October 3, 2010 | 2,598,649 | \$ - | 4.13 | - |
| Granted – 2011 | — | \$ — | — | — |
| Forfeited – 2011 | (71,000) | \$ — | — | — |
| Exercised – 2011 | — | \$ — | — | — |
| Outstanding as of October 2, 2011 | 2,527,649 | \$ — | 3.38 | — |
| Exercisable as of October 3, 2010 | 776,981 | — | — | — |
| Exercisable as of October 2, 2011 | 1,504,315 | \$ — | — | \$ — |

There were no new options granted or exercised during the year ended October 2, 2011. The total intrinsic value of options forfeited during the year ended October 2, 2011 was \$0.

The following table summarizes the status of Optex Systems Holdings' aggregate non-vested shares granted under the 2009 Stock Option Plan.:

| | Number of Non- vested Shares Subject to Options | Weighted- Average Grant- Date Fair Value |
|---|--|--|
| Non-vested as of September 30, 2009 | 2,667,649 | \$ 0.14 |
| Non-vested granted — year ended October 2, 2011 | — | \$ 0.00 |
| Vested — year ended October 3, 2010 | (776,981) | \$ 0.12 |
| Forfeited — year ended October 3, 2010 | (69,000) | \$ 0.15 |
| Non-vested as of October 3, 2010 | 1,821,668 | \$ 0.15 |
| Non-vested granted — year ended October 2, 2011 | — | \$ 0.00 |
| Vested — year ended October 2, 2011 | (727,334) | \$ 0.12 |
| Forfeited — year ended October 2, 2011 | (71,000) | \$ 0.15 |
| Non-vested as of October 2, 2011 | 1,023,334 | \$ 0.15 |

The total share-based compensation expense of Optex Systems Holdings, Inc during fiscal years 2011 and 2010 attributable to the stock option grants was \$87 thousand and \$97 thousand, respectively, and was charged as general and administrative compensation expense for each of the respective fiscal years. As of October 2, 2011, the unrecognized compensation cost related to non-vested share based compensation arrangements granted under the plan was approximately \$125 thousand. These costs are expected to be recognized on a straight line basis from March 30, 2009 through May 13, 2013. The total fair value of options and shares vested during the year ended October 2, 2011 was \$179 thousand.

There were no stock options issued to Optex Systems Holdings employees or equity instruments issued to consultants and vendors in fiscal years 2010 and 2011. See subsequent events.

Warrant Agreements: Optex Systems Holdings calculates the fair value of warrants issued with debt or preferred stock using the Black-Scholes-Merton valuation method. The total proceeds received in the sale of debt or preferred stock and related warrants are allocated among these financial instruments based on their relative fair values. The discount arising from assigning a portion of the total proceeds to the warrants issued is recognized as interest expense for debt from the date of issuance to the earlier of the maturity date of the debt or the conversion dates using the effective yield method.

As of October 2, 2011, Optex Systems Holdings had the following warrants outstanding:

| | Grant Date | Warrants Granted | Exercise Price | Outstanding as of 10/03/10 | Expiration Date | Term |
|--|------------|---------------------|-------------------|-------------------------------|--------------------|---------|
| Private Placement Stock Holders | 3/30/2009 | 8,131,667 | \$ 0.450 | 8,131,667 | 3/29/2014 | 5 years |
| Finder Fee on Private Placement | 3/30/2009 | 717,000 | \$ 0.165 | 717,000 | 3/29/2014 | 5 years |
| Longview Fund Allonge Agreement | 1/5/2010 | 100,000 | \$ 0.150 | 100,000 | 1/4/2013 | 3 years |
| Peninsula Bank Business Funding - Line of Credit | 3/4/2010 | 1,000,000 | \$ 0.100 | 1,000,000 | 3/3/2016 | 6 years |
| Total Warrants | | 9,948,667 | | 9,948,667 | | |

During the periods ended October 2, 2011 and October 3, 2010, Optex Systems Holdings recorded a total of \$19.5 thousand and \$12.5 thousand in interest expense related to the outstanding warrants and has an unamortized interest balance of zero as of October 2, 2011. These warrants are not included in the computation of weighted average of shares as it would be anti-dilutive.

Note 11 – Stockholders Equity

Common stock:

During the years ended October 2, 2011 and October 3, 2010 there were no new issues of common or preferred stock.

On April 14, 2011, pursuant to a Written Consent in Lieu of a Meeting of Shareholders, Sileas Corporation, holder of approximately 73.3% of the Company's Common Stock, approved an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of its Common Stock from 200,000,000 to 2,000,000,000. This Written Consent is the subject of a Schedule 14C Information Statement filed with the Securities and Exchange Commission on April 18, 2011, which is

currently pending.

On April 14, 2011 Optex filed a Registration Statement on Form S-1 which provides for the sale of up to 25,000,000 shares of our common stock at a fixed price (currently anticipated to be \$0.01 per share), which will trigger the ratchet provision of the Series A preferred stock and reduce the conversion price to \$.01 per share. The S-1 also contemplates a reduction in the warrant exercise price to \$0.01 per share for the 2009 private placement investors and a waiver of accrued dividends from the Series A preferred shareholders. The Registration Statement on Form S-1 is currently in the review process with the Commission

Series A preferred stock

Optex Systems Holdings has filed a Certificate of Designation with the Secretary of State of the State of Delaware authorizing a series of preferred stock, under its articles of incorporation, known as "Series A preferred stock". The Certificate of Designation sets forth the following terms for the Series A preferred stock: (i) number of authorized shares: 1,027; (ii) per share stated value: \$6,000; (iii) liquidation preference per share: stated value; (iv) conversion price: \$0.15 per share as adjusted from time to time; and (v) voting rights: votes along with the common stock on an as converted basis with one vote per share.

The Series A preferred stock entitles the holders to receive cumulative dividends at the rate of 6% per annum, payable in cash at the discretion of Board of Directors. Each share of preferred stock is immediately convertible into common shares at the option of the holder which entitles the holder to receive the equivalent number of common shares equal to the stated value of the preferred shares divided by the conversion price, which was initially set at \$0.15 per share.

Holders of preferred shares receive preferential rights in the event of liquidation. Additionally the preferred stock shareholders are entitled to vote together with the common stock on an "as-converted" basis.

As of July 3, 2011, the preferred shareholders agreed to waive the past dividends in arrears through July 3, 2011 of \$884 thousand in exchange for an increase in the stated value to \$6,830.64. According to the agreement, future dividends related to the preferred shares were also to be waived pending approval of the S1- filing . As of the year ended October 2, 2011 Optex Systems Holdings has recorded \$106 thousand of dividends payable on Series A preferred shares pending approval of the S1 filing.

Note 12 - Income Taxes

The income tax provisions as of October 2, 2011 and October 3, 2010 include the following:

| | <u>2011</u> | <u>2010</u> |
|---|-----------------|-----------------|
| Current income tax expense: | | |
| Federal | \$ - | \$ (33) |
| State | | - |
| | <u>\$ -</u> | <u>\$ (33)</u> |
| Deferred income tax provision (benefit): | | |
| Federal | 18 | (3,373) |
| State | | - |
| Change in valuation allowance | (605) | 3,091 |
| | <u>\$ (587)</u> | <u>\$ (282)</u> |
| Provision for (Benefit from) income taxes, net | <u>\$ (587)</u> | <u>\$ (315)</u> |

The current income tax expense for period ending October 3, 2010 relates to changes in the actual income tax return filed in June 2010, for tax year ending September 30, 2009 as compared to the estimated taxes as of September 30, 2009.

The income tax provision for Optex Systems as of October 2, 2011 differs from those computed using the statutory federal tax rate of 34%, due to the following permanent differences:

| | <u>2011</u> | <u>%</u> | <u>2010</u> | <u>%</u> |
|---------------------------------------|-----------------|------------------|-----------------|-------------|
| Tax benefit at statutory federal rate | \$ 1 | 34% | \$ (3,375) | 34% |
| Change in valuation and other | (588) | (14,647)% | 3,060 | (30.7)% |
| | <u>\$ (587)</u> | <u>(14,613)%</u> | <u>\$ (315)</u> | <u>3.3%</u> |

Deferred income taxes recorded in the balance sheets results from differences between financial statement and tax reporting of income and deductions. A summary of the composition of the deferred income tax assets (liabilities) follows:

| | Deferred Tax Asset - Long Term | |
|--|---------------------------------------|--------------------------------------|
| | As of October 2, 2011 | As of October 3, 2010 |
| | <u></u> | <u></u> |
| Stock Options | \$ 76 | \$ 47 |
| Inventory Reserve | 27 | (84) |
| Unicap | 28 | 40 |
| Contract Loss Reserve | (280) | 182 |
| Fixed assets | (16) | (37) |
| Goodwill Amortization | 2,095 | 2,256 |
| Intangible Asset Amortization | 1,098 | 1,189 |
| Net Operating Losses | 722 | 177 |
| Other | (60) | (62) |
| Subtotal | <u>\$ 3,690</u> | <u>\$ 3,708</u> |
| Valuation allowance | <u>(2,486)</u> | <u>(3,091)</u> |
| Net deferred asset (liability)-long term | <u>\$ 1,204</u> | <u>\$ 617</u> |

As of October 2, 2011, the Company has a net operating loss of approximately \$2,122,000 as compared to a net loss carryforwards of \$520,000 available as of October 3, 2010.

As the result of the assessment of the FASB ASC 740-10, Optex Systems Holdings has no unrecognized tax benefits. By statute, the tax years ending in October 2, 2011, October 3, 2010 and September 27, 2009 are open to examination by the major taxing jurisdictions to which the Optex Systems Holdings is subject.

The cash refund for income taxes for the fiscal years ended October 2, 2011 was \$376 thousand and the cash paid for income taxes for the fiscal year ended October 3, 2010 was \$120 thousand.. As of October 3, 2010 Optex Systems Holdings other assets included \$214,521 of overpaid income taxes from estimated quarterly deposits which was refunded in fiscal year 2011.

Note 13 — Defined Contribution Plan

The Company sponsors a defined contribution pension plan under Section 401(k) of the Internal Revenue Code for all employees. Company contributions are voluntary and at the discretion of the Board of Directors. The Company's contribution expense for the both the fiscal years ended October 2, 2011, and October 3, 2010 was zero.

Note 14 — Subsequent Events

Optex Systems Holdings adopted its 2009 Stock Option Plan on March 26, 2009. On December 9, 2011, Optex Systems Holdings, Inc Board of Directors authorized an amendment to its Stock Option Plan to increase the number of issuable shares from 6,000,000 to 50,000,000 and authorized the grant of 10,000,000 options to two board members and a total of 36,070,000 to Optex Systems Holdings employees including 20,000,000 options to executive officers, at an exercise price of \$0.01 per share with each grant to vest 25% per year over four years for each year with which the grantee is still employed by or serving as a director of Optex Systems Holdings, Inc. (with all unvested options automatically expiring on the date of termination of employment by or service as a director of Optex Systems Holdings, Inc.) and all unvested options immediately vesting upon a change of control due to a merger or acquisition of the Company, with the options to be issued within 60 days of December 9, 2011.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of October 2, 2011, management performed, with the participation of our Principal Executive Officer and Principal Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the report we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's forms, and that such information is accumulated and communicated to our management including our Principal Executive Officer and our Principal Financial Officer, to allow timely decisions regarding required disclosures. Based on the evaluation, our Principal Executive Officer and our Principal Financial Officer concluded that, as of October 2, 2011, our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has conducted, with the participation of our Principal Executive Officer and our Principal Financial Officer, an assessment, including testing of the effectiveness, of our internal control over financial reporting as of October 2, 2011. Management's assessment of internal control over financial reporting was conducted using the criteria in *Internal Control over Financial Reporting - Guidance for Smaller Public Companies* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In connection with our management's assessment of our internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002, we have not identified any material weaknesses in our internal control over financial reporting as of October 2, 2011. We have thus concluded that our internal control over financial reporting was effective as of October 2, 2011.

PART III

Item 10 Directors, Executive Officers and Corporate Governance

MANAGEMENT

Our board of directors directs the management of the business and affairs of our company as provided in our certificate of incorporation, our by-laws and the General Corporation Law of Delaware. Members of our board of directors keep informed about our business through discussions with senior management, by reviewing analyses and reports sent to them, and by participating in board and committee meetings.

Our Company is led by Stanley A. Hirschman, who has served as President since 2009 and by Ronald F. Richards who has served as Chairman of our Board since 2009. Our board of directors consists of three directors. The board has an inactive audit committee, as further discussed below, and has no other committees due to its small size.

Our board leadership structure is used by other smaller public companies in the United States, and we believe that this leadership structure is effective for us. We believe that having a separate President (principal executive officer) and Chairman is the correct form of leadership for Optex Systems Holdings. We believe that due to our small size bifurcating the leadership role provides for a second point of view and oversight rather than consolidating the role in one individual, who is also tasked with the day to day affairs of Optex Systems Holdings. We believe that our directors provide effective oversight of the risk management function, especially through dialogue between the full board and our management.

We do not currently consider diversity in identifying nominees for director. Due to our small size, the priority has been in attracting qualified directors, and issues such as diversity have not yet been considered.

Directors and Executive Officers

The following table sets forth information regarding the members of our board of directors and our executive officers and other significant employees. All of our current officers and directors were appointed on March 30, 2009, the closing date of the reorganization.

The following table sets forth certain information with respect to the directors and executive officers of Optex Systems Holdings:

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|----------------------|------------|--|
| Stanley A. Hirschman | 65 | President, Secretary, Treasurer & Director |
| Merrick D. Okamoto | 50 | Director |
| Ronald F. Richards | 45 | Chairman of the Board |
| Danny Schoening | 46 | Chief Operating Officer |
| Karen L. Hawkins | 46 | Vice President of Finance and Controller |

Stanley A. Hirschman. Mr. Hirschman served as a Director and President of Optex Systems, Inc. (Delaware) since September 28, 2008 and assumed the same roles on behalf of Optex Systems Holdings on March 30, 2009, in which roles he is committed to providing Optex his management experience and provides direction and oversight of other executive officers and management. From 1997 to 2009, he was president of CPointe Associates, Inc., a Plano, Texas consulting group, and provided consulting services to small and medium sized companies. As of October 2009, in order to meet his responsibilities at Optex, he concluded his active role at CPointe. Additionally, since February 2009 he has been the majority beneficial owner of Sileas Corp (which has no active business), the majority shareholder of Optex Systems Holdings. During the past five years, Mr. Hirschman has also sat on the following Boards: Goldspring, Inc., Bravo Brands, 5G Wireless Communications, Axion Power International, Inc., SVI Media, Inc., Bronco Energy, Energy + Engine Technology, Dalrada Financial, Datasension, iWorld Projects & Systems, Inc. and South Texas Oil. Prior to establishing CPointe Associates, he was Vice President Operations, Software Etc., Inc., a 396 retail store software chain, from 1989 until 1996. He has also held executive positions with T.J. Maxx, Gap Stores and Banana Republic. Mr. Hirschman is a member of the National Association of Corporate Directors, regularly participates in the KMPG Audit Committee Institute and is a graduate of the Harvard Business School Audit Committees in the New Era of Governance symposium. He is active in community affairs and serves on the Advisory Board of the Salvation Army Adult Rehabilitation Centers.

Merrick D. Okamoto. Mr. Okamoto served as a Director of Optex Systems, Inc. (Delaware) since October 2008 and has served as a Director of Optex Systems Holdings since March 30, 2009. In 2001, Mr. Okamoto co-founded Viking Asset Management, LLC and is the President and a Managing Member. Viking Asset Management is the investment advisor to Longview Fund, LP and Longview Fund International, Ltd. Limited partners in Viking's family of funds are comprised of institutions, private banks, family offices and high net worth individuals from around the world. Mr. Okamoto has completed financings for hundreds of public and private companies across a broad array of industries and sectors. In 1998, Mr. Okamoto co-founded and was the President of TradePortal.com, Inc. TradePortal.com, Inc. is a software development company and its wholly owned subsidiary, TradePortal Securities, Inc., a direct access execution brokerage firm. Mr. Okamoto was instrumental in developing the proprietary Trade Matrix™ software platform. In 2000, TradePortal.com, Inc. sold a minority stake to Thomson Reuters (TRI:NYSE), a US \$12 billion revenue company. In 1995, he founded First Stage Capital, Inc. which specializes in consulting to public and private companies. From 1983 to 1994, he was employed in the securities industry with Shearson Lehman Brothers, Prudential Securities and Paine Webber. Mr. Okamoto is widely recognized as an advanced trader specializing in short-term trading and has more than 25 years of extensive experience in technical market analysis techniques and has been a frequent speaker at national trading venues. From 1987 to 1990, he created and hosted the television program, The Income Report in Los Angeles. He has also appeared on CNN and The MacNeil-Lehrer Report.

Ronald F. Richards. Mr. Richards has served as a Director of Optex Systems, Inc. (Delaware) since October 2008 and has served as a Director of Optex Systems Holdings since March 30, 2009, as well as the Chairman of the Board of Optex Systems Holdings. Mr. Richards is Managing Director and Head of Strategic Business Advisory Services for Merriman Capital, Inc., a full-service investment banking firm focused on high growth companies. He is also the founder and Managing Director of Gray Wolf Partners, LLC, a strategic and financial advisory firm. From February 2007 to October 2008, he served as a Managing Director of Viking Asset Management, LLC where his responsibilities included: (i) sourcing, conducting due diligence, and structuring potential investment opportunities and (ii) working with portfolio companies to enhance shareholder value. He previously served as Chief Financial Officer and Senior Vice President, Business Development of Biopure Corporation, a publicly traded biotechnology company developing oxygen therapeutics and as a Managing Director, Corporate Finance of Wells Fargo Van Kasper from 1994 to 2001. Mr. Richards has over 23 years of experience working with public and private companies in the areas of investment banking, corporate finance, law and accounting. He has structured and executed numerous public offerings and private placements raising a total of more than \$660 million. He also co-authored *PIPES: A CEO's Guide to Successful Private Placements in Public Equities*. Mr. Richards holds JD, MBA and BA degrees from UCLA. He is a member of the State Bar of California and a retired Certified Public Accountant.

Danny Schoening. Mr. Schoening joined Optex Systems, Inc. (Texas) in January 2008. Upon the acquisition of the assets of Optex Systems, Inc. (Texas) by Optex Systems, Inc. (Delaware), Mr. Schoening became the COO of Optex Systems, Inc. (Delaware) (as of September 28, 2008) and he commenced service with Optex Systems Holdings as its Chief Operating Officer as of the date of the reorganization, March 30, 2009. He has been instrumental in establishing the systems and infrastructure required to continue Optex System's rapid growth. This activity was rewarded with Optex System's recent ISO9001:2000 Certification. From February 2004 to January 2008, Danny was the Vice President of Operations for The Finisar Corporation AOC Division for 4 years where he led a team of up to 200 employees to produce vertical cavity lasers for the data communications industry at production rates of hundreds of thousands of units per week. Prior to Finisar, Danny was the Director of Operations for multiple divisions of Honeywell International. Serving the Automotive, Medical, Aerospace, and Consumer Commercial Markets. During this 17 year period, Danny was recognized with Honeywell's Lund Award, their highest award for developing employee resources. Danny has a broad experience level in the following technologies: Mechanical Assembly Processes, Micro-Electronic Assembly Processes, Laser Manufacturing, Plastic Molding, Metal Machining, Plating, Thick Film Printing, Surface Mount Technology, Hall Effect Technology and MEMS based Pressure Devices. Danny received a Bachelors of Science in Manufacturing Engineering Technology from the University of Nebraska, an MBA from Southern Methodist University, and holds three U.S. patents.

Karen L. Hawkins. Ms. Hawkins has served Optex Systems Holdings as its Vice President, Finance and Controller, since the date of the reorganization, March 30, 2009 and was the controller of Optex Systems, Inc. (Delaware), effective September 28, 2009. She began her employment with Optex Systems, Inc. (Texas) in April 2007. Ms. Hawkins is a Certified Public Accountant since 1992 with over 24 years experience in Financial Accounting and Management, primarily focused in the Defense and Transportation Industries. She has a strong background in both Financial & Cost Accounting, with extensive Government Pricing, Financial Analysis, and Internal Auditing experience. Her past history also includes Program Management, Materials Management and Business Development. She brings over 16 years direct experience in Government Contracting with a strong knowledge of Cost Accounting Standards Board and Federal Acquisition Regulation. Her previous employment includes General Dynamics – Ordinance and Tactical Division, Garland (formerly known as Intercontinental Manufacturing) for over 13 years from November, 1994 through March, 2007. During her tenure there she served in the roles of Controller (Accounting & IT), Program Manager over a \$250M 3 year Army Indefinite Delivery/Indefinite Quantity (Indefinite Delivery/Indefinite Quantity) type contract, as well as Materials Manager with oversight of Purchasing, Production Control & Warehousing functions. Prior to her employment at General Dynamics, Ms. Hawkins served in various finance and accounting positions at Luminator, a Mark IV Industries Co, and Johnson Controls, Battery Division - Garland. Karen received her Bachelor's Degree in Business Administration in Accounting from Stephen F. Austin State University in Texas in 1986.

Family Relationships

There are no family relationships among the officers and directors.

Presiding Director

Our Chairman, Ronald F. Richards, acts as the presiding director at meetings of our board of directors. In the event that Mr. Richards is unavailable to serve at a particular meeting, responsibility for the presiding director function will rotate among the chairmen of each of the committees of our board of directors.

Corporate Governance

Our board of directors believes that sound governance practices and policies provide an important framework to assist them in fulfilling their duty to stockholders. Our board of directors is working to adopt and implement many "best practices" in the area of corporate governance, including annual review of constitution of separate committees for the areas of audit and compensation, maintenance of a majority of independent directors, and written expectations of management and directors, among other things. In 2010, all directors attended 75% of our meetings of the board of directors.

Code of Ethics

Our board of directors has adopted a Code of Ethics which has been distributed to all directors, and executive officers, and will be distributed to employees and will be given to new employees at the time of hire. The Financial Code of Ethics contains a number of provisions that apply principally to our Principal Executive Officer, Principal Financial Officer and other key accounting and financial personnel. A copy of our Code of Business Conduct and Ethics can be found under the "Investor Relations" section of our website (www.optexsys.com) under the section for corporate governance. We also intend to disclose any amendments or waivers of our Code on our website.

Board and Committee Meetings

We are incorporated under the laws of the State of Delaware. The interests of our stockholders are represented by the board of directors, which oversees our business and management.

The board of directors meets regularly during the year and holds special meetings and acts by unanimous written consent whenever circumstances require. The board held 2 meetings (including special meetings) and took action by unanimous written consent 1 time during our fiscal year ended October 2, 2011.

If the board of directors convenes a special meeting, the non-management directors meet in executive session if circumstances warrant.

Board Committees

At this time, the board of directors currently has an inactive audit committee which did not meet in fiscal year 2011, of which Ronald F. Richards is the sole member, and we do not have a formal charter at this time due to the size of the Committee but intend to adopt one at a future date.

Board nominations

Stockholders wishing to bring a nomination for a director candidate before a stockholders meeting must give written notice to our Corporate Secretary, either by personal delivery or by United States mail, postage prepaid. The stockholder's notice must be received by the Corporate Secretary not later than (a) with respect to an Annual Meeting of Stockholders, 90 days prior to the anniversary date of the immediately preceding annual meeting, and (b) with respect to a special meeting of stockholders for the election of directors, the close of business on the tenth day following the date on which notice of the meeting is first given to stockholders. The stockholder's notice must set forth all information relating to each person whom the stockholder proposes to nominate that is required to be disclosed under applicable rules and regulations of the SEC, including the written consent of the person proposed to be nominated to being named in the proxy statement as a nominee and to serving as a director if elected. The stockholder's notice must also set forth as to the stockholder making the nomination (i) the name and address of the stockholder, (ii) the number of shares held by the stockholder, (iii) a representation that the stockholder is a holder of record of stock of the Optex Systems Holdings, entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to nominate the person named in the notice, and (iv) a description of all arrangements or understandings between the stockholder and each nominee.

Stockholder Communications with the Board of Directors

Stockholders may communicate directly with the board of directors or any board member by writing to them at Optex Systems Holdings, Inc., 1420 Presidential Drive, Richardson, TX 75081. The outside of the envelope should prominently indicate that the correspondence is intended for the board of directors or for a specific director. The secretary will forward all such written communications to the director to whom it is addressed or, if no director is specified, to the entire board of directors.

Director Attendance at Annual Meetings of Stockholders

Directors are encouraged to attend annual meetings, although such attendance is not required.

Board Independence

Our board of directors has determined that one of our directors would meet the independence requirements of the American Stock Exchange, if such standards applied to the Company. In the judgment of the board of directors, Mr. Hirschman and Mr. Okamoto do not meet such independence standards. In reaching its conclusions, the board of directors considered all relevant facts and circumstances with respect to any direct or indirect relationships between the Company and each of the directors, including those discussed under the caption "Certain Relationships and Related Transactions" below. Our board of directors determined that any relationships that exist or existed in the past between the Company and each of the independent directors were immaterial on the basis of the information set forth in the above-referenced sections.

Director Compensation

See table below under “Executive Compensation – Director Compensation.”

Item 11 Executive Compensation

The board of directors administers our option compensation plan. Our Principal Executive Officer and other members of management regularly discuss our compensation issues with the Board of Directors. Subject to Board review, modification and approval, Mr. Hirschman typically makes recommendations respecting bonuses and equity incentive awards for the other members of the executive management team. The Board establishes all bonus and equity incentive awards for Mr. Hirschman in consultation with other members of the management team.

Summary Compensation Table

The following table sets forth, for the years indicated, all compensation paid, distributed or accrued for services, including salary and bonus amounts, rendered in all capacities by Optex Systems Holdings’ principal executive officer, principal financial officer and all other executive officers who received or are entitled to receive remuneration in excess of \$100,000 during the stated periods. These officers are referred to herein as the “named executive officers.” Except as provided below, none of our executive officers received annual compensation in excess of \$100,000 during the last two fiscal years.

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) (2) | All Other Compensation (\$) (1,4) | Total (\$) |
|---|----------|-------------|------------|-------------------|---------------------------|--------------------------------------|------------|
| Stanley A. Hirschman, President | 2011 | \$ 84,836 | \$ 225 | \$ - | \$ - | \$ - | \$ 85,061 |
| | 2010 (3) | 51,000 | - | - | - | 16,650 | 67,650 |
| | 2009 (1) | - | - | - | - | 25,000 | 25,000 |
| Danny Schoening, COO | 2011 | \$ 210,184 | \$ 300 | \$ 0 | \$ 21,177 | \$ - | \$ 231,661 |
| | 2010 | 196,574 | 57,300 | - | 21,584 | 15,524 | 290,982 |
| | 2009 | 182,932 | 11,000 | - | 10,588 | - | 204,520 |
| Karen Hawkins, VP Finance / Controller | 2011 | \$ 149,294 | \$ 7,694 | \$ - | \$ 12,991 | \$ - | \$ 169,979 |
| | 2010 | 146,575 | 7,450 | - | 14,854 | 6,041 | 174,920 |
| | 2009 | 133,647 | 7,271 | - | 5,516 | - | 146,434 |

- 1 *Mr. Hirschman’s compensation in 2009 consisted solely of Director’s Fees. He received no additional compensation.*
- 2 *The amounts in the “Option awards” column reflect the dollar amounts recognized as the executive portion of compensation expense for financial statement reporting purposes for each named executive officer during fiscal 2009 and fiscal 2010, as required by FASB ASC 718 (prior authoritative literature SFAS 123(R), disregarding any estimates for forfeitures relating to service-based vesting conditions. For the assumptions relating to these valuations, see note 12 to our fiscal 2009 audited financial statements.*
- 3 *This includes director fees paid through January 2010 of \$10,000, listed as “Other”. Commencing February 1, 2010 Stanley Hirschman was paid a salary for which he received \$51,000 in 2010, which is listed as “Salary”.*
- 4 *Other compensation in 2010 includes employee and dependant medical insurance benefits offered as part of executive compensation. This benefit was discontinued in at the beginning of 2011.*

Option Grants in Last Fiscal Year

There were no plan based awards made to our named executive officers during the fiscal year ended October 2, 2011.

Employment Agreement

Optex Systems Holdings entered into an employment agreement with Danny Schoening dated December 1, 2008. The term of the agreement commenced as of December 1, 2008 and the current term would have expired on December 1, 2011, but has automatically renewed through May 1, 2013. The term of the agreement shall be automatically extended for successive 18 month periods, unless Optex Systems Holdings shall provide a written notice of termination at least ninety (90) days, or the Mr. Schoening shall provide a written notice of termination at least 90 days, prior to the end of the initial term or any extended term, as applicable. During the first eighteen months of the term of the agreement, Optex Systems Holdings paid to Schoening a base salary at the annual rate of \$190,000, and his base salary for the first renewal term has continued at the same rate. On December 9, 2011, the Board of Directors of Optex Systems Holdings authorized a six percent increase in Schoening's base salary effective January 1, 2012. Schoening was paid a one-time bonus of \$10,000 at the commencement of the employment agreement in December 2008 and was granted 1,414,649 options to purchase common stock of Optex Systems Holdings at an exercise price of \$0.15 per share at the time of the closing of the reorganization.

On each subsequent renewal date of the commencement of employment, Schoening's base salary shall be reviewed by the Board and may be increased to such rate as the Board, in its sole discretion, may hereafter from time to time determine. During the term of the agreement, Schoening shall be entitled to receive bonuses of up to 30% of his base salary per year at the discretion of Optex Systems Holdings' Board of Directors pursuant to performance objectives to be determined by the Board of Directors. Any bonuses shall be payable in cash and shall be paid within ninety (90) days of any year anniversary of the date of the agreement. Upon closing of the reorganization, Optex Systems Holdings granted Schoening stock options equal to 1% of the issued and outstanding shares of Optex Systems Holdings immediately after giving effect to the reorganization, with 34% of the options having vested on March 30, 2010, and 33% of the options having vested on March 31, 2011 and 33% of the options vesting on March 31, 2012.

The employment agreement events of termination thereof: (i) death of Mr. Schoening; (ii) termination by Optex Systems Holdings for cause (including conviction of a felony, commission of fraudulent acts, willful misconduct by Mr. Schoening, continued failure to perform duties after written notice, violation of securities laws and breach of the employment agreement), (iii) termination without cause by Optex Systems Holdings and (iv) termination by Mr. Schoening for good reason (including breach by Optex Systems Holdings of its obligations under the agreement, the requirement for Mr. Schoening to move more than 100 miles away for his employment without consent, and merger or consolidation that results in more than 66% of the combined voting power of the then outstanding securities of Optex Systems Holdings or its successor changing ownership or a sale of all or substantially all of Optex Systems Holdings' assets, without the surviving entity assuming the obligations under the agreement). For a termination by Optex Systems Holdings for cause or upon death of Mr. Schoening, Mr. Schoening shall be paid salary and bonus earned through the date of termination. For a termination by Optex Systems Holdings without cause or by Mr. Schoening with good reason, Mr. Schoening shall also be paid six months base salary in effect and all granted stock options shall remain exercisable for a period of two years after such termination, with all unvested stock options immediately vesting. The agreement contains a standard non-solicitation and non-compete agreement that extends for one year subsequent to termination thereof.

Optex Systems Holdings does not have any other employment agreements with its executive officers and directors.

Equity Compensation Plan Information

Optex Systems Holdings currently has an option compensation plan covering the issuance of options for the purchase of up to 50,000,000 shares, which was increased from 6,000,000 shares. The purpose of the Plan is to assist Optex Systems Holdings in attracting and retaining highly competent employees and to act as an incentive in motivating selected officers and other employees of Optex Systems Holdings and its subsidiaries, and directors and consultants of Optex Systems Holdings and its subsidiaries, to achieve long-term corporate objectives. There are 50,000,000 shares of common stock reserved for issuance under this Plan. As of October 2, 2011, Optex Systems Holdings had issued 2,681,649 share options under this Plan of which 1,504,315 shares had vested as of October 2, 2011. These options represent potential future cash proceeds to our company of \$379,147. The outstanding options include 1,504,315 options that are currently vested and exercisable, and no additional options that will become vested and exercisable within 60 days, and represent potential future cash proceeds to our company of \$225,647. The remaining options will vest and become exercisable over the next two years. The following table provides summary information on our outstanding options.

| | Vested Option Grants | | | Unvested Option Grants | | |
|---|----------------------|----------------|-------------------|------------------------|----------------|-------------------|
| | Shares | Price | Proceeds | Shares | Price | Proceeds |
| 2009 Employee & officer plan options | 1,504,315 | \$ 0.15 | \$ 225,647 | 1,023,334 | \$.015 | \$ 153,500 |
| Directors plan options | — | — | — | — | — | — |
| Non-plan options to consultants and employees | — | — | — | — | — | — |
| Total | 1,504,315 | \$ 0.15 | \$ 225,647 | 1,023,334 | \$.015 | \$ 153,500 |

The holders of options are not required to exercise their rights at any time and we are unable to predict the amount and timing of any future option exercises. We reserve the right to temporarily reduce the exercise prices of our options from time to time in order to encourage the early exercise of the options.

Outstanding Equity Awards as of October 2, 2011

| Name | Option Awards | | | | | | Footnotes |
|-----------------|---|-----------------|------------------------------|----------------|-----------------|-----|-----------|
| | Number of shares underlying unexercised options | | | | | | |
| | Non-Plan | | Equity Incentive Plan Awards | | Expiration Date | | |
| | # Exercisable | # Unexercisable | Total Granted | Exercise Price | | | |
| Danny Schoening | 947,815 | 466,834 | 1,414,649 | 0.15 | 3/29/2016 | (1) | |
| Karen Hawkins | 125,000 | 125,000 | 250,000 | 0.15 | 5/13/2016 | (2) | |

- (1) Options granted on March 30, 2009 pursuant to employment agreement and reverse Merger. Shares vest over 3 years at a rate of 34%, 33% and 33% for each respective anniversary date subsequent to 2009 and expire after seven years. As of October 3, 2010 480,981 of the options had vested.
- (2) Options granted on May 14, 2009 pursuant to employee stock option compensation plan. Shares vest over 4 years at a rate of 25% per year each respective anniversary date subsequent to 2009 and expire after seven years. As of October 2, 2011 62,500 and 125,000 of the options had vested, respectively.

Nonqualified deferred compensation

We had no non-qualified deferred compensation plans during year ended October 2, 2011.

Director Compensation

The following table provides information regarding compensation paid to directors for services rendered during the year ended October 2, 2011.

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|--------------------------|----------------------------------|-------------------|--------------------|---|--|-----------------------------|------------|
| Ronald F. Richards (1) | \$ 120,000 | — | — | — | — | — | \$ 120,000 |
| Stanley A. Hirschman (2) | — | — | — | — | — | — | — |
| Merrick Okamoto (3) | — | — | — | — | — | — | — |

- (1) Director Fees paid monthly from October 2010 through September 2011. Mr. Richards is paid \$2,500 monthly as an Independent Director, \$2,500 monthly for serving as Chairman of the Audit Committee, and \$5,000 monthly for serving as Chairman of the Board of Directors.
- (2) Effective as of February 1, 2010, director fees to Mr. Hirschman were discontinued. Mr. Hirschman was paid a direct salary from Optex Systems Holdings for all of 2011.
- (3) Mr. Okamoto serves as a non-independent director and did not earn directors fees in fiscal year 2011.

The members of our board of directors are actively involved in various aspects of our business ranging from relatively narrow board oversight functions to providing hands-on guidance to our executives and scientific staff with respect to matters within their personal experience and expertise. We believe that the active involvement of all directors in our principal business and policy decisions increases our board of directors' understanding of our needs and improves the overall quality of our management decisions.

With the exception of Mr. Hirschman, our directors are compensated separately for service as members of our board of directors. As of February 1, 2010, Mr. Hirschman was paid a salary from Optex Systems Holdings as disclosed in the executive compensation table above.

Nonqualified deferred compensation

We had no non-qualified deferred compensation plans during year ended October 2, 2011.

Post-Termination Compensation

We have not entered into change in control agreements with any of our named executive officers or other members of the executive management team other than the provision with respect to Mr. Schoening described above. No awards of equity incentives under our 2009 Stock Option Plan provide for immediate vesting upon a change in control. However, our Board of Directors has the full and exclusive power to interpret the plans, including the power to accelerate the vesting of outstanding, unvested awards. A "change in control" is generally defined as (1) the acquisition by any person of 66% or more of the combined voting power of our outstanding securities or (2) the occurrence of a transaction requiring stockholder approval and involving the sale of all or substantially all of our assets or the merger of us with or into another corporation.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

On December 8, 2011, we had 139,444,940 shares of common stock, and 1,027 shares of Series A preferred stock issued and outstanding. The following table sets forth certain information with respect to the beneficial ownership of our securities as of December 8, 2011, for (i) each of our directors and executive officers; (ii) all of our directors and executive officers as a group; and (iii) each person who we know beneficially owns more than 5% of our common stock.

Beneficial ownership data in the table has been calculated based on Commission rules that require us to identify all securities that are exercisable for or convertible into shares of our common stock within 60 days of August 29, 2011 and treat the underlying stock as outstanding for the purpose of computing the percentage of ownership of the holder.

Except as indicated by the footnotes following the table, and subject to applicable community property laws, each person identified in the table possesses sole voting and investment power with respect to all capital stock held by that person. The address of each named executive officer and director, unless indicated otherwise by footnote, is c/o Optex Systems Holdings' corporate headquarters.

Except as otherwise set forth below, the address of each of the persons listed below is Optex Systems Holdings' address.

| Title of Class | Name of Beneficial Owner | Number of Shares | Preferred Conversion (4) | Combined Ownership | Percentage of Outstanding Shares | Preferred Conversion (10) | Combined Ownership | Percentage of Outstanding Shares |
|---|---------------------------------|-------------------------|---------------------------------|---------------------------|---|----------------------------------|---------------------------|---|
| 5% Holders | Arland Holdings, Ltd. (1) | 11,148,935 | 4,619,296 | 15,768,231 | 5.69% | 69,289,434 | 85,057,665 | 9.96% |
| | Sileas Corporation (2,3) | 102,184,347 | 42,351,166 | 144,535,513 | 73.82% | 635,267,484 | 737,451,831 | 86.36% |
| Directors and Officers: | Stanley Hirschman (2) | 102,184,347 | 42,351,166 | 144,535,513 | 73.82% | 508,213,987 | 610,398,334 | 71.48% |
| | Danny Schoening (5)(8) | 103,118,628 | 42,351,166 | 145,469,794 | 74.30% | 508,213,987 | 611,332,615 | 71.59% |
| | Karen Hawkins (9) | 125,000 | - | 125,000 | 0.06% | 0 | 125,000 | 0.01% |
| | Ronald Richards | - | - | - | - | - | - | - |
| | Merrick Okamoto (7) | 1,950,000 | - | 1,950,000 | 1.0% | - | 1,950,000.00 | 0.23% |
| Directors and officers as a group (5 Individuals) | | 104,134,347 | 42,351,166 | 146,485,513 | 74.82% | 635,267,484 | 739,401,831 | 86.59% |

- 1 *Represents shares held by Arland Holdings, Ltd., which is located at 551 5th Avenue, Suite 1601, New York, NY 10176. Arie Rabinowitz has voting control over the shares held by Arland Holdings, Ltd.*
- 2 *Represents shares held by Sileas of which Stanley Hirschman, a Director/Officer Optex Systems Holdings, has a controlling interest (80%); therefore, under Rule 13d-3 of the Exchange Act, Mr. Hirschman is deemed to be the beneficial owner, along with Mr. Schoening.*
- 3 *Sileas' ownership interest in Optex Systems Holdings has been pledged to Longview as security for a loan in connection with the acquisition of Longview's interests in Optex Delaware by Sileas. Investment decisions for Longview are made by its investment advisor, Viking Asset Management, LLC. Mr. Peter Benz is the Chairman, Chief Executive Officer and a Managing Member of Viking Asset Management and may be deemed to control its business activities, including the investment activities of Longview. Mr. Merrick Okamoto who is a director of Optex Systems Holdings is the President and a Managing Member of Viking Asset Management and may be deemed to control its business activities, including the investment activities of Longview. In the event of a default by Sileas on its debt obligation to Longview, the shares held by Sileas may be returned to Longview. Viking and Longview each may be deemed to have shared voting and dispositive authority over the shares of Optex Systems Holdings' common stock if they are returned to Longview. In such an event, Mr. Benz and Mr. Okamoto, as control persons of Viking and/or Longview, may be deemed to beneficially own all such shares; however, they have stated that they would disclaim such beneficial ownership were this to occur.*
- 4 *Represents shares of common stock issuable upon conversion of preferred stock held by the stockholder. Sileas Corporation holds 90% or 926 of the preferred shares which are convertible into 37,040,000 common shares. Alpha Capital owns the remaining 10% or 101 preferred shares convertible into 4,040,000 common shares, representing less than 2.13% total beneficially ownership.*
- 5 *Represents 102,184,347 shares held by Sileas of which Mr. Schoening, an Officer of Optex Systems Holdings, has a controlling interest (15%); therefore, under Rule 13d-3 of the Exchange Act, Mr. Schoening is deemed to be the beneficial owner, along with Mr. Hirschman, of those shares.*
- 6 *Represents shares held by Alpha Capital Anstalt, which is located at Pradfant 7, 9490 Furstentums, Vaduz, Lichtenstein. Konrad Ackerman has voting control and investment power over the shares held by Alpha Capital Anstalt.*

- 7 *Represents 975,000 shares of Common Stock and 975,000 warrants held by Longview Fund, LP. Investment decisions for Longview are made by its investment advisor, Viking Asset Management, LLC. Mr. Merrick Okamoto who is a director of Optex Systems Holdings is the President and a Managing Member of Viking Asset Management and may be deemed to control its business activities, including the investment activities of Longview. Mr. Okamoto, as a control person of Viking and/or Longview, may be deemed to beneficially own all such shares; however, he disclaims such beneficial ownership.*
- 8 *Includes options to purchase 934,281 shares of our common stock which have vested and are currently exercisable.*
- 9 *Represents options to purchase 125,000 shares of our common stock which have vested and are currently exercisable.*
- 10 Shows effect if all preferred shares were converted at \$.01 if the conversion price is lowered pursuant to the ratchet provision in the Series A preferred stock certificate of designation if the offering covered by this registration statement is commenced.

Item 13 Certain Relationships and Related Transactions, and Director Independence

Relationship between Optex Systems, Inc. (Texas), Irvine Sensors Corporation and Longview and Alpha

Longview and Alpha were owed certain debt by Irvine Sensors Corporation including debt evidenced by (i) a December 29, 2006 Term Loan and Security Agreement executed by Irvine Sensors Corporation and Longview and Alpha, and (ii) a series of secured promissory notes purchased by them and issued to them on December 29, 2006, July 19, 2007 and November 28, 2007. As of August 24, 2008, the total amount due under all of the described notes was approximately \$18.4 million. Optex Systems, Inc. (Texas), which was and is a wholly owned subsidiary of Irvine Sensors Corporation, was a guarantor of all of those notes, and pursuant to related security agreements Longview and Alpha had a validly perfected, fully enforceable security interest in all personal property of Optex Systems, Inc. (Texas). On September 19, 2008, pursuant to an Assignment and Stock/Note Issuance Agreement, Alpha and Longview transferred and assigned to Optex Systems, Inc. (Delaware) which assumed, \$15 million of their respective interests and rights in the aforesaid notes and obligations to Optex Systems, Inc. (Delaware) in exchange for \$9 million of equity and \$6 million of debt.

Acquisition of Assets of Optex Systems, Inc. (Texas) by Optex Systems, Inc. (Delaware) on October 14, 2008

On October 14, 2008, in a purchase transaction that was consummated via public auction, Optex Systems, Inc. (Delaware) purchased all of the assets of Optex Systems, Inc. (Texas) in exchange for \$15 million of Irvine Sensors Corporation debt owned by it and the assumption of approximately \$3.8 million of certain Optex Systems, Inc. (Texas) liabilities. The \$15 million of Irvine Sensors Corporation debt was contributed by Longview and Alpha to Optex Systems, Inc. (Delaware) in exchange for a \$6 million note payable from Optex Systems, Inc. (Delaware) and a \$9 million equity interest in Optex Systems, Inc. (Delaware). Longview and Alpha owned Optex Systems, Inc. (Delaware) until February 20, 2009, when Longview sold 100% of its interests in Optex Systems, Inc. (Delaware) to Sileas, as discussed below. In referring to these transactions, Optex Systems, Inc. (Delaware) is considered to be the successor entity to Optex Systems, Inc. (Texas), the predecessor entity.

Secured Promissory Notes and Common Shares Issued in connection with Purchase by Optex Systems, Inc. (Delaware)

In connection with the public sale of the Optex Systems, Inc. (Texas) assets to Optex Systems, Inc. (Delaware), Optex Systems, Inc. (Delaware) delivered to each of Longview and Alpha a Secured Promissory Note due September 19, 2011 in the principal amounts of \$5,409,762 and \$540,976, respectively. Each Note bears simple interest at the rate of 6% per annum, and the interest rate upon an event of default increases to 8% per annum. After 180 days from the issue date, the principal amount of the Notes and accrued and unpaid interest thereon may be converted into Optex Systems, Inc. (Delaware) common stock at a conversion price of \$1.80 per share (pre-split and pre-reorganization price). The Notes may be redeemed prior to maturity at a price of 120% of the then outstanding principal amount plus all accrued and unpaid interest thereon. The obligations of Optex Systems, Inc. (Delaware) under the Notes are secured by a lien against all of the assets of Optex Systems, Inc. (Delaware) in favor of Longview and Alpha. In addition, Optex Systems, Inc. (Delaware) issued common stock to each of Longview and Alpha in the quantities of 45,081,350 and 4,918,650, respectively. On October 30, 2008, Alpha sold its Optex Systems, Inc. (Delaware) common stock to Arland Holding, Ltd. On February 20, 2009, Longview sold its Note to Sileas (see below).

Acquisition by Sileas of Longview's Interests in Optex Systems, Inc. (Delaware) on February 20, 2009

On February 20, 2009, Sileas purchased 100% of the equity and debt interest held by Longview, representing 90% of Optex Systems, Inc. (Delaware), in a private transaction. The primary reason for the acquisition was to eliminate shareholder control of Optex Systems Holdings by Longview and to limit any perception of control over the day-to-day operations of Optex Systems Holdings, whether or not such control actually existed. While Longview makes investments in a variety of companies, it strives to invest passively and leave the day-to-day operations of the companies in its investment portfolio to the management teams of those companies. In addition, the acquisition allowed Optex Systems Holdings to avoid potential conflicts of interest or other related business issues that might have adversely affected Optex Systems Holdings' operations as a result of Longview's investments in other companies.

The purchase price for the acquisition was \$13,524,405. Sileas issued a purchase money note to Longview for the full amount of the purchase price in exchange for 45,081,350 shares of common stock of Optex Systems Holdings (representing 90% of the outstanding shares) and transfer to Sileas of a note dated December 2, 2008, issued by Optex Systems Holdings to Longview in the principal amount of \$5,409,762. No contingent consideration is due the seller in the transaction. The obligations of Sileas under the Note are secured by a security interest in Optex Systems Holdings' common and preferred stock owned by Sileas that was granted to Longview pursuant to a Stock Pledge Agreement delivered by Sileas to Longview and also by a lien on all of the assets of Sileas. On March 27, 2009, Sileas and Alpha (which owned the balance of the \$6,000,000 of the notes) exchanged the \$6,000,000 aggregate principal amount of notes, plus accrued and unpaid interest thereon, for 1,027 shares of Optex Systems, Inc. (Delaware) Series A preferred stock.

Sileas has no operations or business activities other than holding the stock and notes described above and has no revenues, and it holds no assets other than the stock and notes described above. The management of Sileas believes that the value of its common stock and preferred stock holdings in Optex Systems Holdings will increase over time. Sileas plans to repay Longview, no later than the maturity date, through some combination of a recapitalization of Sileas equity and debt and partial or full liquidation of its interests in Optex Systems Holdings. Sileas will be limited by the extent of the stock price of Optex Systems Holdings and limitations on ability to resell the stock it owns in Optex Systems Holdings.

Secured Promissory Note Due February 20, 2012/Longview Fund, LP

As a result of the transaction described above between Sileas and Longview on February 20, 2009, Sileas, the new majority owner of Optex Systems, Inc. (Delaware), executed and delivered to Longview, a Secured Promissory Note due February 20, 2012 in the principal amount of \$13,524,405. The Note bears simple interest at the rate of 4% per annum, and the interest rate upon an event of default increases to 10% per annum. In the event that a Major Transaction occurs prior to the maturity date resulting in the Borrower receiving Net Consideration with a fair market value in excess of the principal and interest due under the terms of this Secured Note, then in addition to paying the principal and interest due, Sileas shall also pay an amount equal to 90% of the consideration. "Major Transaction" refers to a transaction whereby Optex Systems, Inc. (Delaware) would consolidate or merge into or sell or convey all or substantially all of its assets to a third party entity for more than nominal consideration, and "Net Consideration" refers to the fair market value of the consideration received in connection with a Major Transaction less all outstanding liabilities of Optex Systems, Inc. (Delaware).

Reorganization/Share Exchange

On March 30, 2009, a reorganization occurred whereby the then existing shareholders of Optex Systems, Inc. (Delaware) exchanged their shares of common stock with the shares of common stock of Optex Systems Holdings as follows: (i) the outstanding 85,000,000 shares of Optex Systems, Inc. (Delaware) common stock were exchanged by Optex Systems Holdings for 113,333,282 shares of Optex Systems Holdings common stock, (ii) the outstanding 1,027 shares of Optex Systems, Inc. (Delaware) Series A preferred stock were exchanged by Optex Systems Holdings for 1,027 shares of Optex Systems Holdings Series A preferred stock and (iii) the 8,131,667 shares of Optex Systems, Inc. (Delaware) common stock purchased in the private placement, which also occurred on March 30, 2009, were exchanged by Optex Systems Holdings for 8,131,667 shares of Optex Systems Holdings common stock. The per share price in the private placement was \$0.15 per share of common stock, and the closing date was March 30, 2009. Optex Systems, Inc. (Delaware) remains a wholly-owned subsidiary of Optex Systems Holdings.

At the time of the reorganization, 25,000,000 shares owned by Andrey Oks, the former CEO of Optex Systems Holdings, were cancelled. Immediately prior to the closing, 17,449,991 shares of Optex Systems Holdings common stock were outstanding. The 17,449,991 shares derives from the 17,999,995 shares outstanding as of December 31, 2008 plus the 26,999,996 shares issued in conjunction with the 2.5:1 forward stock split authorized by the Sustut Board and shareholders and effected on February 27, 2009 less retirement of Andrey Oks' 25,000,000 shares and cancellation of 3,800,000 shares previously issued to Newbridge Securities Corporation, shares plus issuance of 1,250,000 shares in payment for two investor relations agreements. The total outstanding common shares of Optex Systems Holdings subsequent to the closing of the reorganization is as follows:

| | |
|---|---------------------------|
| Existing Sustut Shareholders | 17,449,991 |
| Optex Systems, Inc. (Delaware) shares exchanged | 113,333,282 |
| Optex Systems, Inc. (Delaware) Private Placement shares exchanged | <u>8,131,667</u> |
| Total Shares after reorganization | <u>138,914,940</u> |
| Cancellation of shares - American Capital Ventures | (700,000) |
| Private placement - June 29, 2009 | 750,000 |
| Issuance of shares as consideration - ZA Consulting | <u>480,000</u> |
| Shares Outstanding on September 27, 2009 | <u><u>139,444,940</u></u> |

Short Term Note Payable/Longview Fund-On September 23, 2008 Optex Systems, Inc. (Texas) borrowed \$146,709 from Longview and issued a promissory note dated September 23, 2008, to Longview in connection therewith. The September 23, 2008 Note bore interest at the rate of 10% per annum with interest accruing until the maturity date of the September 23, 2008 Note, which was originally set as November 7, 2008. On March 30, 2009 in conjunction with the reorganization and Private Placement, Longview purchased 3.25 units of the Private Placement using \$146,250 of the amount due under the Note as consideration for the purchase. The outstanding balance related to the original note issue of \$459 plus \$11,101 of accrued interest was paid in September 2009.

On October 27, 2009, Optex Systems Holdings borrowed \$250,000 from Longview on an unsecured basis pursuant to a promissory note, which originally expired on December 1, 2009, but was extended until July 15, 2010. The note bore interest at the rate of 10% per annum, and all accrued and unpaid interest was due upon maturity.

In exchange for the extension, Optex Systems Holdings granted Longview a warrant to purchase 100,000 shares of restricted common stock with an exercise price of \$0.15 per share and a term of three years. On March 22, 2010, Optex Systems Holdings repaid \$125,000 in principal plus \$10,000 in accrued interest on the outstanding Longview note. On June 4, 2010, Optex Systems Holdings paid off the remaining principal balance and all accrued and unpaid interest thereon.

1 Rule 409(b) states: "(b) The registrant shall include a statement either showing that unreasonable effort or expense would be involved or indicating the absence of any affiliation with the person within whose knowledge the information rests and stating the result of a request made to such person for the information."

We made requests of counsel representing Sustut's directors and officers to obtain additional information into the principles behind their determination that the securities of the registrant issued in the March 30, 2009 share exchange represented "fair market value" to acquire the business operations of Optex Systems, Inc. (Delaware), and they were not able to provide any information. We confirm that we have no affiliation with Sustut's former counsel, Anslow & Jacklin, who was our only source of information regarding the prior history of Sustut and that the result of our request was that they stated they had no information and were not able to obtain further information. on this issue.

We have not been able to provide further background as to how the merger consideration was determined beyond the fact that it was determined by negotiation between Sustut and Optex Systems, Inc. (Delaware). Thus, we have invoked Rule 409(b) which states: “(b) The registrant shall include a statement either showing that unreasonable effort or expense would be involved or indicating the absence of any affiliation with the person within whose knowledge the information rests and stating the result of a request made to such person for the information.”

Transactions with Executive Management

See the “Executive Compensation” section for a discussion of the material elements of compensation awarded to, earned by or paid to our named executive officers. Other than as stated in the “Executive Compensation” section, we have not entered into any transactions with executive management.

Item 14 Principal Accounting Fees and Services

The following table sets forth the fees paid to date for services rendered by EFP Rotenberg during fiscal years ended October 2, 2011 and October 3, 2010, respectively.

| Fee Category | 2011 | 2010 |
|--|-----------|-----------|
| Audit Fees (1) | \$112,073 | \$113,281 |
| Audit-Related Fees-registration statement consents (2) | \$ 12,500 | \$ 28,988 |
| Tax Fees | \$ 10,600 | 8,000 |
| All Other Fees (3) | \$ 0 | 5,063 |

(1) Audit Fees are fees for professional services performed by EFP Rotenberg LLP for the audit of our annual consolidated financial statements and review of consolidated financial statements included in our 10-Q filings for the fiscal years ended October 2, 2011 and October 3, 2010, respectively.

(2) Fees paid in related to consent for S-1 registration statement and procedures associated with SEC comment letter for S-1 registration statement.

(3) Fees paid in related to Sarbanes-Oxley training and compliance requirements.

PART IV

Item 15 Exhibits

Exhibits

| Exhibit No. | Description |
|-------------|--|
| 2.1 | Agreement and Plan of Reorganization, dated as of the March 30, 2009, by and between registrant, a Delaware corporation and Optex Systems, Inc., a Delaware corporation (1). |
| 3.1 | Certificate of Incorporation, as amended, of Optex Systems Holdings, Inc (2). |
| 3.2 | Bylaws of Optex Systems Holdings (1). |
| 10.1 | 2009 Stock Option Plan (1). |
| 10.2 | Employment Agreement with Danny Schoening (1). |

- 10.3 Lease for 1420 Presidential Blvd., Richardson, TX (1).
- 10.4 Form of Warrant (3)
- 10.5 Specimen Stock Certificate (3)
- 10.6 Contract W52H0905D0248 with Tank-automotive and Armaments Command, dated July 27, 2005 (5) (6)
- 10.7 Contract W52H0909D0128 with Tank-automotive and Armaments Command, dated March 24, 2009 (5)
- 10.8 Contract W52H0905D0260 with Tank-automotive and Armaments Command, dated August 3, 2005 (5) (6)
- 10.9 PO# 40050551 with General Dynamics, dated June 8, 2009 (5) (6)
- 10.10 Contract 9726800650 with General Dynamics, dated April 9, 2007 (5) (6)
- 10.11 Form of Subscription Agreement (4)
- 10.12 Single Source Supplier Purchase Orders with TSP Inc. (5)
- 10.13 Single Source Supplier Purchase Orders with SWS Trimac (5)
- 10.14 Single Source Supplier Purchase Orders with Danaher Controls (5)
- 10.15 Single Source Supplier Purchase Orders with Spartech Polycast (5)
- 10.16 Third Amendment to Lease, between Aquiport DFWIP and Optex Systems, Inc., dated January 7, 2010 (5)
- 10.17 \$250,000 principal amount Note in favor of the Longview Fund, L.P., dated October 27, 2009 (9)
- 10.18 Investor Relations Agreement, dated April 1, 2009 between Optex Systems and American Capital Ventures, Inc. (9)
- 10.19 Form of Loan and Security Agreement between Optex Systems, Inc. and Peninsula Bank Business Funding, dated March 4, 2010 (5)
- 10.20 Form of Unconditional Guaranty executed by Optex Systems Holdings, Inc. in favor of Peninsula Bank Business Funding, dated March 4, 2010 (5)
- 10.21 Form of Warrant issued by Optex Systems Holdings, Inc. to Peninsula Bank Business Funding, dated March 4, 2010 (5)
- 10.22 Allonge to Promissory Note, dated January 5, 2010 (9)
- 10.23 Showcase Agreement between Optex Systems, Inc. and ECON Corporate Services, Inc., dated April 1, 2009 (9)
- 10.24 Consulting Agreement dated June 29, 2009, between ZA Consulting, Inc. and Optex Systems, Inc. (9)
- 10.25 Purchase Order dated June 28, 2010 with TACOM-Warren (7)

- 10.26 First Amendment to Loan and Security Agreement, dated August 3, 2010, by and between Peninsula Bank Business Funding and Optex Systems, Inc. (8)
- 10.27 Waiver by Peninsula Bank Business Funding to Optex Systems, Inc., dated November 24, 2010 (10)
- 10.28 Second Amendment to Loan and Security Agreement, dated November 29, 2010, by and between Peninsula Bank Business Funding and Optex Systems, Inc. (10)
- 10.29 Third Amendment to Loan and Security Agreement, dated February 15, 2011, by and between Peninsula Bank Business Funding and Optex Systems, Inc. (11)
- 10.30 Second Amendment to Loan and Security Agreement, dated March 22, 2011, by and between Peninsula Bank Business Funding and Optex Systems, Inc. (12)
- 10.31 Waiver of Series A preferred shareholders (14)
- 10.32 Form of Subscription Agreement (15)
- 10.33 PO# SPRDL1-12-C-0023 with DLA Land-Warren, dated October 24, 2011 (16)
- 10.34 Agreement with an internationally recognized defense contracting firm, dated as of November 3, 2011*
- 10.35 Amendment to 2009 Stock Option Plan
- 14.1 Code of Ethics (3)
- 21.1 List of Subsidiaries – Optex Systems, Inc. (1)
- 31.1 Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS
XBRL Instance Document

101.SCH
XBRL Taxonomy Extension Schema Document

101.DEF
XBRL Taxonomy Extension Definition Linkbase Document

101.CAL
XBRL Taxonomy Calculation Linkbase Document

101.LAB
XBRL Taxonomy Label Linkbase Document

101.PRE
XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference from our Current Report on Form 8-K dated April 3, 2009.
- (2) Incorporated by reference from our Amendment No. 1 to Registration Statement on Form S-1 filed on September 28, 2009
- (3) Incorporated by reference from our Registration Statement on Form S-1 filed on May 19, 2009
- (4) Incorporated by reference from our Form 10-K for the fiscal year ended October 3, 2010, filed on January 11, 2010
- (5) Incorporated by reference from our Amendment No. 4 to Registration Statement on Form S-1 filed on June 14, 2010
- (6) This exhibit is missing part of the original bid/solicitation package as such information can only be obtained from third parties with which the registrant has no affiliation, and registrant has made requests from such third parties for such information, and such parties have not been able to provide such information.
- (7) Incorporated by reference from our Current Report on Form 8-K dated July 2, 2010
- (8) Incorporated by reference from our Form 10-Q for the quarter ended on June 27, 2010, filed on August 11, 2010
- (9) Incorporated by reference from our Amendment No. 5 to Registration Statement on Form S-1 filed on July 23, 2010
- (10) Incorporated by reference from our Amendment No. 11 to Registration Statement on Form S-1 filed on February 2, 2011.
- (11) Incorporated by reference from our Form 10-Q for the quarter ended on January 2, 2011, filed on February 16, 2011
- (12) Incorporated by reference from our Current Report on Form 8-K filed on March 28, 2011
- (13) Incorporated by reference from our Form S-1 filed on April 14, 2011
- (14) Incorporated by reference from our Form S-1 filed on August 1, 2011
- (15) Incorporated by reference from our Form S-1 filed on September 2, 2011
- (16) Incorporated by reference from our Current Report on Form 8-K filed on November 7, 2011

* Confidential treatment has been requested for portions of this exhibit.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OPTEX SYSTEMS HOLDINGS, INC.

By: /s/ Stanley A. Hirschman
Stanley A. Hirschman, Principal Executive Officer
and
Director

Date: December 27, 2011

By: /s/ Karen Hawkins
Karen Hawkins, Principal Financial Officer and
Principal
Accounting Officer

Date: December 27, 2011

Pursuant to the requirements of the Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|---|-------------------|
| <u>/s/ Merrick Okamoto</u> Merrick Okamoto | Director | December 27, 2011 |
| <u>/s/ Ronald F. Richards</u> Ronald F. Richards | Director | December 27, 2011 |
| <u>/s/ Stanley A. Hirschman</u> Stanley A. Hirschman | Principal Executive Officer and Director | December 27, 2011 |
| <u>/s/ Karen Hawkins</u> Karen Hawkins | Principal Financial Officer and Principal Accounting Officer | December 27, 2011 |

**

Subcontract PO 35334144

Optex Systems Inc.

**

**

**** *UPGRADE***

**

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** CONFIDENTIAL TREATMENT REQUESTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION. OMITTED PORTIONS HAVE BEEN FILED SEPARATELY WITH THE COMMISSION.

TABLE OF CONTENTS**TERMS AND CONDITIONS**

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| Section A, Annex A1 | Shipping Requirements | NR |
| Section A, Annex A2 | Export Controls | NR |
| Section A, Annex A4 | Material Safety Data Sheet (MSDS) Information Requirements | NR |
| Section B | Additional Terms and Conditions Applicable to Contracts Issued under a Government Contract | NR |
| Section B, Annex B7 | Additional Terms and Conditions Applicable to Contracts Issued under ** Contract | A |
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STATEMENT OF WORK

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| Section G, Annex G3 | Data Item Descriptions (DIDs) | NR |
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| Section H, Annex H1 | Master Project Management Schedule | NR |
| Section I | Price and Payment | NR |
| Section I, Annex I1 | Payment Plan | NR |

**** *Proprietary Information***
See Restriction on First Page

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PART A

TERMS AND CONDITIONS

1. Definitions:

Unless otherwise stated,

“Buyer” means **

“Buyer’s Representative” means the authorized Purchasing Agent or Subcontract Manager representing Buyer;

“Seller” means the person, firm or corporation which is furnishing the Goods provided for herein;

“Goods” means all of the labour, articles, materials, supplies, goods and services constituting the subject matter of this Contract;

“Subcontractor(s)” means subcontractors at any tier;

“Customs broker” means an individual or firm authorized to act for the Seller in handling the sequence of custom formalities associated with the importation of goods into the Seller’s country.

2. The Contract:

(a) The documents (“Contract Documents”) that form the agreement between Buyer and Seller (the “Contract”) are:

- (i) the Purchase Order into which these Section A - Terms and Conditions are incorporated;
- (ii) any supplements to the Purchase Order issued by the Buyer;
- (iii) the statement of work;
- (iv) the specifications; and
- (v) all other referenced annexes, attachments, exhibits or documents.

(b) If there is any conflict or inconsistency between the provisions in one or more of the Contract Documents, and there is no reasonable interpretation that resolves the conflict or inconsistency in a manner that is consistent with the entire Contract, then such conflict or inconsistency shall be resolved by giving precedence to the following descending order of precedence:

- (i) the face of the Purchase Order;
- (ii) these Section A – Terms and Conditions;
- (iii) Section B, if included, in the order provided (including any Government Annexes);
- (iv) the statement of work; (v) the specifications; and
- (vi) all other annexes, attachments, exhibits or documents in the order provided.

**** Proprietary Information**
See Restriction on First Page

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(c) Any terms or conditions proposed by Seller which are inconsistent with or in addition to the terms and conditions in the Contract Documents shall be void and of no effect unless specifically agreed to in writing by Buyer's Representative.

3. **Acceptance:**

Seller has read and understands the Contract Documents and agrees that Seller's written acceptance, acceptance of payment, or commencement of any work or services shall constitute Seller's acceptance of this Contract.

4. **Shipping; Billing; Payment:**

(a) Seller agrees: (i) to properly pack, mark, label and ship Goods in accordance with the requirements of Buyer, the involved carriers, and, if applicable, the country of destination; (ii) to route shipments in accordance with Buyer's instructions; (iii) to make no charge for handling, packaging, storage or transportation of Goods, unless otherwise stated as an item on this Contract; (iv) to provide with each shipment, packing lists with Buyer's Contract and/or shipping release number and date of shipment marked thereon; and (v) to promptly forward the original bill of lading or other shipping receipt for each shipment in accordance with Buyer's instructions. Seller shall include on bills of lading or other shipping receipts, any product classifications required under applicable domestic and international transportation regulations (e.g. US National Motor Freight classification and Transportation of Dangerous Goods classifications). The marks on each package and identification of the Goods on packing slips, bills of lading and invoices (when required) shall be sufficient to enable Buyer to easily identify the Goods purchased. If goods are to be exported from the United States, Seller agrees to 1) ensure that the appropriate destination control statement (i.e. ITAR or EAR) is referenced on Seller's commercial invoice and 2) provide Buyer's Export Compliance Department with a copy of applicable US export authorization prior to shipment of goods from the US.

(b) Seller further agrees: (i) to accept payment by electronic funds transfer or cheque. Payment shall be made, on average, on the second day of the second month following Buyer's receipt date of Seller's invoice. Buyer may withhold payment pending receipt of evidence, in such form and detail as Buyer may direct, of the absence of any liens, encumbrances and claims on the Goods under this Contract. Seller shall promptly repay to Buyer any amounts paid in excess of amounts due to Seller.

(c) The prices invoiced under this Contract include, and Seller is liable for and shall pay, all taxes, impositions, charges and exactions imposed on or measured by this Contract, except for applicable sales and use taxes which are separately listed on Seller's invoice. Prices shall not include any taxes, impositions, charges or exactions for which Buyer has furnished a valid exemption certificate or other evidence of exemption.

(d) Seller warrants that the prices charged for the Goods do not exceed the prices charged to any other customer for the same Goods, in the same or similar quantities, under similar circumstances.

**** Proprietary Information**
See Restriction on First Page

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5. **Delivery:**

(a) Time is of the essence, and deliveries shall be made both in quantities and at times specified in Buyer's delivery schedules. Where delivery schedules are not provided, Seller shall deliver Goods in such quantities and at such times as Buyer directs in shipping releases.

(b) Buyer shall not be required to make payment for Goods which are (i) delivered in advance of delivery schedules or shipping releases, or (ii) delivered to Buyer in excess of quantities specified in Buyer's delivery schedules or shipping releases.

6. **Expedited Shipments:**

Without limiting any other rights or remedies that Buyer may have under this Contract, by law or in equity, if Seller fails to meet Buyer's delivery requirements and Buyer requires a more expeditious method of transportation for the Goods than the transportation method originally specified by Buyer, Seller shall, at Buyer's option, ship the Goods as expeditiously as possible at Seller's sole expense.

7. **Changes:**

(a) Buyer reserves the right at any time, by written direction to Seller, to: (i) make changes in the designs, materials, requirements, drawings, and/or specifications of the Goods, (ii) in quantities, place of delivery, shipment and/or packing methods, (iii) incorporate additional provisions that Buyer deems necessary in order to comply with customer requirements, or (iv) otherwise change the scope of the work covered by this Contract, including work with respect to such matters as inspection, testing or quality control. Upon receipt of Buyer's direction, Seller agrees to promptly make such changes.

(b) Any difference in price or time for performance (increase or decrease) resulting from such changes shall entitle Seller or Buyer, as the case may be, to an equitable adjustment (increase or decrease) in the price or time for performance or both. Any claim for adjustment by Seller must be submitted in writing to Buyer's Representative and shall include particulars of the claim and supporting cost data, within thirty (30) days after receipt of Buyer's directed change. Any adjustment in price or time for performance, or both, shall be set out in a written amendment signed by both parties. Any action taken by Seller, whether or not accomplished with the concurrence of Buyer's employees, shall not entitle Seller to an equitable adjustment, unless such action was specifically directed by a written notice issued by Buyer's Representative.

8. **Configuration Control:**

Seller shall make no change in design, manufacturing, assembly processes or source of supply, after approval of the first production item or after acceptance of the first completed end item, without the prior written approval of Buyer.

9. **Supplier Quality and Development; Inspection:**

Seller agrees to participate in Buyer's supplier quality and development program(s) and to comply with all quality requirements and procedures specified by Buyer, as revised from time to time, including those applicable to Seller as set forth in Quality System Requirements ISO 9000, I-2000. In addition, Buyer shall have the right to enter Seller's facility at reasonable times to inspect the facility, Goods, materials and any property of Buyer covered by this Contract. Buyer's inspection of the Goods whether during manufacture, prior to delivery or within a reasonable time after delivery, shall not constitute acceptance of any work-in-process or finished Goods.

**** Proprietary Information**
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10. **Nonconforming Goods:**

Seller acknowledges that Buyer may not perform incoming inspections of the Goods, and waives any rights to require Buyer to conduct such inspections. To the extent Buyer rejects Goods as nonconforming, the quantities under this Contract will automatically be reduced, unless Buyer otherwise notifies Seller. Seller will not replace quantities so reduced without a new contract or schedule from Buyer. Nonconforming Goods will be held by Buyer in accordance with Seller's instructions at Seller's risk. Seller's failure to provide written instructions within ten (10) calendar days, or such shorter period as may be commercially reasonable under the circumstances, after notice of nonconformity, shall entitle Buyer, at Buyer's option, to return goods to Seller at Seller's cost or charge Seller for storage and handling or to dispose of the Goods without liability to Seller. Payment for nonconforming Goods shall not constitute an acceptance of such Goods, or limit or impair Buyer's right to assert any legal or equitable remedy, or relieve Seller's responsibility for latent defects.

Seller shall initiate prompt containment and corrective action on notification of nonconforming goods. Seller shall respond within forty-eight (48) hours of notification to inform buyer of goods already shipped to the buyer and status of future shipments. Seller shall not ship any additional nonconforming material without formal authorization from Buyer. The seller shall submit a formal response within 30 days to any Formal Supplier Corrective Action Requests directed to Seller by ** Quality. The response shall include: cause of defect, corrective action taken to prevent recurrence of the deficiency and the effective date or break in point of the corrective action.

11. **Force Majeure:**

(a) Neither party shall be liable for any excess costs if any delay or failure to perform arises solely out of causes that (i) could not be reasonably foreseen and prevented by the party, (ii) are beyond the reasonable control of the party, and (iii) occur without the fault or negligence of the party. Such causes may include, but are not limited to, acts of God, actions by any governmental authority (whether valid or invalid), fires, floods, windstorms, explosions, riots, natural disasters, wars, sabotage, or court injunction or order ("Force Majeure").

(b) In order for the provisions of this Article to apply to a particular Force Majeure, the affected party must (i) use its best efforts to minimize the Force Majeure, and (ii) provide written notice of such Force Majeure to the other party within ten (10) days after the beginning of such Force Majeure. The written notice shall include the facts giving rise to the Force Majeure, the anticipated duration of the Force Majeure, and a proposed work-around plan to minimize the impact. The Seller shall implement any work-around plan approved by Buyer.

(c) If a Force Majeure which meets the criteria in (a) above is caused by Seller's subcontractor(s), and the Seller has not contributed to the Force Majeure, Seller shall not be liable for excess costs provided that Seller has taken all reasonable action to obtain the Goods from other sources in sufficient time to permit Seller to comply with its obligations under this Contract.

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(d) During the period of such delay or performance failure by Seller or Seller's subcontractor(s), Buyer may, at its option, in addition to any other remedies Buyer may have under this Contract, by law or in equity, (i) purchase Goods from other sources and reduce the quantities of Goods required from Seller, without any liability to Seller, or (ii) extend the date for performance by a reasonable time not exceeding the duration of the delay or performance failure.

12. **Warranty:**

(a) Unless otherwise stated, Seller represents and warrants that the Goods delivered to Buyer are (i) new (meaning not previously used or reconditioned); (ii) merchantable and free from defects in materials and workmanship; (iii) free from defects in design and specifications (except to the extent such Goods are manufactured pursuant to detailed designs and specifications furnished by Buyer); and (iv) in conformity with all requirements of the Contract. Seller acknowledges that Seller knows of Buyer's intended use for the Goods and warrants that all Goods are fit and sufficient for the particular purposes intended by Buyer.

(b) Seller further warrants that all work shall be performed by qualified personnel with the degree of skill and judgment normally exercised by recognized firms with respect to the performance of similar contracts, and that all work will be performed in a competent and workmanlike manner.

(c) In addition to the warranties set forth in (a) and (b) above, Buyer shall have the benefit of all warranties extended to Seller by a third party, to the extent they exceed Seller's warranties in scope or duration. The warranties in (a) and (b) above, any third party warranties, and Seller's service warranties and guarantees, if any, ("Warranties") shall survive and shall extend to Buyer, its successors, assigns, and customers. The Warranties shall continue for a period of fifteen (15) months after delivery of conforming Goods to Buyer (the "Warranty Period"). The rights and remedies of Buyer concerning latent defects shall exist indefinitely, and shall not be affected in any way by any terms or conditions of this Contract, including this Article.

(d) If during the Warranty Period the Goods are found not to be as warranted, Buyer may, in addition to other remedies available at law or in equity, (i) return the defective Goods to Seller for credit or refund, (ii) return the Goods to Seller and require prompt repair or replacement at Seller's expense, or (iii) repair or replace the Goods and recover all costs from Seller. Goods repaired or replaced by Seller shall be subject to this Article in the same manner and to the same extent as Goods originally delivered under this Contract.

13. **Ingredients Disclosure; Special Warnings and Instructions:**

(a) If requested by Buyer, Seller shall promptly furnish to Buyer in such form and detail as Buyer may direct: (i) a list of all ingredients in the Goods; (ii) the amount of all ingredients; and (iii) information concerning any changes in or additions to such ingredients.

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(b) Prior to and with the shipment of the Goods, Seller agrees to furnish to Buyer: (i) sufficient warning and notice in writing (including appropriate labels on the Goods, containers and packing) of any hazardous material that is an ingredient or a part of any of the Goods, and (ii) such special handling instructions as may be necessary to advise carriers, Buyer, and their respective employees of how to exercise the measure of care and precaution that will best prevent bodily injury or property damage in the handling, transportation, processing, use or disposal of the Goods, containers and packing shipped to Buyer.

14. **Stop Work Order:**

(a) Buyer may at any time, by written notice, require Seller to stop all or any part of the work under this Contract for a period of up to ninety (90) days after Seller's receipt of the stop work order notice ("SWO").

(b) Upon receipt of a SWO, Seller shall immediately comply with its terms and take all reasonable steps to minimize the incurrence of costs allocable to the work covered by the SWO during the period of work stoppage. Unless the SWO expires or Buyer extends the period of the SWO, Buyer shall, within such ninety (90) days, cancel the SWO, or terminate the work covered by the SWO in accordance with Article 15 - "Termination for Cause" or Article 16 - "Termination for Convenience", whichever Buyer deems appropriate. Seller shall resume work upon expiration or cancellation of a SWO and an equitable adjustment shall be made in the delivery schedule (or shipping release(s)), or in the price, or both, provided that Seller submits a written claim for adjustment, including particulars of the claim and supporting cost data, within twenty (20) days after the date the SWO expires or is cancelled.

15. **Termination for Cause:**

(a) Buyer may immediately terminate all or any part of this Contract by written notice to Seller, without liability to Seller, in any of the following or any other comparable events: (i) Seller fails to deliver the Goods within the time specified by the Contract or any written extension, (ii) Seller fails to perform any other provision of the Contract or fails to make progress, so as to endanger performance of the Contract, and, in either of these two circumstances, does not cure such failure within ten (10) days after receipt of notice from Buyer specifying the failure, or (iii) Seller declares bankruptcy, suspends its business operation, or initiates any form of reorganization and/or other arrangement for the benefit of its creditors. Seller shall continue all work not terminated.

(b) In the event that Buyer terminates all or part of this Contract in accordance with (a) above, Buyer may:

(i) acquire, under terms and conditions and in a manner Buyer deems appropriate, Goods similar to those terminated and Seller shall be liable to the Buyer for any excess costs for such Goods, and

(ii) require Seller to transfer title and deliver to Buyer, in the manner and to the extent directed by Buyer, (1) any completed Goods, and/or (2) such partially completed Goods and materials, parts, tools, dies jigs, fixtures, plans, drawings, information and contract rights ("Manufacturing Materials") as Seller has specifically produced or specifically acquired for performance of such part of this Contract that has been terminated.

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(c) Subject to the terms of this Contract, (i) payment for completed Goods delivered to and accepted by Buyer in accordance with this Contract shall be at the Contract price, and (ii) payment for Manufacturing Materials delivered to and accepted by Buyer in accordance with this Contract, shall be in an amount agreed upon by Buyer and Seller. Failure to agree on an amount for Manufacturing Materials shall be a dispute and settled under Article 31-“Governing Law; Jurisdiction; Dispute Resolution”. Seller shall submit a written comprehensive termination claim to Buyer, including any supplemental and supporting information as Buyer shall require, within sixty (60) days after the effective date of termination. Buyer may withhold from amounts otherwise due to Seller for such completed Goods or Manufacturing Materials such sum as Buyer deems necessary to protect Buyer or its customer(s) against any loss, including outstanding liens, claims of former lien holders, or for damages otherwise caused by Seller’s failure to perform its obligations under the Contract. In no event shall Buyer be obligated to pay Seller any amount in excess of the Contract price. Buyer or Buyer’s agents shall have the right to audit and examine all books, records, facilities, work, material, inventories and other items relating to such termination claim.

(d) The rights and remedies of Buyer in this Article are cumulative and in addition to any other rights or remedies provided by this Contract, at law or in equity.

16. **Termination for Convenience:**

(a) In addition to any other rights of Buyer to terminate this Contract, Buyer may, for its convenience, immediately terminate all or any part of this Contract, at any time and for any reason, by giving written notice to Seller. Upon such termination, Seller shall immediately cease all work terminated and cause Seller’s subcontractor(s) to cease work. Seller shall continue all work not terminated.

(b) Subject to the terms of this Contract, Buyer shall pay to Seller an amount to cover the actual, substantiated and allowable costs of Seller, plus a reasonable profit, for the work performed in accordance with the Contract up to the effective date of termination.

(c) Under no circumstances shall (i) Seller be paid any amount for any anticipatory profits, (ii) Seller be paid any amount for costs incurred due to Seller’s failure to mitigate its damages or to terminate work as ordered on the effective date of termination, and (iii) the total amount paid under the provisions of this Article exceed the price set forth in the Contract for the work terminated.

(d) Seller shall submit a written comprehensive termination claim to Buyer, including any supplemental and supporting information as Buyer shall request, within sixty (60) days after the effective date of termination. Buyer or Buyer’s agents shall have the right to audit and examine all books, records, facilities, work, material, inventories and other items relating to such termination claim.

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17. **Rights and Use of Proprietary Information and Materials:**

(a) All (i) technical, proprietary and/or trade secret information that is marked as "Proprietary", "Confidential", or the like, and (ii) all tangible items containing, conveying or embodying such information, obtained directly or indirectly, from Buyer in connection with this Contract (collectively referred to as "Proprietary Information and Materials") shall remain Buyer's property and shall be protected by Seller from unauthorized use and disclosure.

(b) Seller shall use Proprietary Information and Materials only in the performance of and for the sole purpose of this Contract. The restrictions on disclosure or use of Proprietary Information and Materials by Seller shall apply to all materials derived by Seller or others from Proprietary Information and Materials.

(c) Upon the completion, termination, or cancellation of this Contract, or upon Buyer's request at any time, Seller shall return to Buyer all Proprietary Information and Materials and all materials derived therefrom, unless specifically directed otherwise in writing by Buyer. Seller shall not, without the prior written authorization of Buyer, sell or otherwise dispose of (as scrap or otherwise) any parts or other materials containing, conveying, embodying or made in accordance with or by reference to any Proprietary Information and Materials of Buyer. Prior to disposing of such parts or other materials as scrap, Seller shall render them unusable. Buyer shall have the right to audit Seller's compliance with this Article.

(d) Seller may only disclose Proprietary Information and Materials of Buyer to Seller's subcontractor(s) if required for the performance of this Contract, provided that each such subcontractor first agrees in writing to obligations no less restrictive than those imposed upon Seller under this Article relating to Proprietary Information and Materials. Seller shall be liable to Buyer for any breach of such obligations by Seller's subcontractor(s).

(e) The provisions of this Article shall survive the completion, termination or cancellation of this Contract.

18. **Intellectual Property:**

(a) Seller agrees:

(i) to defend, hold harmless and indemnify Buyer, its successors, assigns and customers against any claims of infringement (including patent, trademark, copyright, industrial design right, or other proprietary right, or misuse or misappropriation of trade secret) and resulting damages and expenses (including attorney's and other professional fees) arising in any way in relation to the Goods;

(ii) that Buyer or Buyer's subcontractor(s) has the right to repair, reconstruct, or rebuild the Goods delivered under this Contract without payment of any royalty to Seller;

(iii) that parts manufactured based on Buyer's drawings and/or specifications may not be used for Seller's own use or sold to third parties without Buyer's express written authorization;

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(iv) that Buyer shall own all rights in intellectual property, including all discoveries, inventions, improvements, designs, works or any other form of intellectual property, including without limitation, specifications, maps, plans, notes, papers, correspondence, diagrams, illustrations, training material, operators and maintenance manuals, records and test results, created or developed by Seller or Seller's subcontractor(s) during the course of this Contract. Where required, Seller shall undertake to have the authors or owners of all intellectual property rights assign their rights therein to the Buyer and to waive all moral rights they may have therein.

(b) This Article shall survive the completion, termination, or cancellation of this Contract.

19. **Indemnification:**

(a) Seller agrees to indemnify and hold harmless Buyer, its parent, affiliates, subsidiaries, directors, officers, employees and agents from and against all liability, actions, causes of action, claims, suits, judgments, liens, awards, damages, demands and expenses of any kind and nature whatsoever (including attorney's and other professional fees) for:

(i) property damage, and

(ii) personal injury (including death) of Buyer's or Seller's employees, or any other person,

whether such property damage or personal injury arises from or is in any way related to Seller or Seller's subcontractor(s) (1) breach of obligations or responsibilities arising from this Contract, or (2) failure to comply with all applicable laws and regulations in the performance of this Contract.

(b) In no event shall Seller's indemnification obligations be limited to the insurance available to, or provided by Seller or Seller's subcontractor(s).

(c) The provisions of this Article shall survive the completion, termination, or cancellation of this Contract.

20. **Insurance and Workers' Compensation:**

(a) Seller and Seller's subcontractor(s) shall comply with the applicable workers' compensation legislation of the jurisdiction(s) in which the work is performed. Seller shall provide to Buyer, upon request, evidence of compliance with such legislation. Unless otherwise agreed to in writing by Buyer, Seller shall cause its insurance carrier to agree in writing to waive its right to subrogation with respect to Workers' Compensation.

(b) Unless otherwise agreed to in writing by Buyer, Seller shall, at its own expense, maintain insurance coverage with carriers acceptable to Buyer and in the amounts set forth below in subarticle (c). Seller shall furnish to Buyer either a certificate showing compliance with such insurance requirements or certified copies of all insurance policies within ten (10) days of Contract initiation. The certificate shall name ** and Buyer as additional insured on all liability policies, and shall provide that Buyer will receive thirty (30) days' prior written notice from the insurer if any coverage is suspended, voided, cancelled or reduced in limit. Seller's furnishing of certificates of insurance or purchase of insurance shall not release Seller of its obligations or liabilities under this Contract.

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(c) Seller shall maintain insurance coverage in amounts not less than the following: (i) Comprehensive General Liability - \$1,000,000 for bodily injury and property damage - combined single limit per occurrence, (ii) if motor vehicles are used during the performance of this Contract, Comprehensive Automobile Liability, - \$1,000,000 - bodily injury and property damage - - combined single limit per occurrence, including all statutory coverage for all provinces/states or countries of operation, (iii) Employers' Liability - \$1,000,000 per occurrence. Buyer may also specify additional insurance coverage and amounts as required based on its business requirements.

(d) All policies of insurance procured by Seller must be written as primary policies, not contributing with or in excess of coverage that Buyer may carry. Seller agrees that Seller, Seller's insurer(s) and anyone claiming by, through, under or on Seller's behalf shall have no claim, right of action or right of subrogation against Buyer and Buyer's customer.

21. **Seller's Property:**

Unless otherwise agreed to in writing by Buyer, Seller, at its expense, shall furnish, keep in good condition, and replace when necessary all machinery, equipment, tools, jigs, dies, gauges, fixtures, molds, patterns and other items ("Seller's Property") necessary for the production of the Goods. The cost of changes to Seller's Property necessary to make design and specification changes directed by Buyer shall be paid for by Buyer after satisfactory evidence of such cost, in such form and detail as Buyer may require, is provided to Buyer. Seller shall insure Seller's Property with full fire and extended coverage insurance for its replacement value. Seller grants Buyer an irrevocable option to take possession of and title to Seller's Property that is special for the production of the Goods upon payment to Seller of its net book value, less any amounts that Buyer has previously paid to Seller for the cost of such items; provided, however, that this option shall not apply if Seller's Property is used to produce Goods that are the standard stock of Seller, or if a substantial quantity of like Goods are being sold by Seller to others.

22. **Buyer's Property:**

(a) All supplies, materials, tools, jigs, dies, gauges, fixtures, molds, patterns, equipment and other items furnished by Buyer, either directly or indirectly, to Seller to perform this Contract, or for which Seller has been reimbursed by Buyer, shall be and remain the property of Buyer and shall be held by Seller on a bailment basis ("Buyer's Property"). Seller shall bear the risk of loss of and damage to Buyer's Property. Seller shall indemnify and save harmless Buyer from all liens and claims upon Buyer's Property arising from any cause.

(b) Buyer's Property shall (i) at all times be properly and safely stored and maintained in good condition, reasonable wear and tear excepted, at Seller's expense; (ii) not be used by Seller for any purpose other than for the performance of this Contract; (iii) be deemed to be personal property and shall not be attached or affixed to real property; (iv) be recorded by Seller and conspicuously marked by Seller as the property of Buyer; (v) not be commingled with the property of Seller or with that of any other person; and (vi) not be moved from Seller's premises without the prior written approval of Buyer's Representative.

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(c) Buyer shall have the right to enter Seller's premises at all reasonable times to inspect Buyer's Property and Seller's records with respect thereto. Upon the request of Buyer, Buyer's Property shall be immediately released to Buyer or delivered to Buyer by Seller, either (i) F.O.B. or F.C.A. (as applicable)- Seller's address on the face of the Purchase Order (Incoterms, 2000), properly packed and marked in accordance with the requirements of the carrier selected by Buyer to transport such property, or (ii) as otherwise directed to any location designated by Buyer, in which event Buyer shall pay to Seller the reasonable costs of delivering Buyer's Property in such manner and to such location. When permitted by law, Seller waives any lien or other rights that Seller might otherwise have on any of Buyer's Property for work performed on such property or otherwise.

23. **Government Property**

In this Article,

"Government" means the Buyer's customer in respect of the prime contract to which this Contract relates;

"Government Property" means all property owned or leased by the Government and provided to the Seller by the Buyer or the Government in relation to this Contract.

(a) Seller agrees:

- (i) to use Government Property solely for the purposes of this Contract;
 - (ii) that title in and to Government Property shall at all times remain with the Government;
 - (iii) to take all necessary steps to protect and safeguard Government Property from loss, damage, destruction or theft; (iv) to tag and properly identify Government Property;
 - (v) to segregate and secure Government Property so as to ensure that it does not become commingled with property of the Seller or third parties;
 - (vi) not to incorporate Government Property into or attach it to any property not owned by the Government, unless permitted in writing by the Buyer or the Government;
 - (vii) not to permit Government Property to become a fixture or to be attached to real property;
 - (viii) to periodically perform a physical inventory of all Government Property; (ix) to bear the risk of any loss or damage to Government Property; and
 - (x) to create and maintain records of all Government Property and permit access to those records by the Buyer and/or the Government as requested.
- (b) In the event Seller is provided with Government Property to support engineering and manufacturing activities relevant to the test and evaluation of form, fit and function of an end item deliverable, Seller shall return the Government Property to the Buyer or the Government in the same condition it was provided, less reasonable wear and tear.

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(c) Upon request, Government Property shall be immediately released, packed and delivered in accordance with suitable commercial practice to the destination set forth in the delivery instructions provided by the Buyer and/or the Government.

(d) Disposal of Government Property shall only be as directed in writing by the Buyer or Government.

24. **Service and Replacement Parts:**

(a) Seller shall: (i) maintain in inventory an adequate quantity of Goods as necessary to fulfill all of Buyer's Requirements (as defined herein) for a minimum period of three (3) years following Contract initiation; (ii) supply to Buyer all of Buyer's Requirements for a minimum period of thirty (30) years following Contract initiation ("Required Inventory Term"); and (iii) maintain all supplies and items (including drawings, specifications, tooling, fixtures, gauges) necessary for Buyer's Requirements for the Required Inventory Term ("Required Supplies").

(b) In the event Seller determines that it is unable to comply with (a) above, Seller shall: (i) provide Buyer with a minimum of twelve (12) months prior written notice before Seller takes any action to discontinue its supply of Buyer's Requirements, and (ii) make available to Buyer, without restriction, all Required Supplies as Buyer may deem necessary to facilitate Buyer's ongoing supply of Goods.

(c) Unless otherwise agreed to by Buyer, the price(s) for the Goods during the first three (3) years following Contract initiation shall be fixed. For the remainder of the Required Inventory Term, the price(s) for the Goods shall be as agreed to by Buyer and Seller. Upon Buyer's request, Seller shall make service literature, technical support documentation, and other similar materials available to Buyer, at no additional charge, to support Buyer's service parts activities.

(d) For the purposes of this Article, "Buyer's Requirements" shall mean all Goods required for use in Buyer's manufacturing and service parts operations, and Buyer's rebuild, power, marine and industrial businesses.

25. **Remedies:**

The rights and remedies reserved to Buyer in this Contract are cumulative with, and in addition to, any other rights and remedies provided by law or in equity.

26. **Compliance with Laws; Customs; Export Controls:**

(a) Seller shall (i) comply with all applicable laws, rules, regulations, ordinances and orders of all applicable local, province/state and federal government authorities (including but not limited to the **, United Nations Act, and the United States Arms Export Control Act, International Traffic in Arms Regulations, and Export Administration Regulations, as amended from time to time, and (ii) procure all applicable registrations, licences/permits or other official authorizations, and pay all fees and other required charges.

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For routed transactions and without limiting the generality of the foregoing, Buyer hereby authorizes Seller to act as the exporter and forwarding agent for items being exported from the United States from Seller to Buyer. Seller is required to prepare and submit the Electronic Export Information and to facilitate the export of items from the United States.

(b) Without limiting the generality of the foregoing, if the United States Government requires an export licence, or other government approval, Seller shall not transfer, by any means, directly or indirectly, any hardware, software, technology, information or technical data disclosed under this Contract to any individual or country without first obtaining such licence or approval. Seller shall provide a copy of license to ** prior to first shipment and include destination control statement.

(c) Seller agrees (i) to insert the substance of this Article in all subcontracts entered into in connection with this Contract and (ii) that this Article shall survive the completion, termination, or cancellation of this Contract.

(d) Seller MUST complete appropriate ** Customs Invoices for all shipments originating outside of ** destined to a ** address that originate from a point outside of **. Seller's failure to provide properly executed ** Customs Invoice shall entitle Buyer, at Buyer's option, to charge Seller for reasonable administrative costs incurred. Seller shall refer to Buyer's website ** for instructions on determining appropriate ** Customs Invoice.

(e) Upon Buyer's request, seller shall promptly provide written certification (i.e. ** certificate) to Buyer for all goods covered under a qualifying free trade agreement. Seller shall refer to Buyer's website for additional details on providing ** certificates **.

(f) Sellers located outside ** shall promptly provide name, address, and phone number of customs broker used by Seller to facilitate the customs clearance of goods returned to Seller.

27. **Setoff/Recoupment:**

Buyer shall have the right to setoff any amount owing to Buyer or any of its affiliates and/or subsidiaries or any other contractual agreement between Buyer and Seller or their respective affiliates and/or subsidiaries.

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28. **No Advertising; Use of Trademarks:**

Except as required by law, Seller shall not, in any manner, release any form of public statement (including an advertisement or the creation of any website content) related to this Contract or any work performed in connection with this Contract, without Buyer's prior written consent. Seller agrees not to use any trademarks or trade names of Buyer without Buyer's prior written consent. The provisions of this Article shall survive the completion, termination, or cancellation of this Contract.

29. **No Implied Waiver:**

The failure of either party at any time to require performance by the other party of any provision of this Contract shall in no way affect the right to require such performance at any time thereafter, nor shall the waiver of either party of a breach of any provision of this Contract constitute a waiver of any succeeding breach of the same or any other provision.

30. **Assignment, Delegation; Subcontracting:**

(a) Unless prior written consent is provided by Buyer, Seller shall not (i) assign or transfer any of its rights or interest in this Contract, nor (ii) delegate or subcontract any of its duties or obligations under this Contract. This Article shall not limit Seller's ability to purchase standard commercial supplies or raw materials.

(b) No assignment, transfer, delegation or subcontract ("Assignment") by Seller, with or without Buyer's consent, shall relieve Seller of any of its obligations under this Contract, or prejudice any of Buyer's rights against Seller, whether arising before or after the date of any Assignment.

31. **Relationship of Parties:**

Seller and Buyer are independent contracting parties and nothing in this Contract shall make either party the agent or legal representative of the other for any purpose whatsoever, nor does it grant either party any authority to assume or to create any obligation on behalf of or in the name of the other. Nothing in this Contract shall be read to create any partnership, joint venture, trust or other fiduciary relationship between the parties.

32. **Governing Law; Jurisdiction; Dispute Resolution:**

(a) The validity, performance, interpretation and construction of this Contract and/or the rights and obligations of the parties arising under or in connection with this Contract shall be governed and construed in accordance with the laws of the ** and those of ** applicable therein, excluding its choice of law rules and excluding the Convention for the International Sale of Goods.

(b) All disputes arising from or relating to this Contract, with the sole exception of disputes regarding the creation or ownership of any and all intellectual property, shall be irrevocably submitted to arbitration, to be conducted in **, in accordance with the **. In the event of any litigation, the Seller expressly agrees and consents to exclusive venue and jurisdiction in the courts of **, unless Buyer otherwise agrees in writing. Seller hereby waives any defence of inconvenient forum in connection with the maintenance of any such action or proceeding. Seller further agrees not to bring any action or proceeding in any other court or jurisdiction and expressly waives any subsequent objection to the judicial recognition or enforcement of any award granted hereunder. The language to be used in any proceedings shall be English.

**** Proprietary Information**
See Restriction on First Page

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(c) The procedures set forth in this Article shall be the sole and exclusive procedures for the resolution of Dispute(s) between the parties, arising under or in connection with this Contract; provided, however, that a party may seek a injunction equitable judicial relief if, in its sole judgment, such action is necessary. Despite such action, the parties shall continue to participate in good faith in the procedures specified in this Article. Each party is required to continue to perform its obligations under this Contract pending resolution of any Dispute(s), unless to do so would be impossible under the circumstances.

33. **Severability:**

If any provision of this Contract is invalid or unenforceable under any statute, regulation, ordinance, executive order or other rule of law, such provision shall be deemed reformed or severed from this Contract, as the case may be, but only to the extent necessary to comply with such statute, regulation, ordinance, order or rule. The remaining provisions of this Contract shall remain in full force and effect.

34. **Gratuities:**

Seller represents and warrants that neither the Seller, nor any of its officers, directors, employees, agents or representatives ("Seller's Employees") have offered or given, nor will Seller's Employees offer or give, any kickbacks or gratuities to any officer, director, employee, agent or representative of Buyer or Buyer's customer for the purpose of securing or amending this Contract or securing favorable treatment under this Contract.

35. **Anti-Corruption Compliance:**

The parties agree that in pursuing this Contract and performing under it, they will fully comply with the *Foreign Corrupt Practices Act*, the ** and other applicable anti-bribery laws. Without limiting the generality of the foregoing, the parties represent and agree that:

- (a) they have not and will not directly or indirectly offer, give, promise or authorize anything of value to any government official, United Nations official, political party, party official or candidate for office ("Public Official") for the purpose of obtaining or retaining business or gaining any competitive advantage;
- (b) no Public Official has nor will benefit, directly or indirectly, from the compensation that the parties may receive in connection with this Contract or proceeds of any subcontract related thereto; and
- (c) they will cause their employees, directors and Subcontractors to comply with the provisions of this Article in connection with this Contract and any subcontract or agreement related thereto.

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36. **Foreign Offset:**

This Contract has been awarded with the cognizance of ** Industrial Participation Programs, all offset credits resulting from this Contract are the sole property of ** to be applied to the offset program of its choice. Seller agrees, at no cost, to assist ** in securing appropriate offset credits from the respective government authorities. Any offset credits earned resulting from these transactions must receive written consent and authorization from ** prior to use.

37. **Privacy:**

(a) In the event that during performance of this Contract Seller collects, uses, or discloses Personal Information (as defined herein), of Buyer's officers, directors, employees, contract personnel, or any agents or representatives of Buyer, Seller shall comply with all applicable international, federal, state, provincial and local laws, rules, regulations, directives and governmental requirements currently in effect and as they become effective relating in any way to the privacy, confidentiality or security of such Personal Information.

(b) Seller agrees to maintain and implement a comprehensive, written information security program that includes appropriate administrative, technical and physical safeguards and other security measures designed to protect the security and use of such Personal Information. Seller agrees to notify Buyer immediately in writing of any breach of this Article or any unauthorized use or disclosure of or access to any Personal Information of which Seller becomes aware. Seller shall promptly take all necessary and advisable corrective actions, and shall cooperate fully with Buyer in all reasonable and lawful efforts to prevent, mitigate or rectify such breach or unauthorized use, disclosure or access.

(c) Promptly upon the completion, termination, or cancellation of this Contract, or such earlier time as Buyer requests, Seller shall return to Buyer or its designee, or irrevocably destroy if return is not reasonably feasible or desirable to Buyer (which decision will be based solely on Buyer's written statement), each and every original and copy in every media of all Personal Information in Seller's possession, custody or control including, without limitation, all information and materials that contain or are derived from Personal Information. Seller's obligations under this Article shall survive the completion, termination, or cancellation of this Contract.

(d) For the purposes of this Article, "Personal Information" means any information about an identified or identifiable individual, including but not limited to, birthday, age, social insurance number.

38. **Entire Agreement; Amendments:**

(a) This Contract, constitutes the entire agreement between Seller and Buyer with respect to the matters contained herein and supersedes all prior oral or written representations and agreements.

(b) This Contract may only be modified by a Contract Amendment issued in writing and signed by Buyer's Representative.

**** Proprietary Information**
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39. **Notices:**

(a) All notices required or permitted to be given under this Contract shall be deemed given if such notice is in writing and delivered (i) personally, (ii) by prepaid courier or registered mail addressed to Seller's representative or Buyer's Representative, as the case may be (the "Receiving Party"), at the address set forth in the Contract, or (iii) by facsimile addressed to the Receiving Party, at the address set forth in the Contract.

(b) The effective time of such notice: (i) if delivered personally, shall be on the day on which it was delivered, (ii) if delivered by prepaid courier or registered mail, shall be on the fifth (5th) business day after the time of such mailing (if both parties are within **) or on the tenth (10th) business day after the time of such mailing (if one party is located outside of **), or (iii) if delivered by facsimile, shall be on the first (1st) business day following transmission (provided that evidence confirming transmission receipt is provided).

40. **Work on Buyer's/Buyer's Customer(s) Premises:**

In the event that Seller and/or Seller's subcontractor(s) must enter Buyer's premises and/or Buyer's customer(s) premises for any reason in connection with this Contract, Seller and/or Seller's subcontractor(s) shall observe and comply with all rules, procedures and policies established by Buyer and/or Buyer's customer(s), including those with respect to security and safety.

41. **Records and Audit:**

Seller shall maintain and the Buyer, or Buyer's customer, or an authorized representative of Buyer's customer, shall have the right to examine and audit all books and records relating to this Contract showing all costs incurred, including direct costs such as labour, burden rates and subcontracts. Such books and records shall be made available at reasonable times at Seller's facility for up to three (3) years after final payment is made by Buyer hereunder.

**** *Proprietary Information***
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SECTION A, Annex A1

SHIPPING REQUIREMENTS

- a. Seller agrees: (1) to deliver goods to buyer at seller's dock in accordance with obligations outlined in FCA-Seller's Dock (Incoterms 2000) (2) suitably pack, mark and ship in accordance with Buyer's packing standards and carrier requirements to ensure lowest transportation cost and safe transport of the goods. No additional charge shall be made to the Buyer unless otherwise stated herein. If goods are to be exported from the United States, Seller agrees to 1) ensure that the appropriate destination control statement (i.e. ITAR or EAR) is referenced on Seller's commercial invoice and 2) provide Buyer's Export Compliance Department with a copy of applicable US export authorization prior to shipment of goods from the US.
- b. No charge shall be made by Seller for drayage or storage, unless otherwise stated herein.
- c. All shipping units (e.g. cartons, crates, skids, etc.) must be individually labeled, marked, or tagged clearly showing:
 - i. Supplier's name
 - ii. Complete Final Delivery Address
 - iii. Purchase Order Number Including Line & Release Number- If Applicable
 - iv. Part Number, Revision and Description
 - v. Quantity Shipped Per Part
 - vi. Shipping Unit number
 - vii. Package Weight Specify pounds or kilograms
 - viii. Waiver/Material Review Board (MRB) number where applicable
- d. Returnable containers must be clearly identified as such on the container and on the shipping documents.
- e. It is imperative that any previous markings on the shipping units are completely removed
- f. Separate manifests and packing list must be provided for each Final Delivery Address
- g. Two copies of Packing Lists must be provided with each shipment, included inside one of the shipping units (e.g. cartons, crates, skids, etc), and this unit must show "PACKING LIST ENCLOSED"
- h. All packing lists MUST include the following
 - i. Supplier Name
 - ii. ** Customer Contract Number If applicable
 - iii. Purchase Order Number including Line Item and Release
 - iv. Number
 - v. Part Number and Description

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- vi. Quantity Shipped per Part
 - vii. Bill of Lading Reference
 - viii. Total Number of Pieces Shipped
 - ix. Total Weight Shipped
- i. Seller agrees to describe material on Bills of Lading or other shipping receipt and to route in accordance with the routing instructions of the Buyer's International Trade & Transportation Department. The ship-to address referenced on Buyer's purchase order must be shown as part of the Bill of Lading. EXPEDITED TRANSPORTATION PERMITTED ONLY WITH AUTHORIZATION FROM BUYER.
 - j. Commercial invoice must be submitted in duplicate to the Accounts Payable Department, **. The proper commercial description of the goods must be on all invoices. Commercial invoices must show the marks, Numbers and Description of the Packages and ** purchase order number where applicable.
 - k. Seller MUST complete appropriate ** Customs Invoices for all shipments originating outside of ** destined to a ** address that originate from a point outside of **. Seller's failure to provide properly executed ** Customs Invoice shall entitle Buyer, at Buyer's option, to charge Seller for reasonable administrative costs incurred. Seller shall refer to Buyer's website **/purchasing/index.htm for instructions on determining appropriate ** Customs Invoice.
 - l. (a) Seller shall (i) comply with all applicable laws, rules, regulations, ordinances and orders of all applicable local, province/state and federal government authorities governing the transportation of dangerous goods and hazardous material and the, as amended from time to time, and (ii) procure all applicable registrations, licences/permits or other official authorizations, and pay all fees and other required charges.

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SECTION A – Annex A2

TRADE CONTROLS

It is the policy of ** to conduct its business in compliance with all applicable laws and regulations. Further, it is the policy of ** to only conduct business with suppliers who are registered with their government to participate in activities related to the defense industry; have proven not to require registration (i.e. commercial material, technology and/or services); are exempt from registration by their government but authorized to participate in defense activities (i.e. government agencies); or are not able to register as their government does not have a registration program (export licenses may still be required for the export of defense articles).

As such, all bidders are required to comply with the trade regulations as set forth by their country's government agencies responsible for export/import authorization and compliance, and to advise ** of any and all restrictions that may be imposed upon **.

End Use Information:

Suppliers to ** provide products and services supporting armoured vehicles destined for customers worldwide. End use information is necessary to determine the requirement for, and the completion of, export and import permit/license applications. For reference, the text of the Buyer's purchase order, or Letter of Intent to purchase, provides an end use statement to significantly reduce the requirement to complete individual End User Certificates.

Flowdown:

In the performance of any ensuing purchase order, Suppliers are required to flowdown end use information as well as the requirement for export controls compliance to their sub-tier suppliers. Suppliers are required to provide proof of retransfer authorization to ** as applicable.

This sub-section is applicable to US bidders only: (information ** Bidders begins on Page 3)

This section provides information to those suppliers who are manufacturers, brokers and/or importers/exporters of defense articles, to include technical data, and defense services subject to trade controls.

Jurisdiction of Parts:

The export and import of articles out of and into the United States, including technical data and defense services, may be subject to the jurisdiction of the US Department of State, Directorate of Defense Trade Controls (DDTC); the US Department of Commerce, Bureau of Industry and Security (BIS); or the US Department of Justice, Bureau of Alcohol, Tobacco, Firearms and Explosives (BATFE).

**** *Proprietary Information***
See Restriction on First Page

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DDTC, in accordance with the Arms Export Control Act (AECA) and the International Traffic in Arms Regulations (ITAR), is the organization within the US Department of State charged with controlling the permanent and temporary export and temporary import of defense articles, technical data, and defense services covered by the United States Munitions List (USML).

BIS is responsible for implementing and enforcing the Export Administration Regulations (EAR), which regulate the export and re-export of "dual-use" commodities, software and technology (those that have both commercial and military or proliferation applications); however, purely commercial items without an obvious military use are also subject to the EAR. Export of items not on the USML requires authorization by BIS either by exemption or export license.

BATFE is responsible for the permanent import of defense articles, as enumerated on the US Munitions Import List (USMIL) into the United States. Technical data is not included on the USMIL and permanent imports of data do not require an import authorization.

It is the Supplier's responsibility to identify to ** the jurisdiction of the goods they provide to ** – specifically if the goods are controlled under the ITAR or the EAR. The policy for designating and determining defense articles is set forth at 22 CFR 120.3. The intended use of the article or service after its export is not relevant in determining whether the article or service is subject to the controls of the ITAR. Any item enumerated on the USML is deemed to be a defense article or service and subject to the ITAR. It is important to note that the terms are defined broadly:

Ÿ A defense article is any good, software or piece of technical data that is designed, developed, configured, adapted or modified for a military application (22 CFR 120.3, 120.6)

Ÿ A defense service includes the furnishing of any assistance, including training, to foreign persons in the design, development, engineering, manufacture, production, assembly, testing, repair, maintenance, modification, operation, demilitarization, distribution, processing, or use of defense articles (22 CFR 120.6)

If there is doubt as to whether an article or service is in fact included on the USML, the Supplier shall follow the Commodity Jurisdiction procedure set forth at 22 CFR 120.4.

Registration for US Bidders

Any person who engages in the manufacture, brokering or exporting of defense articles or furnishing of defense services must be registered as a manufacturer and/or broker with the Directorate of Defense Trade Controls. Manufacturers who do not engage in exporting must also register with DDTC.

There is no registration requirement for manufactures/exporters of goods under the jurisdiction of the US Department of Commerce, Bureau of Industry and Security (BIS).

The requirements for registration are set forth in the ITAR at 22 CFR 22. In addition to paying a registration fee, the regulations require that you provide the US Department of State with specific information about your business, including such information as:

Ÿ The defense articles you manufacture and/or sell;

Ÿ The defense services you provide;

Ÿ The officers and directors of your company;

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- ÿ Whether your company, or any of its officers or directors, have been convicted of violating the Export Control Laws of the United States; and,
- ÿ Whether your company is owned or controlled by a foreign company.

As these regulations can be quite complex, you may wish to seek the advice of counsel or of an expert consultant to assist you in this process.

Proof of Registration and US Export Authorization for US Bidders:

As part of your response to this RFP/RFQ/Purchase Contract, you are required to provide either your company's DDTC registration number (per 22 CFR 122), a statement that your company has determined no such registration is required, or that your company has applied for registration. Use the form on page 6 of Annex A2.

You must also provide confirmation no later than 30 days prior to registration expiry that you have made the appropriate renewal applications to the US Department of State, Directorate of Defense Trade Controls. You must also provide confirmation to Buyer once renewal has been granted. Again, use the form on page 6 of Annex F2.

Licensing for US Bidders

Registration does not automatically confer export rights or privileges, and is essentially a precondition to the issuance of any export/import authorization. Once registered, your business must request and obtain authorization from DDTC for every permanent and temporary export and temporary import of defense articles and/or services. This authorization can be in the form of a license, agreement or exemption.

Export of items not on the USML requires authorization by BIS either by exemption or export license. BIS has determined that certain items may be exported to certain countries, for certain uses, by any exporter. Such a published determination is an exemption. It is not necessary to apply for permission to export under an exemption. Items under BIS jurisdiction that are not authorized for export under an exemption require an export license for export. Export licenses are handled on a case-by-case basis and require individual license applications.

Again, the regulations in this area are quite complex, and you may wish to seek the advice of an outside expert if your company does not have the necessary expertise in house.

Requirements for successful bidders:

1. If your company has determined that a license is not required under either the ITAR or the EAR, and that an exemption(s) will authorize all deliverables, provide notice stating applicable ITAR and/or EAR exemptions to Buyer within 30 days of receipt of the purchase order. Please note that the ** Exemption (ITAR) will be accepted as a valid exemption only in limited circumstances.
2. If your company has determined one or more export license(s) and/or agreement(s) are required from the US government to export the deliverables, forward evidence that application has been made for these approvals (e.g., the license/agreement application numbers) to Buyer within 30 days of receipt of the purchase order.

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3. Within 15 days of receipt of US government export approvals at your company, and in any case prior to first shipment of deliverables, forward copies of the approvals to Buyer. Buyer will in turn, and as required by ** law, attach your license(s) or exemption citation(s) to Buyer's application for ** export permit(s). You are further required to advise Buyer prior to shipment of parts if an export approval imposes special restrictions on use of a part (e.g. serialization).
4. You are further required to notify your Buyer in the event that an export approval is expiring, has been suspended or revoked.

Notice of Name Change

At any time, and to the maximum extent practicable, Seller will immediately notify Buyer of any pending or completed acquisitions, mergers, and/or name/address changes regardless of cause. Seller will provide details explaining cause. This requirement applies regardless of whether Seller is required to be registered with the DDTC.

The remainder of Annex A2 applies to ** bidders.

This sub-section is applicable to ** bidders only:

This section provides information to those suppliers who are manufacturers, brokers and/or importers/exporters of defense articles, to include technical data, and defense services subject to ** Export and Import Regulations.

** is administered by the ** for the regulation of access, in **, to controlled goods listed in the ** within the **. In order to examine or possess controlled goods and/or technology in **, the entity (business or individual) must be registered with the **. This includes individuals, partnerships, corporations and other business enterprises.

The ** regulates the export and import of strategic and other goods out of, and into, **. Export permits cannot be issued unless the entity (business or individual) is **-registered. The ** authorized the ** Government to establish an ** and an ** to control the movement of goods. ** within the ** authorizes the import and export of goods requiring permits. An export permit is required before an item included on the ** may be exported from ** to any destination, with the exception (in most cases) of the United States.

Registration for ** Bidders

The first step you must take is to determine your need to be registered with ** under the **. The requirements for registration are set forth on the ** web site at **. There is no fee to register; however, there may be internal costs for complying with the **.

**** Proprietary Information**
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You may wish to seek the advice of counsel or of an expert consultant to assist you in this process.

Proof of Registration for ** Bidders:

As part of your response to this RFP/RFQ/Purchase Contract you are required to provide either proof of your company's registration under the **, a statement that your company has determined no such registration is required, or that your company has applied for registration. Use the form on page 6 of Annex A2.

A successful bidder will be required to provide the amount of US controlled goods in their product; the regulatory authority for exporting that product from the United States into **; and any subsequent retransfer authorization as applicable.

You must also provide confirmation no later than 30 days prior to registration expiry that you have made the appropriate renewal applications to the **. You must also provide confirmation to Buyer once renewal has been granted. Again, use the form on page 6 of Annex A2.

Notice of Name Change

At any time, and to the maximum extent practicable, Seller will immediately notify Buyer of any pending or completed acquisitions, mergers, and/or name/address changes regardless of cause. Seller will provide details explaining cause. This requirement applies regardless of whether Seller is required to be registered with the **.

Completion of Trade Control Supporting Documents

In order for ** to retransfer certain US controlled articles or services, to include technical data, to Supplier, Supplier may be required to execute a Non-Transfer and Use Certificate (DSP-83) and/or a Non-Disclosure Agreement (NDA). If Supplier will not execute these documents as requested ** will not be able to provide Supplier with US controlled goods.

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**

TO: **

FAX: **

ATTENTION: Supply Chain Management Export Compliance

SUBJECT: Export Controls Registration Status

FROM:

Company Name

Company Address

**EXPORT
COMPLIANCE
CONTACT NAME:**

TITLE:

PHONE NUMBER:

FAX NUMBER:

EMAIL ADDRESS:

SIGNATURE:

- Notification of Registration from the ** is attached **OR** Certificate of Registration from the ** is attached.
- Application for Registration has been submitted. The date of application was _____ Notification or Certificate of Registration will be forwarded once received.
- Registration under the ITAR (US) or ** is not required, as we provide commercial material, technology, and/or services only.
- Registration under the ITAR (US) or ** is not required, through government exemption.
Note: ** can exempt ** entities from ** registration (ex. ** Government Department or Agency).

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Section A – Annex A4

MATERIAL SAFETY DATA SHEET (MSDS) INFORMATION REQUIREMENTS

Introduction

The following policies and instructions are intended as guidelines for the completion of Material Safety Data Sheets (MSDS) to Buyer's standards. The information provided will be used in programs to protect the health, safety and environment of individuals and communities associated with the Buyer's sites. The chemical manufacturer, importer, distributor or employer preparing the MSDS shall ensure that the information recorded accurately reflects the scientific evidence used in making the hazard determination and complies with all applicable international, national, state, province, and local laws.

Materials that require MSDSs

- All liquids, gases, pastes, powders, flakes, gels, aerosols, and many solids.
- Any product which generates dust, fumes, fog, vapor, etc., during shipping, storage, handling, use, or disposal.
- Any product with specific ventilation requirements.
- Any product with personal protective equipment (PPE) requirements or recommendations.
- Any product stored in a pressurized cylinder or container.
- Any product that emits radiation higher than background.
- Any product intended to be altered, processed, etc., (e.g., cut, mold, grind).
- Lubricants or coatings on steel or other articles.
- "Articles" that will be processed by Buyer.
- "Consumer products" that are not used in a manner typical to a consumer.

Examples of these products include but are not limited to:

1. Abrasives
2. Acids & caustics
3. Adhesives & sealers
4. Castings, forging
5. Cleaners
6. Compressed gases
7. Coolants & metalworking fluids
8. Flux (e.g., soldering)
9. Fuels (e.g., coal & gasoline)
10. Insulating materials
11. Lubricating oils & greases
12. Nylons & other plastics
13. Office supplies containing hazardous chemicals
14. Oxidizers
15. Paint & related chemicals
16. Pesticides & biocides
17. Printer's inks
18. Resins
19. Soaps
20. Solder
21. Solvents
22. Steel
23. Welding rods & wires
24. Wood

µ: Indicates an essential information standard that must be met for all products.

**** Proprietary Information**
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General instructions (Applicable to all MSDSs submitted to Buyer)

Language

The MSDS must be provided in the language of the country of origin. A copy of the MSDS must also be available in English.

Readability

The MSDS must be legible. Font, point type, margin width and format for an MSDS must allow for quality reproduction, copying, and faxing.

Blanks/Negative Responses

Blank data fields are not acceptable as a negative response. Terms like “not applicable (NA)”, “not established (NE)”, “not available”, “none”, “none known”, “unknown”, “not determined”, etc., may be accepted in place of data on the MSDS or addendum. If abbreviations are used for these terms, a legend should be provided explaining them. For ** use, only “not applicable” (not app) or “not available” (not ava) can be used as a negative response for a ** controlled product.

Full Disclosure

Ingredients listed in **Section 2** or on the addendum must add up to at least 100%. (See **Section 2** of this document for details.)

Confidentiality Policy

Any MSDS, attachment or addendum marked “confidential” “proprietary” “trade secret” or words to that effect will be returned to the supplier or destroyed. Material marked “for Buyer’s use only” will be accepted but will not constitute a secrecy agreement on the part of the Buyer. Buyer **does not sign secrecy agreements**. (See **Section 2** of this document for guidelines on protecting trade secret information.)

Addendum/Addenda

It is no longer necessary to fill out a Buyer MSDS form. Instead, your company’s MSDS may be submitted along with a separate page listing any remaining data required by BUYER. It may be called an addendum, attachment, additional information or words to that effect. This addendum, however, must be clearly labeled with the trade name and should be dated.

Regulatory Compliance

All suppliers are expected to comply with local, regional, national and international regulations. For example, the US and ** maintain listings ** and ** respectively) of chemicals approved for commercial commerce within their borders that may require usage reports and/or are restricted in some fashion. **Suppliers must include this information on the MSDS**. Furthermore, the MSDS or addendum must include:

- A listing of all ingredients constituting 1% or more of the product
- A listing of all ingredients constituting 0.1% or more of the product that are recognized as carcinogens
- Written statements of compliance to all local, regional, national and international regulations for all non-listed ingredients constituting less than 1% of the product

µ: Indicates an essential information standard that must be met for all products.

**** Proprietary Information**
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(See **Section 2** of this document for details.)

Dates (Policy & Definitions)

- The MSDS date of preparation or effective/revision date must be less than 3 years old.
(See **Section 1** for exceptions to this rule.)
- Date of Preparation - The date the MSDS was prepared or originated. This could also be the effective/revision date.
- Effective/Revision Date - The date the MSDS is considered to be as complete and accurate as possible in describing the product as provided and relevant information such as manufacturer/supplier name, address and phone number. The effective and/or revision date will change as the product formulation changes or when new data on health, safety, environmental impact, regulations, toxicology or handling information becomes available.
- Print Date - The print date will not be considered the effective date.

Essential versus Optional Information

The following 16 section format, based on the ISO 11014 and ANSI Z400.1 standards, is the preferred format for an MSDS, but other formats are acceptable.

Those items identified with a circled star (μ) represent minimum requirements that must be met for all materials. Those items not identified with μ are not required, but are desirable.

Data sheets and addenda that do not meet these requirements will be labeled non-compliant and remain so as long as these key areas of information are not provided. In these cases, BUYER sites will be encouraged to find alternate materials from compliant suppliers. Suppliers are strongly encouraged to supply all the other remaining information but will not be labeled as non-compliant if that information is incomplete.

The following are section-by-section instructions for Sections 1 - 16 of the MSDSs.

SECTION 1 - Product and Company Identification

- μ 1. Indicate the product name or number **as it appears on the label**.
- μ 2. Provide appropriate synonyms that apply to the product.
- μ 3. Indicate the name of the manufacturer **as it appears on the label**. If the supplier is different from the manufacturer, then clearly identify the responsible party(ies) preparing or distributing the MSDS who could provide additional information on chemical components and/or emergency procedures. Include complete addresses and phone numbers for each party. Indicate the specific nature of the phone numbers such as information, fax, emergency, national emergency response lines (e.g., CHEMTREC - Chemical Transportation Emergency Center USA, NRC - National Response Center USA, **).
- 4. Indicate the preparer's name and title and include a phone number if it is different from the emergency or information phone number.
- μ 5. Clearly, indicate the date of preparation or the revision/effective date of the MSDS. If the date is more than three years old and no changes have been made to the data sheet (e.g. area code, address, verbiage) or the product, then a written statement with a current date may be submitted and it will be considered the effective date in lieu of revising the document.

μ: Indicates an essential information standard that must be met for all products.

**** Proprietary Information**
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SECTION 2 - Composition/Information on Ingredients

- μ 1. Buyer requires 100% disclosure of all ingredients found in a product. This means an ingredient present at 1% or greater (0.1% for carcinogens) must be listed, even if it is generally considered non-hazardous (e.g., water). In addition, ingredients present at less than 1% in the product must be listed if those ingredients would be present at 1% or greater in the “dry” product. (For example, if zinc oxide is present at 0.7% in the product as shipped, but is present at 1.2% after applying the product to a substrate, this ingredient must be listed.) If a CAS (Chemical Abstract Services) registry number exists for an ingredient, it must be listed along with the proper chemical name or common chemical name or synonym on the MSDS or addendum. Exceptions to CAS number disclosure for trade secret ingredients may be granted if a good chemical description is provided (see below for an explanation of a “good chemical description”).

If a CAS registry number of an ingredient is not available because the item is not a discrete chemical that can be represented by a chemical formula or is a mixture where the identity of individual components may be unknown or may vary, then a good chemical description must be provided. **Examples** of good chemical descriptions include, but are not limited to, those shown in the following table:

| <u>Unacceptable Name</u> | <u>Acceptable Name</u> |
|-------------------------------|---|
| 1. Resin | 1. [Alkyd or benzophenol or other] resin (see other examples below) |
| 2. Urethane resin/polymer | 2. Diphenylmethane diisocyanate (MDI) based urethane resin |
| 3. Polyurethane resin/polymer | 3. Diphenylmethane diisocyanate (MDI) based urethane resin |
| 4. Hydrocarbon resin | 4. Alkyd resin |
| 5. Plasticizer | 5. Phthalate plasticizer |
| 6. Surfactant | 6. Linear alkyd sulfonate (LAS) |
| 7. UV Absorber | 7. Benzotriazole |
| 8. Additive | 8. A specific chemical family is required |
| 9. Epoxy resin | 9. Bisphenol A diglycidyl ether epoxy resin |
| 10. Phenol resin/polymer | 10. benzophenol based resin |
| 11. Thickener | 11. Starch (gelatin, semi-synthetic cellulose) |
| 12.. Pigment or Colorant | 12.. Yellow iron oxide pigment |
| 13.. Inhibitor | 13.. Acetanilide |
| 14. Antioxidant | 14. â-Naphthylamine |
| 15. Curing agent | 15. TDI based urethane prepolymer |
| 16. Emulsifier | 16. Fatty acid emulsifier |
| 17. Detergent | 17. Alkyl benzene sulfonate (ABS) |

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- μ 2. Indicate the percentage of each ingredient in the product and identify if the value represents percent by weight or percent by volume. Ranges should be within $\pm 5\%$ of the true value for all components (both hazardous and non-hazardous). Exceptions will be made in those situations where a $\pm 5\%$ range will not accurately describe the product (e.g., when the base oils vary from batch to batch depending on crude oil availability). For a WHMIS controlled product for use, ranges must comply, at a minimum, with WHMIS regulations. Summation of exact percentages must equal 100%. Summation of maximum ranges must equal or exceed 100%. Summation of minimum ranges must equal or be less than 100%. **Carcinogens and chemicals subject to national reporting requirements by CAS registry number (e.g., SARA 313, NPRI) should be given in exact percentages.** For non-carcinogenic ingredients present in the product at $<1\%$, but still provided on the MSDS, T for trace will be accepted in place of a numeric value (for carcinogenic, biocide, flame retardant, and pigment ingredients, T may be used for items $<0.1\%$). One item on the list may be listed as “balance” or “remainder”.
- If the ingredient is present in the product at less than 1% and is not a hazardous substance, carcinogen, or known to cause toxicological problems in and of itself, or during processing, but is still provided on the MSDS, then a functional description such as “additive” will be acceptable.
 - In addition, similar items may be grouped (e.g., “colorants”), even if their total is greater than 1% (0.1% for appropriate chemicals), provided that no one chemical is present in the product at $>1\%$.
- μ 3. List appropriate exposure guidelines or limits for all of the product’s components identifying the source, e.g., OSHA PEL (Occupational Safety and Health Administration Permissible Exposure Limits), ACGIH TLV (American Conference of Governmental Industrial Hygienists Threshold Limit Values), NIOSH REL (National Institute of Occupational Safety and Health Recommended Exposure Limits), manufacturer standard, etc., and clearly indicating the units of measure for the given guidelines.
- μ 4. For any ingredient that is not identified by the CAS number, the following toxicological information requirements apply.
If the component is greater than 10% of the chemical material, industrial hygiene sampling, monitoring and/or toxicological data must be provided on the component.
If the component is less than 10% of the chemical material, industrial hygiene sampling, monitoring and/or toxicological data may be required.
If industrial hygiene or toxicity information is not available, then a statement or words to that effect must appear on the MSDS or addendum.
See **Sections 3, 8, 9, 10 and 11** for examples of industrial hygiene and toxicology information.

SECTION 3 - Hazards Identification

1. Provide a clear, brief emergency overview describing the material’s appearance and most significant immediate concerns for emergency response personnel. This section may contain adverse human health effects, environmental effects, physical or chemical hazards.
- μ 2. Indicate the primary routes of entry such as skin, eye, inhalation, and ingestion or any combination thereof. If no applicable information is available; then a statement or words to that effect must appear on the MSDS or addendum.
- μ 3. Describe medical conditions (e.g., asthma) which are generally recognized as being aggravated by exposure to the product or its constituents. If no applicable information is available, then a statement or words to that effect must appear on the MSDS or addendum.

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SECTION 4 First Aid Measures

- μ 1. Provide emergency and first aid instructions to be followed in the event of overexposure to the product. If no applicable information is available, then a statement or words to that effect must appear on the MSDS or addendum.
- 2. Describe any procedures to be used by trained medical personnel above and beyond first-aid procedures in event of overexposure.
- 3. List any known antidotes, if applicable.
- 4. Include notes to physicians, if applicable.
- 5. Provide advice for the protection of first-aiders, if appropriate.

SECTION 5 - Fire-Fighting Measures

- μ 1. Indicate the flash point of the product and specify the method used. Use exact values whenever possible. For those instances where the flash point is difficult to determine (e.g., it boils out of the cup), or extremely dangerous to test, the following convention will be accepted: If the flash point is greater than 212°F (100°C), then >212°F (100°C) may be used if the actual value is unknown. If the flash point is less than 0°F (-17°C), then <0°F (-17°C) may be used. If no applicable information is available, then a statement or words to that effect must appear on the MSDS or addendum.
- μ 2. LEL/UEL (Lower Explosive Limits/Upper Explosive Limits) must be provided for liquids and gases. If no applicable information is available, then a statement or words to that effect must appear on the MSDS or addendum.
- 3. List autoignition temperature for the product, if applicable.
- μ 4. Specify the appropriate fire extinguishing media. If no applicable information is available, then a statement or words to that effect must appear on the MSDS or addendum.
- μ 5. Indicate fire or explosion hazards. If no applicable information is available, then a statement or words to that effect must appear on the MSDS or addendum.
- 6. Describe special fire fighting procedures, if applicable.
- μ 7. Give health, flammability and reactivity ratings for the product using NFPA criteria, if available.

SECTION 6 - Accidental Release Measures

- μ 1. Indicate steps to be taken in case material is released or spilled including recovery, neutralization or disposal if they are different than section 13.
- 2. Describe expected environmental impact resulting from the release of the product.
- 3. Provide information on secondary hazards and their prevention (e.g., contaminated surfaces may be slippery, post appropriate warnings, etc.).

SECTION 7 - Handling and Storage

- μ 1. Indicate storage precautions (e.g., incompatible products, conditions to avoid, temperature requirements, etc.). If no applicable information is available, then a statement or words to that effect must appear on the MSDS or addendum.
- 2. Indicate handling precautions recommended for other activities associated with the product such as grinding, power sanding, welding, etc.

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SECTION 8 - Exposure Controls/Personal Protection

- μ 1. If appropriate, indicate engineering measures or controls recommended to reduce exposure including ventilation type and rate.
- μ 2. Provide any generally applicable personal protective equipment (PPE) recommendations in accordance with the intended use of the product including specific suitable materials (e.g., neoprene gloves - not impervious gloves; safety glasses - not eye protection; organic vapor respirator - not respirator) for respiratory, hand, eye, skin and/or body protection. If temperature and/or pressure conditions that warrant special and/or additional PPE precautions. If no applicable information is available, then a statement or words to that effect must appear on the MSDS or addendum.
- μ 3. If appropriate, indicate any specific hygiene measures or practices that should be followed.

SECTION 9 - Physical and Chemical Properties

- μ 1. Identify the physical and chemical properties that characterize the product including information on physical state. Report data in appropriate units of measurement with pertinent reference conditions and/or test methods.
- μ 2. List the specific gravity or range for all liquid and semi solid materials (water = 1). If a range must be used, then it should be no greater than 0.05.
3. Indicate the density of the product.
4. Provide the theoretical or analytical Volatile Organic Content (VOC) or Reportable VOC (RVOC) in lbs./gal, gms/liter, or percent by weight, or if a solid, in gms/gm or lbs/lb.
- For surface coatings (such as paints, inks, and adhesives) and solvent-based materials, analytical VOC content is preferred for all products and is required for productive materials. The analytical method used must be specified (e.g., U.S. EPA Method 24 or 24a).
 - For non-surface coatings, any constituent with a vapor pressure >0.1 mm HG at 20°C or at intended use conditions (e.g., heated fluids) and/or containing < 12 carbon atoms is considered to be a Reportable VOC (RVOC). Additionally, light naphthenic and paraffinic distillates should also be considered to be RVOCs.
 - If the VOC is 0 lb/gal, then a statement such as 0, zero, none, no VOC/RVOC present, or words to that effect must appear on the MSDS or addendum.
 - If the product obviously has no VOC content because of its ingredients, physical state (e.g., wood, oxygen, welding rod, inorganic) or generally accepted processing practices, then the VOC/RVOC statement does not have to appear on the MSDS or addendum. If the product releases VOCs or RVOCs during processing (e.g., plastics, elevated temperatures), then a VOC/RVOC value as described above must be reported.
- μ 5. Provide a pH value or description. Use exact values whenever possible. Terms such as acidic, neutral, caustic, or alkaline may be accepted in some situations but more specific information such as <4 or >10 are preferred when actual values are not available. In addition, specify if the reported pH represents the packaged material (e.g., concentrate) or the typical use dilution. When a dilution pH is given, list typical dilution percentage. If no applicable information is available, then a statement or words to that effect must appear on the MSDS or addendum.
6. Indicate the specific temperature or temperature ranges at which changes in physical state occur (e.g., boiling point, freezing/melt point).

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7. Indicate the vapor density and specify the temperature.
 8. Indicate the vapor pressure in mm Hg and specify the temperature.
 9. Indicate the percent solid by weight and for paints by volume.
 10. Indicate the evaporation rate. Specify the reference solvent (e.g., n-butyl acetate or ether as equal to 1).
 11. Indicate the product's solubility in water.
 12. Indicate the molecular weight of products that are pure chemicals (e.g., gases).
 13. Indicate the viscosity of the product as supplied and specify the temperature.
- μ 14. Include additional chemical and physical data as deemed necessary to promote safe use and handling of the product (e.g., color, odor, radioactivity, particle size, softening point, octanol/water partition coefficient).

SECTION 10 - Stability and Reactivity

- μ 1. State if the material is stable or unstable under normal, anticipated storage and handling conditions of ambient temperature and pressure.
2. Indicate any hazardous material releases that will or may occur including both potential and actual releases through normal processes such as baking, welding, spraying, etc., that are not specifically listed as ingredients in **Section 2** or listed below as hazardous decomposition products.
- μ 3. List any conditions such as heat, pressure, shock, or other physical stresses that might result in a hazardous situation.
4. Indicate incompatible materials that the product could react with to produce a hazardous situation.
- μ 5. Indicate hazardous decomposition products produced by burning, oxidation, heating or chemical reaction (e.g., phenol, formaldehyde and isocyanates.)
6. State if the material is subject to hazardous polymerization and specify the conditions that might induce polymerization.

SECTION 11 - Toxicological Information

- μ 1. Summarize the information on the various possible health effects, which might arise if the user comes in contact with the product. If no data is available on the product, then information on the hazardous constituents may be used. Information may cover clinical test data on acute toxicity (e.g., LD50-oral/dermal [species specific], LC50-inhalation [species specific]), irritation scores, target organs, effect and no-effect levels, species differences, local effects, subchronic and/or long term toxicity, and sensitization. If applicable, list the information according to different exposure routes (e.g., inhalation, skin contact, eye contact and ingestion).
- If applicable, list effects due to single exposure, repeated exposure and continuous exposure.
 - If applicable, list immediate and delayed effects.
 - If applicable, include specific results from studies or reports in areas such as teratogenicity, neurotoxicity, mutagenicity, reproductive effects and epidemiology.
- μ 2. State the carcinogenic status of any ingredient per NTP, IARC, OSHA, ACGIH and/or any other source appropriate to the country of origin and the country of destination.

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SECTION 12 - Ecological Information

1. Summarize information on the possible environmental effects of the material including potential environmental impact, soil mobility, product persistence or degradability, bioaccumulation and ecotoxicology data. If no applicable information is available, then a statement or words to that effect should appear on the MSDS or addendum.
2. Provide a Material Environmental Data Sheet (MEDS), if available.

SECTION 13 - Disposal Considerations

- μ 1. Recommend methods for safe and environmentally preferred disposal of uncontaminated bulk product, residue, or emptied packaging.

SECTION 14 - Transport Information

- μ 1. List appropriate national and international information on codes, classifications, hazardous material descriptions, proper shipping names and packing groups for regulatory purposes differentiated by mode of transport.
- US Suppliers: indicate Department of Transportation (DOT) hazardous materials description/proper shipping name, hazard class, UN (United Nations)/NA (North American) identification numbers and packing group according to 49 CFR 172.101 and other international restrictions as applicable. Include classification changes based on quantity, packaging or shipment. If the material is not regulated by DOT, include a statement to that effect.
 - ** Suppliers: indicate ** classification and/or other international restrictions as applicable.
2. Indicate additional transportation restrictions.
 3. Specify any precautionary transport measures and/or conditions.

SECTION 15 - Regulatory Information

- μ 1. Indicate information on regulations specifically applicable to the chemical product and/or its constituents and include appropriate international and national requirements.
- US:
List the chemical identity of any EPCRA (SARA Title III) 302 Extremely Hazardous Substance. Provide its threshold planning quantity (TPQ) and its reportable quantity (RQ).
 - ø Indicate the appropriate categories for the product under EPCRA (SARA Title III) 311 and 312 (i.e., immediate health hazard, delayed health hazard, fire hazard, sudden pressure release hazard, and reactivity hazard). Specify product components subject to EPCRA (SARA Title III) 313 reporting. **(See Section 2 for chemical name, CAS number and percentage requirements).**
 - ø **Indicate whether the product or its constituents are listed in the EPA inventory.** Where appropriate include information on other elements of TSCA such as Significant New Use Rule (SNUR), Final Consent Orders, Research and Development Limitations, Export Notification Requirements, and Exemptions from TSCA (e.g., pesticides, foods, and drugs).
 - ø List the RCRA hazardous waste codes that apply to the product as packaged.

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ø List the CERCLA Reportable Quantity (RQ) for the product and its constituents.

• **

ø Workplace Hazardous Materials Information System (WHMIS) Hazardous Product Act - Part II, Controlled Products Regulations; Hazardous Materials Information Review Act and Regulations;

ø ** - ** or **, Export Notification.

ø **

- μ 2. In the United States and/or **, list any state or province health & safety and environmental regulations for ingredients contained in the product for the states or provinces where the material is manufactured or marketed. Include state right-to-know listed substances or specialized data requirements.

SECTION 16 - Other Information

1. Use this section for information that does not fit into a previous category. Examples of data to include here are: label text, hazard ratings, revision indicators, key/legend, references, recommended use, special training needs and possible restrictions.
2. Indicate the sections that have been revised or changed since the previous issue of the MSDS.

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SECTION B

ADDITIONAL TERMS AND CONDITIONS APPLICABLE TO CONTRACTS ISSUED UNDER A GOVERNMENT CONTRACT

When the work and materials covered by this order are for use under a **Government** contract an acceptance of this order constitutes an acceptance of the following terms and conditions:

1. Notice Of Government Contract

Seller acknowledges that it has been notified that the work and materials covered by this order are for use under a Government contract, hereinafter called the "Government Contract".

2. Access to Seller's Facilities

Access to all reasonable facilities of the Seller will be granted for representatives of Buyer, and/or Government representatives visiting in an official capacity upon pre-arranged notice.

3. Inspection

Seller agrees to provide and maintain a quality system, which satisfies the requirements specified in this order. Seller's quality system and manufacturing processes shall be subject to review, verification and analysis by Buyer, the Government and the Government's representatives. All work and materials covered by this order shall be subject to inspection and test by the Buyer and/or the Government at all times and places and, when practicable, during manufacture. Both the Government and Buyer shall have the right to reject any work and materials found to be defective or not in accordance with the drawings or specifications, and shall have the right to require its replacement or correction.

If an inspection is made by Buyer or the Government on the premises of Seller or its subcontractors, Seller shall provide all reasonable facilities and assistance for the safety and convenience of the Buyer's or Government's representatives in the performance of their duties and shall provide test pieces and samples which may reasonably be required by such representatives. All inspection and evaluation shall be performed in such a manner as will not unduly delay the work.

Seller shall keep proper and adequate inspection records which shall at all times be open to examination by the Buyer's and/or Government, who may make copies there from.

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4. Interchangeability of Components

If an end item or any component part thereof, which Buyer does not possess design control:

- a) The Seller shall maintain a change control system to ensure configuration control for the thirty (30) year period following contract award. The Seller shall not make any changes to the product without prior written approval from the Buyer where design changes affect "form, fit and function".
- b) All changes must be reflected in appropriate documentation, manuals, spares, and repair parts. The Buyer reserves the right to request a physical configuration audit (PCA) at the Seller's manufacturing facility during the contract period. The Seller shall be responsible for both conducting the "PCA" under Buyer supervision and incorporating any disclosed discrepancies into the Seller's configuration identification.
- c) The Buyer encourages any design change suggestions with respect to safety, reliability, quality, manufacturing cost performance, or any other aspect of product improvement.

5. Continuing support

Seller acknowledges that the Buyer is obligated to provide the material and work covered by this order to its products for the expected life of those products. Seller agrees that in the event this order is cancelled pursuant to the provisions of the Terms and Conditions of this Purchase Order or in the event that Seller fails or is unable to provide the above support, Seller shall immediately provide Buyer with all drawings, data and technical information necessary for the manufacture of the material and work covered by this order and Buyer shall have the right to manufacture or have manufactured for it the material and work covered by this order.

6. Technical Information

Seller agrees to treat as confidential, agrees not to disclose to third parties, agrees to use only for the fulfillment of this order, and agrees that Buyer has proprietary rights to any and all technical information which Buyer shall have disclosed or may hereafter disclose to Seller in connection with the goods or services covered by this order and to technical information related to the goods, or the part thereof, created or developed specifically for Buyer hereunder.

7. Subject To All Laws

Seller agrees to comply with all applicable Federal, State, Provincial or local laws or ordinances. Without limitation, Seller shall comply with all labour conditions, and with all health conditions and requirements, from time to time applicable.

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8. New Material

Seller represents that the material, including any former Government property provided under this order are new (not used or reconditioned, and not of such age or so deteriorated as to impair their usefulness or safety).

10. Pertains To Purchase Orders Placed By ** To AustralianSuppliers Only - Special Term (Australia)

Goods and Services Tax

Seller shall amend the price for goods (other than goods supplied by an overseas Seller) and/or services supplied under this contract to reflect the amount of any goods and services taxes imposed by Australian law on the supply of such goods and/or services, provided that the Seller shall:

- a) notify Buyer of amounts of such taxes
- b) provide the Buyer with a tax invoice, as that term is defined in the relevant goods and services tax legislation, on the day following the date the goods are dispatched or the services are provided to the Buyer; and
- c) do all things necessary (including, without limitation, registering with any required government authority) to enable Buyer to claim any credits or other benefits available for such taxes, or to otherwise comply with its obligations under the relevant goods and services legislation.

Buyer reserves the right to review this Paragraph after the introduction of any new legislation imposing any taxes contemplated by this Paragraph.

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SECTION B – Annex B7

ADDITIONAL TERMS AND CONDITIONS APPLICABLE TO CONTRACTS ISSUED UNDER ** CONTRACT

When the work and materials covered by this contract are for use under ** contract, this contract shall be a defence contract within the meaning of ** and shall be read accordingly. Acceptance of this contract constitutes an acceptance of the following terms and conditions:

1. Subcontracting

Except as otherwise provided in this Article, Seller shall not subcontract nor sublet any work nor make any purchases without prior approval pursuant to Subarticle 1.2 and any such Subcontracts, sublets or purchases made without such approval shall not bind nor obligate Buyer in any manner.

1.1. Seller shall submit any request to subcontract, sublet or make any purchase to Buyer by written notice for prior approval. The Notice shall include the part number, model number, or description of service that will be listed with the Subcontractor and/or supplier. Buyer may, upon receipt of a Notice, approve the request. If Buyer does not notify Seller of its refusal to approve the request within thirty (30) days, Seller may assume that such approval has been granted.

1.2. Without the prior written approval of Buyer, Seller may:

1.2.1. subcontract or sublet work to any one Subcontractor to a value not exceeding \$500,000 in the aggregate.

1.2.2. make off the shelf purchases and purchases of such standard articles and materials as are ordinarily manufactured or produced by mills and manufacturers in the normal course of business ; and

1.2.3. authorize its first and subsequent tier Subcontractors to subcontract, sublet or make purchases as permitted in Section 1.2.1 or 1.2.2 above.

1.3. Except as otherwise provided in this article, Seller shall follow Seller's competitive process for the subcontract or the sublet of any work of any kind or to make any purchase in connection with this contract.

1.4. Buyer or ** Government reserves the right to audit both Seller's procedures and the application of said procedures at any time to ensure that Seller maintains the fairness and integrity of its selection process. Seller shall, upon request, provide Buyer or ** Government with access to all relevant documentation to allow for reasonable assessment of the selection procedures used in the procurement relative to this contract within twenty (20) days of such request.

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- 1.5. Seller recognizes that Buyer or ** Government Representatives, from time to time, may wish to meet with Subcontractors or suppliers. Any meetings between Buyer or ** Government Representatives or its authorized representatives and the Seller or the Seller's suppliers shall be arranged through the Seller. Buyer may however, arrange such a meeting should the Seller refuse or neglect to arrange any such meeting following notice from Buyer or ** Government representatives.
- 1.6. Seller shall bind its suppliers to all those relevant terms of the Contract in order that they shall always be able to satisfactorily perform their obligations in such subcontracts, sublets or purchases in a manner fully consistent with the due fulfillment of the terms of this contract by Seller. Deviations from the terms of this contract, including any termination rights in this contract, shall be at Seller's entire risk.
- 1.7. Notwithstanding any other terms of this contract, Seller shall always be fully responsible and liable for any matters or things done or provided by any Subcontractor or supplier pursuant to this contract.
- 1.8. No act nor omission of Seller, whether occurring before or after the Effective Date of this contract, shall have the effect of rendering any monies payable by Buyer under this contract to any person, firm or corporation, other than the Seller, unless Buyer consents thereto in writing.
- 1.9. Subcontracts which contain security requirements or requiring access to SENSITIVE (Designated/Classified) information or assets shall not be awarded without the prior written consent of the Industrial Security Division of **.

2. Examination of Records By ** Government

When the work and materials covered by this contract are for use under a ** Government contract Seller shall keep proper accounts and records of the cost to Seller of the work and materials covered by this contract and of all expenditures or commitment made by Seller in connection therewith and the invoices, receipts and vouchers relating thereto. Such accounts, records, invoices, receipts and vouchers shall at all times be open to audit and inspection by the Government or its duly authorized representatives (who may make copies thereof and take extracts therefrom) at any time until the expiration of six (6) years from the end of the calendar year in which this contract is terminated or completed. Seller shall provide all facilities for such audits and inspections and shall furnish the Government and its authorized representatives with all such information as it or they may from time to time require with reference to such accounts, records, invoices, receipts and vouchers. Seller shall not, without the consent of the Government, dispose of any such accounts, records, invoices, receipts and vouchers, but shall preserve and keep the same available for audit and inspection at any time during such retention period.

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3. Not Used.

4. Not Used.

5. Translation Rights

Buyer or Government of ** shall have the right to translate technical information and any other materials developed, conceived or provided by Seller as part of the work under this contract and in which copyright exists, in the official languages of **. All restrictions on the use and disclosure of such technical information set out in Section A, clauses 17 and 18 shall apply to the translated versions. Buyer/Government shall reproduce Seller's copyright notice, if any, on all translations. Copyright in any translation made shall vest in Buyer/Government but this copyright shall be subservient to Seller's copyright, if any, in the original technical information provided.

6. Controlled/Hazardous Products

"Controlled Products" are products, substances, materials, or wastes that are banned, being phased out, regulated or restricted under any applicable law. The use of any new Controlled Products as part of this contract shall be submitted to Buyer for review and approval prior to use. A review in consultation with Buyer shall be conducted to determine whether replacement by other less hazardous Controlled Products that meet performance requirements can be utilized.

As part of any design change requirements or efforts related to this contract, Seller shall provide a list of all Controlled Products to be incorporated into the design and justification for its use for review and approval by Buyer. Where possible, Seller shall use the least hazardous Controlled Products while maintaining operational effectiveness.

7. Security and Protection of the Work

When the contract, the work, or any data/documentation is identified as SECRET, CONFIDENTIAL, or PROTECTED, Seller shall at all times take all measures reasonably necessary for the safeguarding of the material so identified in accordance with the Industrial Security Manual (June 1992). Buyer or Government shall be entitled to inspect Seller's premises and the premises of a Subcontractor at any tier for security purposes at any time during the term of the contract, and Seller shall comply with all written instructions issued by Buyer / Government. In the event a subcontract is awarded to a foreign supplier, the foreign supplier shall be security cleared by their responsible National Security Authority (NSA) and shall adhere to all instructions issued by their NSA. All designated/classified data given to Seller, or reports produced by Seller as a result of this undertaking, must be returned on the completion of the contract, or when requested by Buyer / Government.

8. Royalties

- 8.1. The term "Royalties" includes any costs or charges, including any claims for damages based upon the use or infringement in any country, in the nature of royalties, license fees, patent or licence amortizations costs and the like, and all other payments analogous to such for the use of, or rights in copyrights, registered industrial designs, trademarks, trade secrets, patents and patent applications or other intellectual property right, and any similar costs or expenses incurred as a result of the exercise by any person of moral rights as defined in the **

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8.2. Seller shall:

- (i) report in writing to Buyer prior to commencement of this contract and during the performance of this contract the amount of Royalties which Seller will pay, may be obligated to pay, or proposes to pay in respect of performing this contract, the basis of the Royalties, and the parties to whom the same are payable;
- (ii) promptly advise the Buyer of any and all claims which would or might result in further or different payments by way of Royalties being made by Seller or any of Seller's subcontractors, and

8.3. If and to the extent directed by Buyer upon instructions from the Government of **, Seller shall not pay and shall direct Seller's subcontractors not to pay any royalties in respect of performing this contract. In the event of such direction by Buyer, and subject to the compliance by Seller with the foregoing provisions, Buyer shall indemnify the Seller and its subcontractors from and against all claims, actions, suits or proceedings for payment of such royalties as are covered by the direction. Seller shall not be entitled to any payment in respect to any Royalties included in the contract price to which the indemnity provided applies.

9. Not Used.

10. Section A, Clause 18 shall be deleted and replaced as follows: Intellectual Property and Copyright:

10.1. Definitions:

- i "Firmware" means computer program stored in integrated circuits, read- only memory or other similar devices;
- ii "Invention" means any new and useful art, process, methodology, technique, machine, manufacture or composition of matter, whether or not patentable, first conceived, developed or reduced to practice as part of the Work under the Contract;
- iii "Software" means computer programs whether in source or object code (including Firmware), computer program documentation recorded in any form or medium, and includes modifications to any of the foregoing; and
- iv "Technical Information" means all information of a scientific or technical nature relating to the Work, recorded in any form or medium and whether or not copyrightable, and specified to be delivered to Buyer as part of the Work under the Contract, including, but not limited to, any Inventions, designs, methods, processes, techniques, know-how, schematics, experimental or test data, reports, drawings, plans, specifications, collections of information, manuals, publications and any other documents, Software and Firmware; and
- v "Intellectual Property Right" means any intellectual property right recognized by law, including any intellectual property right protected by legislation such as patents, copyright, industrial design, integrated circuit topography, and plant breeders' rights, or subject to protection under the law as trade secrets and confidential information.

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- 10.2. The Seller must promptly report and fully disclose to the Buyer all Inventions, and must deliver to the Buyer all Technical Information not later than the time of completion of the Work or at such earlier time as this Contract may specify.
- i The Seller shall, in each disclosure under this Sub-article, indicate the names of all Subcontractors, if any, in which Intellectual Property Rights to any Inventions have vested or will vest.
 - ii The Buyer and the Government of ** have the right, at reasonable times and at their cost and expense, to examine all records and supporting data of the Seller that the Buyer or the Government of ** reasonably deems pertinent to the identification of Inventions. This provision does not affect the Seller's obligation to retain accounts and records as required by the ** nor the Government of ** rights thereunder.
- 10.3. Without divesting Buyer or any third party of Intellectual Property Rights that have come into being prior to the Contract or that relate to GFI supplied by Buyer during the Contract, copyright, patent and all other Intellectual Property Rights to all Technical Information shall, immediately upon their conception, development, reduction to practice or production, vest in and remain the exclusive property of the Seller and/or its Subcontractors.
- 10.4. The Seller hereby grants to Buyer and the Government of ** a non-exclusive, irrevocable, worldwide, fully paid and royalty-free license to use any Invention or Technical Information solely for the following purposes:
- i Use, operation, maintenance, repair or overhaul of the Goods by Buyer, but not for manufacturing purposes;
 - ii Manufacturing of spare parts for the use, maintenance, repair or overhaul of any part of the Goods by Buyer in an emergency situation if those parts are not reasonably available from the Seller to enable timely use, maintenance, repair or overhaul; or
 - iii Further development, alteration, integration or enhancement of any part of the Goods by Buyer.
- 10.5. Buyer's license with respect to any Technical Information that is Software excludes the right to further develop, alter, enhance or otherwise modify that Software unless the owner of the Software, which may be the Seller or a Subcontractor otherwise, agrees.
- 10.6. In any disclosure, sublicense, or authorization to use, made or given by Buyer to a contractor engaged by Buyer solely for any of the purposes contemplated in Para 10.4, Buyer must require that contractor to agree to maintain the confidentiality of the Technical Information and not to use any Technical Information except as may be necessary to carry out that work for Buyer, and must require the Seller to return the Technical Information to Buyer upon completion of the work.
- 10.7. The Seller may refuse to grant any such right to disclose, sublicense or otherwise authorize the use of any Technical Information related to the Goods for the purposes contemplated in Para 10.4 (i) where the Seller is willing to perform the maintenance, repair or overhaul work for Buyer on reasonable commercial terms. The Seller must promptly notify Buyer whether consent will be granted by the Seller and if not, the reasons why.

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- 10.8. Although Buyer has no right to disclose, sublicense, or otherwise authorize the use of any Technical Information by any third parties whatsoever for any purposes contemplated in Para 10.4 the Seller and Buyer agree that during the lifetime of the Goods, Buyer may require the further development, alteration, integration or enhancement of any part of them. Therefore, during such period, the Seller agrees to either perform itself or to subcontract the performance of such work under terms and conditions agreeable to the Seller and Buyer that will provide Buyer with the optimum accomplishment of Buyer's requirement for timely performance, high quality and low price.
- 10.9. Buyer must provide the following information to the Seller concurrent with providing any Technical Information to third parties and/or Sellers in accordance with Para 10.6:
- i A list of all third parties and Sellers that have received Technical Information;
 - ii The intended or actual use of the Technical Information; and
 - iii The expected completion date of the work for which the Technical Information has been supplied.
- 10.10. Buyer's license under Para 10.4 shall not be affected by any transfer of title to, or assignment or license of, any Invention or Technical Information by the Seller to any third party.
- 10.11. The Seller must not, without the written permission of the Buyer, deliver any Technical Information hereunder unless the Seller owns or has procured the rights necessary to provide the license to Buyer set out in Para 10.4
- 10.12. Wherever practical, the Seller must mark or identify any Technical Information delivered to Buyer under this Article as "Property of (Seller or Subcontractor, as appropriate). Buyer must not be liable for any unauthorized use or disclosure of Technical Information that could have been so marked or identified and was not.
- 10.13. Technical Information may contain information and data which is or becomes either publicly available without breach of Buyer's obligations hereunder, or is available from a source, other than the Seller, except any source that is under an obligation not to disclose such information or data. Such information or data is hereinafter referred to as the "Publicly Available Technical Information". The restrictions on use and disclosure of Technical Information contained in this Article do not apply to Publicly Available Technical Information. However, the remainder of the Technical Information which includes such Publicly Available Technical Information shall be subject to the restrictions on use and disclosure contained in this Article.
- 10.14. Notwithstanding the foregoing provisions of this Article, modifications made by the Seller to Document Type Definition's (DTD) and Format Output Specification Instance's (FOSI) must be furnished to Buyer without any restrictions on use or disclosure.

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11. Section A, Clause 19 shall be deleted and replaced as follows: Indemnification: Seller shall indemnify and hold Buyer harmless from and against any liability, claims, demands or expenses (including attorney's and other professional fees) for: (a) damages to the property of or injuries (including death) to Buyer, its employees or any other person arising from or in connection with Seller (including its agents, employees and subcontractors) performing this contract; (b) any liens, attachments, charges or other encumbrances; or (c) claims upon or in respect of any materials, parts, work in process or finished work furnished to, or in respect of which payment has been made by Buyer .

12. Not Used

13. Not Used.

14. Not Used.

15. Agreement

Buyer shall not in any way be bound nor obligated to enter into any other agreements with Seller.

16. Survival

In the event of contract completion, termination, or expiration, all of the Parties obligations under the warranty, intellectual property, confidentiality and any other provisions of this contract which, by the nature of the rights or obligations set out therein, may be reasonably expected to, shall survive.

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QUALITY CLAUSES

Material Supplied To Purchase Orders Must Be In Accordance With The Quality Clause Requirements Outlined on the Purchase order as follows:

EQD2A.0 (01/01/99) ** Source Inspection

** source inspection/acceptance is required on this order. Supplier shall notify the buyer five (5) working days prior to start of acceptance test or inspection to allow for scheduling of a ** quality representative to be in attendance. The supplier shall have technical data (e.g. drawing, QAR, specification, certification, etc.) available for use in support of source inspection.

QG3.3 (07/20/09) ** Minimum System Requirements

Supplier must provide and maintain a Quality System that is acceptable to ** and government. In addition, all measuring and test equipment used to inspect the items delivered against this contract shall be calibrated by the supplier utilizing standards whose calibration is certified as being traceable to the National Institute of Standards and Technology. These systems are subject to approval and periodic reviews by ** to determine acceptability. ** contracted suppliers are responsible to document and control any portion of this contract that is performed by either the contracted supplier or any tertiary supplier. In view of the above contracted suppliers are responsible for extending ** contract requirements to any tertiary supplier.

QG4.3 (12/21/98) Commercial Requirements

The products provided shall meet the characteristics of this commercial catalog item, conform to the producer's own drawings, specifications, standards and quality assurance practices and be the same as offered for sale in the commercial market. ** reserves the right to require proof of such conformance.

QG5.2 (04/18/00) C = O Sampling Plan

Product inspected by a sampling plan for delivery on this purchase order must use an acceptance number zero; i.e. accept on zero defects and reject the lot on one or more defects. AQLs may be used to establish the proper sample size however the acceptance number is zero.

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QG6.0 (12/21/98) Material Review Board

Limited material review board (MRB) approval is granted on this purchase order. This authority is limited to minor non-conformances that only impact internal supplier drawings. MRB is not allowed for any characteristic or performance requirement which impacts/violates the ** drawing package. A quarterly report will be provided to **-SQA summarizing MRB activities and the associated corrective action. Government participation is not required for MRB.

QG7.0 (9/26/01) ISO 9000 System Requirement

The supplier must maintain a quality management system that is registered to ISO 9000. The system is subject to approval and/or periodic review by **/Government. ** contracted suppliers are responsible to document and control any portion of this contract that is to be performed by them and extend applicable portions of this contract to any tertiary suppliers.

QJ21.1 (12/8/97) Inspection Delegation

The supplier shall conduct all required inspections as agreed upon in accordance with supplier instruction contained in **. The above shall be accomplished through the use of the ** approved delegate only who is responsible for the adequacy and accuracy of said inspection. Failure of ** to inspect the goods shall not limit any of ** rights as included under the terms and conditions of this contract to recover damages from seller for supply of defective goods. This program is subject to termination with minimum notice for reasons defined in **. All specified documents referenced in the purchase order (i.e. certifications, test reports, etc.) are not to be shipped with the product. These records are to be maintained at the supplier's facility, under delegate control, and are subject to ** verification upon request. The records must be retained for five (5) years after completion of deliveries and payment thereof under this purchase order. This paragraph takes precedence over remaining quality requirement clauses for data submittals.

QJ7H.0 (10/5/98) Government GSI

Government inspection is required prior to shipment from your plant. Upon receipt of this order, promptly notify the government representative who normally services your plant so that appropriate planning for government inspection can be accomplished. In the event the representative or office cannot be located, our purchasing agent should be notified immediately

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QJ8.1 (1/18/88) Government Selective Evaluation

During performance on this order, your quality control or inspection system and manufacturing processes may be subject to review, verification and analysis by authorized government representatives. Government release of product prior to shipment is not required unless you are otherwise notified by ** purchase order supplement.

QK9.1 (1/19/99) QAP-Cert (Fill In)

Special quality assurance requirements (QAR, QAP, SQAP, SPEC, etc) apply to the item(s) being procured under this contract. The supplier shall have documented objective evidence on file verifying conformance to specific characteristics referenced in the requirement. The objective evidence shall be made available to ** on request within a reasonable amount of time.

QK10.1 (5/31/10) Ballistic Steel Traceability

Items under this purchase order require steel traceability back to the mill material certifications. All parts must be uniquely identified via a traceability scheme which relates the subject part back to the source material certifications, as retained by the supplier. Parts produced from a specific plate shall be marked with that plate's unique Plate Tracking Number used to reference back to the material certifications. The supplier shall maintain a documented record of the Plate Tracking Number by part number for each assembly.

Ballistic steel furnished by ** will normally include the Plate Tracking Number, generated and applied by ** prior to steel delivery. The supplier shall ensure the Plate Tracking Number is present and accompanied by the required material certifications prior to further processing.

For supplier procured steel or steel plate furnished by ** without a Plate Tracking Number, the Plate Tracking Number sequence shall be developed by the supplier and submitted to the ** buyer for approval prior to implementation. Mill certifications shall be electronically submitted by the supplier to **

The Plate Tracking Number shall be marked on the piece parts with white oil- based paint markers away from the areas to be welded. Any inspection imposed on the item, shall verify the traceability data record. Records shall be retained at the supplier, subject to periodic audit.

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QK11.2 (7/20/09) Test Data

Test Data Submittal Requirement

Supplier shall have on file for each shipment a copy of the actual chemical test results, physical test results and/or test data as required. These results shall be made available to ** on request within a reasonable amount of time.

QK12.0 (7/10/09) Engineering Prototype Sample Approval

Supplier shall confirm TDP compliance according to item specific PS-FRM-3.2.55 form provided by buyer. Supporting compliance data shall be submitted prior to material shipment, to the ** ED&D PA contact identified on the form. Any deviations to the TDP require ED&D PA approval prior to shipment.

QK14.0 (6/30/10) Engineering Prototype Commercial

Items under this Purchase Order do not require ** specified quality inspections or documentation submittal. Product shall meet the Technical Data Package (TDP) requirements, and shall be verified according to the supplier's standard quality system requirements. ** reserves the right to require proof of such conformance. Any deviations to the TDP require ED&D PA approval prior to shipment.

QK16.0 (11/17/04) Key Characteristics

Attributes identified as Key Characteristics shall demonstrate a process capability of 1.33 Cpk or be inspected 100%. The supplier shall have documented objective evidence on file which supports the process capability of 1.33 or greater, or the actual inspection and/or test data as verification of conformance to the drawing key characteristics. The objective evidence shall be made available to ** on request within a reasonable amount of time.

QL22.5 (05/09/07) Screws / Fasteners

Use of grade 5 or 8 fasteners/hardware, within products supplied to ** must be from a manufacturer approved by **.

Socket and hex head fasteners will be plated as specified. Results of required tests shall be maintained on file and available.

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Additionally, your receiving inspection criteria, on above stated list, shall include a verification of approved logo head markings to a 0.04% AQL sample as outlined in Mil-Std-105, however, acceptance is C=0 . Each identifiable lot will then be subjected to laboratory testing as specified in two (2) succeeding paragraphs. Documented evidence shall be made available upon request.

Supplier shall furnish a certification with each shipment that indicates the grade 5, grade 8 hex and socket head fasteners with equivalent grade 5 and grade 8 material chemistry used in assembly(s) specified on this purchase order, meet applicable military standard requirements. This certification document must include actual material chemistry elements, core hardness (per table I of SAE J-429) and plating requirement as specified in purchase order. The laboratory test sampling size shall be performed in accordance with section 7.3 of SAE J-429. When multiple usage of fastener dash numbers and/or manufacturer's head logo markings are utilized, the certification shall reference each type.

Laboratory sample testing may be waived (with ** prior approval) on assemblies specified on this purchase order if the fasteners used originate from an approved ** supplier.

Cap fastener must be identified with proper grade symbol markings and shall be marked with the manufacturer's identification head logo.

Subsequent lot shipments covered under this purchase order will be accepted with a copy of the original laboratory test sampling date, providing the fastener manufacturer's logo markings are traceable to the initial certification.

QL31.1 (7/20/09) Functional Test

Supplier shall furnish a certification with each shipment to indicate that the test requirements have been complied with and actual tests results are on file and available upon request. Certification must include signature, date and title of responsible supplier representative and specifically identify the shipment it relates to including serial number if applicable, for instance, by reference to the shipper number.

QL46.0 (7/10/09) CARC Paint Process Certification

The CARC process applied to this item requires certification to demonstrate compliance to the TDP requirements. Paint certification requirements as outlined in ** Form 4707, shall be submitted with FPI/PPAP for ** approval.

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QL86.0 (5/13/10) Non Destructive Testing (NDT) of formed radii

Supplier shall conduct either dye penetrant inspection (per ASTM E165), or magnetic particle inspection (per ASTM E1444) on the tension side of all formed radii for each item produced. Any indication of a crack shall be cause for rejection. The ** buyer shall be notified immediately.

Supplier shall control NDT operations including certification and qualification, as required, to ASTM E165 and/or ASTM E1444. Records shall be maintained for all personnel certified, indicating the date of certification and objective evidence of examination. Records shall be made available upon request.

QP2.2 (1/29/02) Shelf Life Requirement

The seller shall identify those items and/or assemblies which have a specific shelf life requirement. At a minimal the ** part number, date manufactured, shelf life, and HSDS/MSDS as applicable will be marked on each individual container. Seventy-five percent of the Product(s) shelf life is required upon receipt at **

QP5.1 (12/7/06) Serialization Requirements

Each unit supplied on this purchase order must be permanently marked with a unique serial number which consists of any combination of numbers and letters. Alpha and numeric letters must be clearly distinguishable (ex. 2 and Z, 1 and I, 0 and O, etc.) The supplier must ensure that serial numbers are not duplicated for previous or future shipments of the same part number. The supplier must submit their planned serial numbering sequence to the buyer for approval prior to serial numbers being applied. The numbering sequence must be approved by the buyer on the initial purchase order and for any subsequent purchase order where the supplier intends to change the sequence of serial numbers.

QP8.0 (7/10/09) Sub-contract Requirements

All Quality Requirements of the Statement of Work (SOW) apply to this purchase order.

QP9.0 (7/10/09) Re-work Requirements

Rework product to new condition and upgrade to the specified revision. Any deviations from the specified design configuration will require prior authorization.

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QP43.1 (05/09/07) Traceability - MS Fasteners (Zinc)

Grade 5/Grade 8 hex head and socket head fasteners with equivalent Grade 5 and Grade 8 chemistry shall be purchased directly from manufacturers approved by **. Approved manufacturers must supply fasteners of their own manufacture and are not allowed to procure or supply fasteners from any other approved North American manufacturer for subsequent sale to **.

Fastener supplier shall furnish a certification with each shipment that documents the actual material chemistry, core hardness, or tensile strength (per table I or SAE J-429 for hex head or section e of FF-S-86E for socket head fasteners) and plating requirements outlined in specified in the Purchase Order. The laboratory test sampling size shall be performed in accordance with section 7.3 of SAE J-429.

Subsequent lot shipments covered under this purchase order will be accepted with a copy of the original laboratory results provided the fasteners originated from the initial raw material production run.

QP44.0 (7/10/09) North American High Strength Fasteners

All high strength fasteners offered for sale to ** shall conform to the requirements of Form 4496. Bulk fasteners shall include the Declaration (Form 4496, Appendix A) or Certification (Form 4496, Appendix B) in the FPI/PPAP submission.

Fasteners offered for sale to ** within assemblies shall conform to the following sections of Form 4496:

- A) No high strength fasteners are contained within the assembly. The FPI/PPAP submission shall include a declaration (Form 4496, Appendix A), or
- B) High strength fasteners are contained within the commercial item assembly. The FPI/PPAP submission shall include a certification (Form 4496, Appendix C) stating that the supplier's quality control system for fasteners meets the intent of Form 4496, section 2.0, or
- C) High strength fasteners are contained within the non-commercial item assembly. The FPI/PPAP submission shall include a certification (Form 4496, Appendix D) stating that the supplier's quality control system for fasteners meets all the requirements of Form 4496, section 2.0.

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QP95.0 (3/3/09) Item Unique Identification (IUID) per MIL-STD-130

The supplier shall apply Machine Readable Information (MRI) marking per MIL-STD-130, Unique Item Identifier (UII) Construct No. 2, to each item produced. Marking shall include, but not be limited to, manufacturer CAGE code, original part number and serial number (if serialization is required by drawing or specification). The supplier shall demonstrate 2D Data Matrix Symbol readability via a verifiable automatic identification device.

QP96.0 (9/27/10) Intra-company Sourcing

This is a ** intra-company purchase order. ** manufacturing plant Quality System Requirements apply to the material sourced under this purchase order.

QP97.0 (9/27/10) Incomplete Technical Data – long lead sourcing

Material cannot be delivered under this purchase order. The technical data package is incomplete. Quality Clause requirements will not be assigned until the technical requirements are fully defined, after which the purchase order will be revised.

QX22.0 (7/10/09) Weldable Appurtenances

Item shall be free of mill scale, rust and oil free. The supplier shall ensure that magnetic lifting devices are not used when handling steel.

Only water-soluble coolants, tapping fluids, etc. should be used during processing. It is required that these process fluids leave a rust-inhibiting residue when the fluid dries. If hydrocarbon coolants, tapping fluids, etc. are used, they must be followed by a post-cleaning step. The post cleaning step must consist of a hot alkaline cleaner that is based on fatty acids or amines.

Packaging must be accomplished in such a way that rusting will be minimized. Examples are sealed plastic bags in boxes, or wax-lined boxes.

QX23.2 (7/1/10) Ballistic Steel Welding – ** Weld Standard

Processes related to Welding of ballistic steel components shall be validated by ** prior to welding production parts. Welders must have current certification records on file at ** and must re-qualify periodically. Welded assemblies shall be verified compliant to D-20 “Acceptance Criteria for Weld Discontinuities”, as supplied by the ** buyer.

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Heat Affected Zone Criteria (HAZ): The rework or addition of any ballistic weld joint outside of the print specified location is not permitted; the supplier shall consult ** for MRB approval prior to any such rework. Rework examples include but are not limited to: mislocated / translated appurtenances or welds, stray welds, arc strikes, and additional welds not mandated by the TDP.

TACOM 12479550 "Ground Combat Vehicle Welding Code – Steel" shall be referenced in conjunction with MIL-HDBK-1941 "Metal-Arc Welding of Homogeneous Armor", where MIL-HDBK-1941 is specified in the TDP.

Welding Procedure Specifications & Procedure Qualification Records, welder qualification records, and if requested, first off weld specimens representative of production welding, shall be submitted to:

**

QX26.0 (7/1/10) Ballistic Steel Welding – TACOM 12479550

Weld joints within this assembly are to be qualified, implemented, and inspected in accordance with TACOM 12479550 "Ground Combat Vehicle Welding Code – Steel", in conjunction with MIL-HDBK-1941 "Metal-Arc Welding of Homogeneous Armor". A weld qualification data package consisting of the following elements shall be maintained by the supplier. Minimum data package requirements shall be furnished to the appropriate client address listed below, at least two (2) weeks in advance of production welding.

The weld qualification data package shall contain at a minimum:

1. Weld Procedure Specification (WPS).
2. Procedure Qualification Record (PQR) with accompanying test results.
3. Welder Qualification Records.

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The following elements shall be provided upon request:

4. Weld *map, detailing which WPS(s) apply to which weld joints.
5. Visual inspection criteria/instructions in place.
6. Weld rework instructions in place.
7. First off weld specimens representative of production welding.

Heat Affected Zone Criteria (HAZ): The rework or addition of any ballistic weld joint outside of the print specified location is not permitted; the supplier shall consult ** for MRB approval prior to any such rework. Rework examples include but are not limited to: mislocated / translated appurtenances or welds, stray welds, arc strikes, and additional welds not mandated by the TDP.

**

QX24.0 (7/10/09) Weld Inspection

- 1) All welds on items in this contract shall be visually inspected by Certified AWS or CWB Welding Inspectors. Weld inspectors shall:
 - i. Hold current or previous certification as an AWS Certified Welding Inspector (CWI) in conformance with the provisions of AWS QC1 (Standard and Guide for Qualification of Welding Inspectors).
 - or
 - ii. Hold current or previous certification by the ** in conformance with the requirements of the ** Standard W178.2 (Certification of Welding Inspectors).

Inspection shall be conducted in accordance with the governing weld specification identified in the TDP. When no weld specification is identified the requirements shall be governed by AWS D1.1 for steel, AWS D1.2 for aluminum, or AWS D1.6 for stainless steel. Copies of inspector certifications shall be provided for ** review; verification inspection reports shall be retained by the contractor and made available upon request.

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QUALITY CLAUSES

2) Weld Inspection NDT Quality Control Plan:

Supplier shall develop an NDT Quality Control Plan to be submitted with **. Welds on items shall be verified by Liquid Penetrant Testing. Penetrant testing shall be conducted in accordance with ASTM E 165 (Standard Test Method for Liquid Penetrant Examination) and ASTM E 1417 (Standard Practice for Liquid Penetrant Testing). Personnel performing penetrant testing shall be qualified in conformance to SNT-TC-1A, Mil-Std-410, NAS410, or ANSI/ASNT CP-189, and be certified to NDT Level II. Personnel performing penetrant inspection need not be certified under AWS QC1 or CSA W178.2. Copies of personnel certifications shall be provided for FPI review; penetrant testing reports shall be retained by the contractor and made available upon request.

Magnetic Particle Testing may be conducted in lieu of penetrant testing, subject to ** approval. Magnetic particle inspection shall be conducted in accordance with ASTM E 1444 (Standard Practice for Magnetic Particle Examination).

QX25.0 (7/10/09) Repair and Overhaul

This clause applies to customer owned material for Repair Only. Upon completion of repair, the supplier shall return the item, together with:

- A) a report indicating work performed to bring material to usable condition.
- B) a Certificate Of Conformance indicating compliance to specification(s) and completion of repaired item functional testing to original test procedure(s).
- C) appropriate test results and/or measurements supporting requirement (b) above shall be submitted with the shipment, unless otherwise specified.

Shipments must include the documentation required by this clause.

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QX118.3 (7/1/10) Commercial Welding - A.W.S.

Weld joints within this assembly are to be qualified, implemented, and inspected in accordance with the governing commercial weld specification (AWS D1.1, AWS D1.2, AWS D1.3, or AWS D1.6). When no weld specification is identified in the TDP the requirements shall be governed by AWS D1.1 for steel, AWS D1.2 for aluminum, or AWS D1.6 for stainless steel. A weld qualification data package consisting of the following elements shall be maintained by the supplier.

Minimum data package requirements shall be furnished to the appropriate client address listed below, at least two (2) weeks in advance of production welding.

The weld qualification data package shall contain at a minimum:

1. Weld Procedure Specification (WPS).
2. Procedure Qualification Record (PQR) with accompanying test results.
3. Welder Qualification Records.

The following elements shall be provided upon request:

4. Weld map, detailing which WPS(s) apply to which weld joints.
5. Visual inspection criteria/instructions in place.
6. Weld rework instructions in place.

The weld qualification data package shall be submitted to the appropriate client:

**

QY11.9 (7/08/09) First Piece Inspection

A first piece inspection (FPI) is required as part of this purchase order. It is the supplier's responsibility to conduct a FPI on one of the first five pieces delivered under this order to verify conformance of all physical, chemical, and test requirements specified as part of this order. Upon completion of the inspection, the supplier shall notify the buyer and/or cognizant ** SQA representative. Objective evidence of this requirement shall be available and verified by ** prior to commencing shipments on this order. A five (5) day notice shall be required for scheduling verification.

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If supplier-developed test software is used as a means of functional product acceptance, the test software must be approved by ** Quality Engrg & Test. The test software shall be submitted to ** Quality Engrg & Test for review to facilitate software approval prior to the scheduled FPI.

In the case of distributors, the requirement can be considered satisfied by presenting the GA SQA representative with a certificate of conformation from the manufacturer as long as it states objective evidence is on file and available. Manufacturers of QPL parts are only required to produce evidence of current qualifications for QPL parts.

First piece inspection (FPI) is considered satisfied if the purchase order has an active line item for a first article inspection or it has been completed as part of the first article test requirements.

First piece inspection approval is considered extended by ** from one purchase order to the next provided that:

1. No configuration changes have occurred.
2. The part is manufactured at the same facility.
3. The manufacturing process has remained the same.
4. There has been no more than a one (1) year break in production.
5. No formal corrective action has been required.
6. The sub-tier suppliers and special processors have not changed.

SQA must be notified if any of the above conditions cannot be met. Objective evidence must be maintained demonstrating the above.

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QY2.9 (9/26/01) FAT-QCS-4

The supplier shall obtain First Article Approval (FAA) for this assembly or its sub-components when a line item is included on this Purchase Order that requires the delivery of the final test report. The absence of this line item indicates that no FAA has been contracted or is required for this Purchase Order and a previous approval satisfies the Technical Data Package (TDP) requirements for FAA. First Article Approval will be granted upon successful completion of a First Article Inspection (FAI) and a First Article Test (FAT). Shipments under this Purchase Order prior to FAA are not allowed. FAI and FAT shall be conducted in accordance with the requirements of the TDP drawing, QAR/QAP, production function/fabrication specification and/or military specification and this Purchase Order.

Additional supplier instructions for FAI are contained within ** Supplier Instruction ** revision "F" dated July 2000 and for FAT within **dated August 2001. Test sample selection shall be accomplished under the supervision of the Government. Government notification is required to allow test monitoring prior to test start (reference **, Section 4.2.1). Within 30 days of receiving the FAA requirement notification by activation of the FAA Purchase Order line item you must notify the ** Buyer of the test facility name, location, contact, phone number and purchase order/work authorization number.

QY-10 FLOWCHART/CONTROL PLAN (FC/CP)

If the QY-10 is required as part of the Purchase Order (PO), prior to First Piece Inspection (FPI) a Process Flow Chart/Control Plan (FC/CP) is to be developed using ** Work Sheet and instructions. This document is to be attached to the FPI request form. The request for FPI will not be processed without this document being completed in its entirety in accordance with instructions. (** Page 24-26)

The purpose of FC/CP is to provide a logical pictorial representation of the manufacturing process flow and process control points. The Supplier develops and updates FC/CP as needed if changes occur. This document can be used as an aid for work station development, identifying process control points, defining the methods being used at these control points, and must include all Key Product Characteristics such as KPC/QARs/QAPs and all out sourcing identification.

A walk through of the manufacturing process to include a review of the FC/CP and work instructions should be anticipated as a means to validate process requirements. The FC/CP will be used as part of the Process/Product Validation at FPI and on future ** audits.

Summary

- FC/CP completed worksheet required as part of QY11 submittal
- Supplier ensures FC/CP for accuracy

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- **/Supplier evaluation of FC/CP to actual process
- Requires updates when Process Flow changes
- FC/CP with sufficient detail to depict the Manufacturing Process

Additional information about Quality Clauses, associated documents, FPI submissions and other Product Assurance requirements can be found on the ** web site.

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QUALITY CLAUSES

Rev G change summary – January 3, 2006

The changes are designed to accommodate ** QA administration of existing Purchases Orders. The changes provide consistency throughout the corporation and recognize capable processes between ** and **

Clause 1 compatible with QG7.0
Clause 3 added, Identical to QG4.3
Clause 5 compatible with QJ7H.0
Clause 6 modified to reduce record retention to 5 years and to add packing slip detail. Clause 7 reference to note 3 added
Clause 8 reference to note 3 added
Clause 14 compatible with QP2.2
Clause 19 documentation submitted to Regional Manager for SHC administered SQA Clause 26 compatible with QK16
Clauses 30, 31, 33, & 34 replace PPAP with FPI for SHC administered SQA
Clause 40 documentation submitted to Regional Manager for SHC administered SQA Clause 60 modified to direct SHC source inspection request
Clause 64 compatible with QP5.1
Clause 72 documentation submitted to Regional Manager for SHC administered SQA Clause 81 compatible with QJ8
Clause 82 reference to note 3 added
Note 1 added Note 2 added Note 3 added

Rev H change summary – July 15, 2009

This is a major revision to the clause list, adopting ** nomenclature, adding several new clauses and deleting others. These changes incorporate all applicable ** QA clauses for application on ** purchase orders. These changes provide consistency throughout **. Legacy ** clauses are included for reference purposes. Where the clauses have been translated to a ** clause, this is indicated in brackets after the numeric clause.

Rev J change summary – July 19, 2010

This revision includes minor changes to correct typos, clause revisions and dates to bring them into alignment with the SHC clause list. New clauses QX26, QL86 and QK14 added. Heat affected zone criteria added to Ballistic Welding clauses, including limited MRB authority.

Rev K change summary – September 27, 2010

This revision introduces two new clauses, QP96 to address purchase orders between ** plants not covered by an Intra-company Service Agreement, and QP97 to address long lead purchase orders where TDP information is incomplete or insufficient to assign production quality requirements. Legacy ** Quality Clauses have been deleted and the contact information for the weld FPI information has been updated in the ** weld clauses.

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**

QUALITY ASSURANCE REQUIREMENTS
EXTERNALLY-THREADED STEEL FASTENERS

1.0 **SCOPE**

- * This document establishes the minimum requirements to be met by all manufacturers and/or distributors of at least Grade 5 or Property Class 8.8 externally-threaded steel fasteners, or by all suppliers of assemblies which contain externally-threaded steel fasteners. Such suppliers must comply with Section 2.0 or 3.0, as applicable.
- * Suppliers of assemblies which contain externally-threaded steel fasteners less than Grade 5 or Property Class 8.8, must submit, as part of the production Part Approval Process (PPAP), the declaration shown in Appendix A. **The remainder of this document does not apply to such suppliers.**

1.1 **DEFINITIONS**

- * 1.1.1 **High Strength Fasteners**
An externally-threaded steel fastener of at least Grade 5, as defined by SAE J429, or Property Class 8.8 (metric equivalent), as defined by SAE J1199 or ISO 898.
- 1.1.2 **Externally-Threaded Fasteners**
These include bolts, screws, studs, sems, and u-bolts. **Nuts are internally-threaded** and, as such, are **not subject** to the requirements of this document.
- 1.1.3 **Lot**
A quantity of fasteners of the same part number from that manufacturer having had the same operations/processes performed, that are submitted for inspection/test at the same time.
- 1.1.4 **Homogeneous Lot**
A lot showing uniformity in all of the following aspects: chemical composition, mechanical properties, dimensional characteristics, plating, and manufacturer.
- 1.1.5 **Manufacturer's Symbol (Logo)**
The marking on the fastener which identifies the manufacturer. This symbol shall be registered with the Defense Supply Center Philadelphia (DSCP) – www.dscp.dla.mil/gi/prod_services/logoreg.html (site name subject to change).
- * 1.1.6 **Grade/Property Class**
Grade or Property Class markings identify the fastener Grade or Property Class, as described in SAE J429, SAE J1199 or ISO 898. These systems allow standardized mechanical and chemical properties to be associated to a fastener through recognizable markings.

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QUALITY ASSURANCE REQUIREMENTS
EXTERNALLY-THREADED STEEL FASTENERS

2.0 REQUIREMENTS FOR HIGH STRENGTH FASTENERS SHIPPED LOOSE

- * The supplier must implement and maintain a quality assurance system which ensures lot traceability back to the fastener manufacturer and provide objective evidence of the **homogeneity** of the lot. This objective evidence shall be prepared, maintained and provided to Buyer with each shipment, as detailed in Section 2.2.

2.1 COMPLIANCE REQUIREMENTS

To determine the conformance of fastener lots with the marking and dimensional requirements, a sample from each lot will be taken in accordance with MIL-STD-105, General Inspection Level II (Section 4.1). In determining compliance to chemical, mechanical and plating requirements, sampling shall be IAW MIL-STD-105, Special Inspection Level S-2 (Section 4.2). The following acceptance criteria shall apply: **Accept** lot zero (0) defects. **Reject** lot with one (1) defect. Each sample shall be examined for the following:

2.1.1 Manufacturer's Trademark (Logo)

Every fastener in the lot shall be marked with the manufacturer's trademark; the specified manufacturer's identification symbol as registered with DSCP. Where size of the piece prohibits such marking, marking shall be in accordance with MIL-STD-130 or commercial equivalent.

2.1.2 Grade

The Grade (or Property Class) markings shall be the same for each bolt and comply with specified head marking requirements.

2.1.3 Dimensional Characteristics

All dimensional requirements must be met.

2.1.4 Chemical Composition

Testing of chemical composition shall include, as a minimum, percent by weight analysis of all elements as detailed by the applicable material specification.

2.1.5 Mechanical Properties

Hardness as specified.

Tensile Strength as specified.

2.1.6 Plating

Plating and/or finish as specified.

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QUALITY ASSURANCE REQUIREMENTS
EXTERNALLY-THREADED STEEL FASTENERS

2.2 **DOCUMENTATION REQUIREMENTS**

- 2.2.1 A certification (Appendix B) stating that fasteners in a given lot meet all requirements shall be provided with each shipment.
- 2.2.2 Test reports confirming that the fasteners meet the following technical requirements, as applicable, shall be provided with each shipment: Chemical Composition, Hardness, Tensile Strength, and Plating. The name of the test laboratory shall be stated on the corresponding test report/certification.
- 2.2.3 Lot traceability shall be maintained and ensured by referencing the lot identification code on all corresponding documentation.

3.0 **REQUIREMENTS FOR HIGH STRENGTH FASTENERS AS PART OF AN ASSEMBLY**

Assemblies containing high strength fasteners as defined in Section 1.0 will fall into one of two classes:

- (1) Commercial; or
- (2) Non-commercial.

A *commercial* item will be defined as an item (end item or component of an end item), procured by the Government or the buyer, with the same or similar configuration and performance as sold or traded to the general public at the time of contract award.

Those items that do not fall within the above definition will be considered *non-commercial*.

3.1 **COMMERCIAL ASSEMBLY COMPLIANCE REQUIREMENTS**

- * 3.1.1 Suppliers of commercial assemblies, as defined above, must provide certification (Appendix C) with PPAP only, stating that:
 - (a) the item is a commercial item, as defined in Section 3.0, and
 - * (b) the fastener quality assurance system meets the intent of Section 2.0 and will prevent delivery of substandard product.
- 3.1.1 These requirements allow for the utilization of proven contractor Quality Assurance systems. These systems must assure fastener conformance to all requirements as defined in Section 2.0 above. Objective evidence of conformance shall be kept on file with the supplier and may be subject to review by the buyer.

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EXTERNALLY-THREADED STEEL FASTENERS

3.2 **NON-COMMERCIAL ASSEMBLY COMPLIANCE REQUIREMENTS**

* Suppliers of non-commercial assemblies must prepare and maintain a fastener quality assurance system that meets the requirements as outlined in Section 2.0.

* 3.2.1 Suppliers of non-commercial assemblies must provide certification with PPAP only stating that their quality control systems for fasteners meet all requirements of Section 2.0 (Appendix D); and

3.2.2 Inspection and test reports must be kept on file with the supplier and be provided to the buyer upon request. These records may be subject to periodic review by Quality Assurance.

4.0 **SAMPLING SIZE DETERMINATION USING MIL-STD-105**

4.1 **INSPECTION LEVEL II**

Knowing the lot (shipment) size, use Table II to determine the sample size code letter, i.e. given lot of batch size = 1000 and Table II, General Inspection Level II, provides a sample size code letter of J.

Knowing the sample size code letter, use Table III to determine the sample size, i.e. given sample size code letter J and Table III, provides a sample size of 80.

4.2 **INSPECTION LEVEL S-2**

This is a special inspection level for batch sampling of product produced by a monitored and controlled process. Table II & III have been used in the method as described above, using the S-2 Special Inspection Level, to produce Table I. Table I also provides test allocations within the sample size(s) as follows: chemical composition, core hardness, tensile strength and plating.

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QUALITY ASSURANCE REQUIREMENTS
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TABLE I – Sample sizes for technical requirements testing

| LOT SIZE | SAMPLE SIZE | CHEMICAL COMPOSITION | CORE HARDNESS | TENSILE STRENGTH | PLATING |
|-----------------|--------------------|-----------------------------|----------------------|-------------------------|----------------|
| 2-25 | 2 | 1 | 1 | 1 | 1 |
| 26-150 | 3 | 1 | 1 | 1 | 1 |
| 151-1200 | 5 | 2 | 2 | 1 | 1 |
| 1201-35000 | 8 | 3 | 3 | 1 | 1 |
| 35001-OVER | 13 | 6 | 3 | 3 | 1 |

TABLE II – Sample size code letters

| LOT SIZE | SPECIAL INSPECTION LEVELS | | | | GENERAL INSPECTION LEVELS | | |
|-----------------|----------------------------------|------------|------------|------------|----------------------------------|-----------|------------|
| | S-1 | S-2 | S-3 | S-4 | I | II | III |
| 2-8 | A | A | A | A | A | A | B |
| 9-15 | A | A | A | A | A | B | C |
| 16-25 | A | A | B | B | B | C | D |
| 26-50 | A | B | B | C | C | D | E |
| 51-90 | B | B | C | C | C | E | F |
| 91-150 | B | B | C | D | D | F | G |
| 151-280 | B | C | D | E | E | G | H |
| 281-500 | B | C | D | E | F | H | J |
| 501-1200 | C | C | E | F | G | J | K |
| 1201-3200 | C | D | E | G | H | K | L |
| 3201-10000 | C | D | F | G | J | L | M |
| 10001-35000 | C | D | F | H | K | M | N |
| 35001-150000 | D | E | G | J | L | N | P |
| 150001-500000 | D | E | G | J | M | P | Q |
| 500001-OVER | D | E | H | K | N | Q | R |

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QUALITY ASSURANCE REQUIREMENTS
EXTERNALLY-THREADED STEEL FASTENERS

TABLE III – Single sampling plans for normal inspection

| SAMPLE SIZE CODE LETTER | SAMPLE SIZE |
|--------------------------------|--------------------|
| A | 2 |
| B | 3 |
| C | 5 |
| E | 8 |
| D | 13 |
| F | 20 |
| G | 32 |
| H | 50 |
| J | 80 |
| K | 125 |
| L | 200 |
| M | 315 |
| N | 500 |
| P | 800 |
| Q | 1250 |
| R | 2000 |

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QUALITY ASSURANCE REQUIREMENTS
EXTERNALLY-THREADED STEEL FASTENERS

APPENDIX A

DECLARATION

We have reviewed all externally-threaded steel fasteners used in assembly part number

and have determined that they are less than Grade 5 or Property class 8.8, as defined in SAE J429, SAE J1199 or ISO 898.

SIGNATURE

DATE

COMPANY

ADDRESS

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QUALITY ASSURANCE REQUIREMENTS
EXTERNALLY-THREADED STEEL FASTENERS

APPENDIX B

CERTIFICATION

We hereby certify that this shipment of fastener part number _____ on Purchase Order _____ has been found to meet all requirements as described in Section 2.0 of Form 4496. Corresponding reports are attached.

These fasteners are traceable to the shipment by the following lot identification code:

LOT CODE _____

The required tests were performed by the following laboratory(s):

TEST LABORATORY _____

SIGNATURE _____
TITLE _____
DATE _____

COMPANY _____
ADDRESS _____

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Section C
Annex C1
Form ** 4496
Rev 03/01/2003

QUALITY ASSURANCE REQUIREMENTS
EXTERNALLY-THREADED STEEL FASTENERS

APPENDIX C

COMMERCIAL ASSEMBLY CERTIFICATION

We hereby certify that assembly part number _____ on Purchase Order _____ is a commercial item as defined in Section 3.0 of Form 4496. Our quality assurance system for fasteners meets the intent of Section 2.0 of Form 4496 and will prevent delivery of substandard product.

SIGNATURE _____
TITLE _____
DATE _____

COMPANY _____
ADDRESS _____

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Section C
Annex C1
Form ** 4496
Rev 03/01/2003

QUALITY ASSURANCE REQUIREMENTS
EXTERNALLY-THREADED STEEL FASTENERS

APPENDIX D

NON-COMMERCIAL ASSEMBLY CERTIFICATION

We hereby certify that assembly part number _____ on Purchase Order _____ incorporates fasteners under quality assurance systems which meet all requirements of Section 2.0 of Form 4496 and will prevent delivery of substandard product.

SIGNATURE _____
TITLE _____
DATE _____

COMPANY _____
ADDRESS _____

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SECTION E

INDUSTRIAL AND REGIONAL BENEFITS REQUIREMENTS

An important factor in the evaluation of proposals is the offeror's commitment for Industrial and Regional Benefits (IRBs).

The Buyer has made substantial commitments to the ** Government in the area of Industrial and Regional Benefits. We will be making commitments in the areas of:

- ** Content - both direct and indirect
- Regional Distribution:
 - Atlantic Region
 - ** Region
 - Western Region
 - Northern **
- Small Business Participation

As guidance in the formulation of your IRB proposal, the following is our philosophy and approach to establishing ** IRBs.

1. ** participation will equal, as a minimum, 100% of the contract value through work performed on the contract or through other activities.
2. Our objective is to establish long-term supplier relationships that extend beyond the current contract. Our approach is to select companies that we can use in the export market.
3. To survive in the export market, our suppliers must be cost and quality competitive.
4. IRB transactions must make business sense; otherwise, they cannot be sustained in the long term.
5. We ensure that our major subcontractors, both ** and foreign, provide IRBs that are commensurate with the value they receive from the contract. They use the same approach as we do in establishing long-term relationships that extend beyond the current contract. As a result, we allow our subcontractors to make their own business decisions as to how IRBs will be met.
6. We support the approach of spreading benefits across ** and our objective is to provide a balanced commitment to all regions.

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OFFEROR'S IRB PROPOSAL

As a minimum, the following information should be included in the offeror's IRB proposal.

1. Commitment on Direct ** Content, stated as a percentage (%) of the value of the contract. Identify how you plan on achieving this content. Please provide details of planned work scope or components in response to the RFQ/RFP.
2. Commitment of Indirect ** Content, stated as a percentage (%) of the value of the contract. Identify how you plan on achieving this content. Please provide details of planned work scope or components and the timeframe in which the work will be accomplished in response to the RFQ/RFP.
3. Commitment on Regional Activity. Identify if any of the activities listed in items 1 and 2 will be performed in one of the designated regions of **.
4. Commitment on Small Business Activity. Identify any of the activities, listed in items 1 and 2 that will be performed by a "*** Small Business".

INDUSTRIAL AND REGIONAL BENEFITS - TERMS & DEFINITIONS

1.0 INTERPRETATION

- (1) For the purpose of this Section entitled INDUSTRIAL AND REGIONAL BENEFITS, unless the context otherwise requires, the following terms shall have the meanings set out beside them:

"Achieve", "Achieved" or "Achievement" - in relation to a commitment for an Industrial and Regional Benefit, means the accomplishment of all or any part of the ** Content of the work of a Transaction;

"** Content" or "** Content Value" is described in Paragraph 1.2.

"Commit", "Committed" or "Commitment" - in relation to a Transaction, means the promise by the Subcontractor to achieve the ** Content contained in any IRB Transaction on or before the times as set out in this Annex and to achieve the undertakings thereof; the Subcontractor agrees that all such obligations are covenants of this Subcontract;

"Current Technology" - means the latest or most recent advancement in a given scientific field, which is sufficiently developed to permit exploitation in the appropriate markets;

"Eligible Party" - means those corporate entities providing the Industrial and Regional Benefit Transactions.

"Industrial and Regional Benefit" or "IRB" or "IRBs" - means a commercial or business activity that is carried out by means of a contract, including any purchase order sales agreement, license agreement, letter of agreement or other similar instrument in writing, that has an identified dollar value, meets the Eligibility Criteria in accordance with Paragraph 1.3 and has been approved by the Contractor;

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"Industrial and Regional Benefit Authority" or "IRB Authority" - means the ** or any other person designated by the ** to act on the ** behalf. The IRB Authority is responsible for evaluating, monitoring and accepting IRBs, and for assessing the Subcontractor's IRB performance under this Contract;

"Industrial and Regional Benefit Transaction" or "IRB Transaction" - means an Industrial and Regional Benefit Direct Transaction or an Industrial and Regional Benefit Indirect Transaction, that has been determined by the Contractor to meet the eligibility criteria for Industrial and Regional Benefits transactions as set out in Paragraph 1.3.

"Industrial and Regional Benefit Direct Transaction" or "IRB Direct Transaction" – means an Industrial and Regional Benefit Transaction that is entered into for the performance of any part of the Work under this Contract;

"Industrial and Regional Benefit Indirect Transaction" or "IRB Indirect Transaction" – means an IRB Transaction that is entered into for a business activity unrelated to the performance of any Part of the Work under this Contract;

"Designated Regions of **", "Designated Region", "Designated Regions", "Region" or "Regions" means the following regions:

- a. The "Atlantic Region", consisting of the **
- b. The "** Region", consisting of the **
- c. The "Northern** Region", consisting of that part of the ** northward from the southern limits of ** Districts; and
- d. The "Western Region" consisting of the **

"Small Business" - means either:

- a. A **-based, independently-owned and operated manufacturer with fewer than 250 full-time personnel as of the date of issue of the RFP; or
- b. A **-based, independently-owned and operated service company with less than 250 full-time personnel as of the date of issue of the RFP; or
- c. Agents and distributors of foreign goods and services as well as subsidiaries of large firms do not qualify as small business;

1.1 DETERMINATION OF ** CONTENT

- (1) The Cost Aggregate Method of accounting shall be used to determine the ** of IRB Transactions. This method shall be subjected to an aggregate of the following:
 - a. The cost of parts produced in **, and the cost of materials to the extent that they are of ** origin, that are incorporated in the equipment in the factory of the manufacturer in **, including parts or materials to the extent that the Contractor can verify that they are of ** origin and have been exported from ** and subsequently imported into ** as parts or materials.

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- b. Transportation costs, including insurance charges incurred in transporting parts and materials from a ** supplier or frontier port of entry to the factory of the manufacturer in ** for incorporation in the equipment, to the extent that such costs are not included in Paragraph 1.2(1)(a);
- c. Such part of the following costs, exclusive of Goods and Services and Excise Taxes, and royalties and license fees paid outside of **, as are reasonably attributable to the production or implementation of the equipment, service or activity:
1. Wages and salaries paid for direct and indirect production and non- production labour in ** paid to ** or to permanent residents as defined in the **;
 2. Materials used in the work but not incorporated in the final products;
 3. Light, heat, power and water;
 4. Workers compensation, employment insurance and group insurance premiums, pension contributions and similar expenses incurred with respect to labour referred to above in Paragraph 1.2(1)(c)(i);
 5. Taxes on land and buildings in **;
 6. Fire and other insurance premiums relative to production inventories and the production plant and its equipment, paid to a company authorized by the laws of ** or any province to carry on business in ** or such province;
 7. Insurance purchased specifically from a company authorized by the laws of ** or any province to carry on business in ** or such **;
 8. Rent of factory or office premises paid to a registered owner in **;
 9. Maintenance and repairs to buildings, machinery and equipment used for production purposes that is executed in **;
 10. Tools, dies, jigs, fixtures and other similar plant equipment items of a non-permanent nature that have been designed, developed or manufactured in **;
 11. Engineering and professional services, experimental work and product or process development work executed in **;
 12. Pertinent miscellaneous factory and office expenses, such as administrative and general expenses, including profits earned in ** that are reasonably attributable to the work, depreciation with respect to production machinery and permanent plant equipment and the installation costs of such machinery and equipment to the extent that such depreciation is reasonably attributable to the work; and a capital allowance not exceeding five per cent of the total capital outlay incurred for buildings in ** owned by the producer of the work to the extent that such allowance is reasonably attributable to the production of the work;
 13. Travel expenses attributable to the work expended in ** dollars using ** carriers; and profit in accordance with the Contract relating to the product, service or activity.

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14. Fees paid for services attributable to the work not elsewhere specified; and profit in accordance with the Contract relating to the product, service or activity.
- (2) In determining the ** Content of an IRB Transaction where components only are to be supplied, the following rules shall also apply:
- a) "**Content**" means the aggregate of those costs of producing the components and those depreciation and capital cost allowances that are included in the calculation of ** Content as in the above PARAGRAPH 1.2(1);
 - b) For the purpose of components mentioned in the above PARAGRAPH 1.2(2)(a), one of the following would apply:
 - i. The cost reasonably and properly incurred in ** dollars of parts and materials acquired by a manufacturer from its parent corporation or from any subsidiary wholly-owned corporation or subsidiary controlled corporation of the manufacturer or of its parent corporation shall be deemed to be the value of the ** Content of the parts or the materials to the extent that they are of ** origin; or
 - ii. The cost reasonably and properly incurred of parts and materials acquired by manufacturer from a supplier other than a corporation described in the above PARAGRAPH 1.2(2)(b)(i) shall be deemed to be the selling price of the parts and materials to the manufacturer, less the duty paid value of imported goods used in the production thereof and foreign charges applicable thereto.
- (3) ** IRB policies promote high quality IRBs in high technology sectors of the** economy. Amounts claimed for IRBs shall therefore exclude:
- i. The value of materials, labour and services imported into **;
 - ii. The value of raw materials and semi-processed goods (in the case of indirect IRBs) exported from **;
 - iii. The value of any travel, living, relocation costs, or remuneration paid to individuals classified as non-** who may work on the project;
 - iv. Any amount claimed as an IRB Credit for the achievement of the Subcontractor's IRB Commitment during the Definition Phase Contract;
 - v. The amount of all ** Excise Taxes, Import Duties, Federal and Provincial Sales Taxes, and Goods and Services Taxes or administration duties;
 - vi. The value of goods and services with respect to which credit has been received or is being claimed by the Subcontractor or its Eligible Parties as an Industrial and Regional Benefit to ** under any other agreement;
 - vii. Any proposal or bid preparations costs;
 - viii. All transportation costs except for the costs of transportation via ** carriers;
 - ix. Obligations of the federal government e.g. government furnished equipment; payments;

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- x. Licence fees paid by the ** IRB recipient and any on-going royalty payments;
 - xi. IRB Transactions claimed by the Subcontractor that pertain to the Subcontractor influence or that of one of its Eligible Parties over their own country's Purchasing Agent/Department or the Purchasing Agent/Department of another country shall be disallowed. The decisions of the Purchasing Agents/Departments of democratically elected governments are the responsibility of their elected Officials. The Subcontractor claim or that of its Eligible Parties to have influence can neither be confirmed or denied; and
 - xii. Interest costs associated with Letters of Credit or other financial instruments to support IRB Investments are not eligible for IRB consideration.
- 4) Except in the case of goods related to the current project or any versions thereof wherever sold, where any IRB Indirect Transaction is for the purchase of goods that are essentially similar to those acquired from ** by the same purchaser prior to the effective date of the contract then in determining the ** Content of the IRB Transaction, the Industrial and Regional Benefit Authority shall include only the increase that the IRB Transaction will provide over the average amount spent by the purchaser for those essentially similar goods during the previous three year period.

1.2 ELIGIBILITY CRITERIA FOR IRB TRANSACTIONS

- 1) Each IRB Transaction must be one, which was clearly and demonstrably brought about by either the Subcontractor's efforts or the efforts of one of the Subcontractor's Eligible Parties as a result of the specific project against which the transaction is being claimed. It must not be one, which probably would have been entered into if the project had not existed. It should be noted that the Subcontractor must provide evidence of causality in situations where IRB commitments are flowed down to Subcontractors. In these cases, the Subcontractor must prove that the recipient ** company would not have achieved the export sales as a result of its own marketing efforts. In any case, the Subcontractor is 100% responsible for IRB Commitments, regardless of flow down to Subcontractors. In addition, to demonstrate causality to this Contract/project, Contractor approval for a proposed IRB Transaction must be obtained prior to the Subcontractor making public announcements, media or press releases related to the proposed business activities. Failure to do so will result in the rejection of the business activity as an IRB under this Contract.
- 2) Where an Indirect IRB Transaction is for the purchase of goods or services that are similar to those that the purchaser has acquired in ** prior to the effective date, then in determining the ** of the IRB Transaction there shall be included only the increase that the transaction will provide over the average amount spent by that purchaser for those goods or services after program award specified by the Buyer, unless it can be clearly shown that such purchases would have been less than such average without the intervention of the Contractor.
- 3) Timing is an important factor in the determination of eligibility of individual transactions. Normally, IRB Transactions must be implemented after the date of signing of the Prime Contract and should be concluded by the completion date of the Contract. However, if a long-term business relationship can be developed but exceeds the end of the Contract, then the Contractor may consider a longer performance period for that specific transaction.

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- 4) As per the definition stated above in this Contract, IRB Transactions must be undertaken by an eligible party as defined in the Contract.

1.3 REPORTS

The Supplier commits to report twice per year – March 1 and September 1 showing progress in each of the above types of transactions.

1.4 DAMAGES

In the event that there should be a shortfall or failure to meet the ** Content requirement, then liquidated damages will be assessed at 10% of the shortfall. In the event that the commitment in the prime contract is satisfied and no liquidated damages are payable, then the subcontractor will not be held liable for the liquidated damages resulting from a subcontractor shortfall.

1.5 Examination of Records by ** Government

- 1) The Subcontractor shall keep proper records and documentation relating to the determination of the ** Content of the work provided under this Contract, including invoices and proofs of payment. The Subcontractor shall not, without the prior written consent of the Contractor, dispose of any such records or documentation until the expiration of two (2) years after final payment of this Contract, seven (7) years after the claim against the transaction or until settlement of all outstanding claims and disputes, whichever is earlier. All such records and documentation shall at all times during, the aforementioned retention period be open to verification, inspection and examination by the Contractor or his/her delegate, who may make copies thereof and take extracts there from.
- 2) In addition, the Contractor may request, from time to time, that the Subcontractor provide copies of all such information via mail or courier for a random sample of IRB Transactions.
- 3) Where, subsequent to the verification action taken pursuant to this Article, the Contractor determines that the records are insufficient to verify the Subcontractor's achievements in respect of any IRB Commitment; the Subcontractor shall provide such additional information as may be required by the Contractor.
- 4) Where it cannot be verified that an IRB Transaction has provided the IRB claimed, that portion of the IRB, which cannot be verified, shall be considered as not having been achieved and the Contracting Authority shall give Notice to the Subcontractor of the Shortfall.
- 5) Should the Subcontractor disagree with a decision delivered pursuant to the above Subarticle 4, the Subcontractor, within twenty (20) Business Days from the notification of the said decision, may appeal the above decision by describing fully the issue, all relevant factors and the reasons for its disagreement with the said decision. The Contractor, on subsequent review of the factors surrounding the disagreement, shall issue a final determination, identifying the amount of any such IRB achieved.

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Section E

Rev 10/16/2009

The Subcontractor's overall IRB commitments, claims and achievements; direct, indirect, small business, and regional information shall be available to **. Information pertaining to individual IRB Transactions will not be made available to the public unless the Subcontractor has already made a public announcement in this regard. It is recognized that the release of transaction specific information may prejudice contract negotiations between a prime Contractor and its Subcontractors. However, in situations where transactional information is requested through the formal ** of the Government, the Contractor will identify this information as "company confidential" when submitting it to the ** office for final release determination.

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Section G – Statement of Work

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G.1 GENERAL

G.1.1 This Subcontract is issued in support of **

G.1.1.1 Description. This Subcontract is for the supply, integration, and related support of ** described in the Statement of Work (SOW) herein and the Performance Specification.

G.1.1.2 Background. ** The specific requirements for the ** are defined under Section G, Annex G1, Performance Specification, of this Statement of Work.

G.1.2 Order of Precedence. The order of precedence for the Subcontract shall be as per Part A, Purchase Order Terms and Conditions, Article 2, The Contract.

G.1.3 Security of Work. The security classification of the work being performed under the Subcontract may be considered to be "CLASSIFIED UP TO SECRET". The Subcontractor shall provide personnel suitably security cleared to handle the classified information involved if needed. The Subcontractor shall be responsible for acquiring original classified source documentation referred to in ** specifications, from the ** as and where required.

G.1.4 Licensing. The Subcontractor shall be responsible for obtaining and maintaining all technical data, and associated license agreements including any ** International Traffic in Arms Regulations (ITAR) and any other ** and/or US Department of State regulations (TAA etc.) that are required to satisfy the requirements of this contract, including technical deliverables.

G.1.5 Language. All documentation shall be in English.

G.1.6 Period of Performance. The period of performance shall be six (6) years with design/integration phase in 2011 and production phase from 2012 through 2017.

G.1.7 Roles and Responsibilities

G.1.7.1 The Subcontractor shall carry out all the necessary Work to design, manufacture, test, and deliver the ** in support of this Subcontract including the requirements of this Statement of Work and all referenced attachments.

G.1.7.2 The Subcontractor shall manage and execute the work detailed in this SOW, for the delivery of the ** and its associated support items, as well as associated documentation. The product requirements description of the ** is described in Section G, Annex G1.

G.1.7.3 The Subcontractor shall maintain and update all data deliverables, including plans and documents, as required for the duration of the Subcontract.

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G.1.8 Scope of Work

G.1.8.1 The Subcontractor shall be required to complete all Non-Recurring and Qualification requirements detailed under this Subcontract as well as the Production Requirements outlined herein.

G.1.9 Program Schedule

G.1.9.1 The Program milestones shall be progressed according to the following schedule:

| Activity | Reference (if required) | Location | Date | Duration |
|--|------------------------------|--------------------------|--------------------------------|----------|
| Prototype Unit | G.4.3.1 | ** | 02 Aug 2011 | |
| Award of Contract (AOC) | | | October 2011 | |
| Master Program Management Schedule | G.2.4 | | With Proposal 15 April 2011 | |
| Start of Work Meeting (concurrent with System Functional Review and Production Start of Work meeting) | G.2.5.1 G.4.11 G.6.4.1 | Subcontractor's Facility | 1 WAC | 2 Days |
| Deliver Two (2) Updated Prototype Units | G.4.3.2 | ** | 3 WAC | |
| Project Management Review #1 (PMR) (concurrent with Preliminary Design Review and Production Readiness Review meeting) | G.2.5.2 G.4.12 G.6.4.3 | ** | 1 MAC | 2 Days |
| Deliver Two (2) EDUs | G.4.3.3 | ** | 3 MAC | |
| Project Management Review #2 (PMR) (concurrent with Critical Design Review) | G.2.5.2 G.4.13 | Subcontractor's Facility | 3 MAC | 2 Days |
| Deliver One (1) PRU | G.4.3.4 | ** | 17 WAC | |
| Project Management Review #3 (PMR) | G.2.5.2 | Subcontractor's Facility | 5 MAC | 1 Day |
| Deliver Two (2) Final PRUs | G.4.3.5 | ** | 8 MAC | |
| Initial Delivery of Production Units | Section H | Refer to Purchase Order | 9 MAC | |

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G.2 PROGRAM MANAGEMENT

G.2.1 General. The Subcontractor shall implement the management tools and resources required in order to ensure that the overall program is executed in accordance with the Performance Specification and with the scope of work described herein.

G.2.2 Program Management.

G.2.2.1 The Subcontractor shall be responsible for overall program management. The Subcontractor shall prepare a Project Management Plan (PMP) indicating its approach and structure to manage the work together with a description of the work content and the means to ensure its orderly progress. The PMP shall be prepared, submitted and maintained in accordance with *SDRL PM-001*. This plan includes a requirement for the Subcontractor to identify by name, the staff that will be assigned to this program. If ** deems that a critical level of skill has been lost by the substitution of personnel which cannot be rectified to the satisfaction of ** through the use of the other staff members, the Subcontractor shall subcontract the impacted work scope to a suitably qualified out-of-house resource.

G.2.2.2 The PMP shall be presented at the initial Start of Work Meeting following Subcontract award. Data provided may relate to the Subcontractor's internal work breakdown and scheduling systems, and be presented in Gantt or bar chart form. Critical activities and expected problem areas shall be identified together with intended methods of achieving "on schedule" completion of work.

G.2.2.3 The PMP shall identify all additional deliverables (plans, reports, equipment, services, etc).

G.2.2.4 The Subcontractor shall implement, operate and maintain the program in accordance with the PMP. ** will use the PMP as the principal standard by which to monitor the Subcontractor's performance, achievement and schedules.

G.2.3 Reserved.

G.2.4 Master Project Management Schedule

G.2.4.1 The Subcontractor shall establish, maintain and use a Master Project Management Schedule (MPMS). The MPMS shall allow the Subcontractor to report to ** and to schedule the Work, determine and allocate resources, assess the impact of schedule slippage, and measure schedule performance of the Subcontractor's departments and principal sub-contractors.

G.2.4.2 The Subcontractor shall develop, deliver and amend the MPMS in accordance with *SDRL PM-003*.

G.2.4.3 The Subcontractor shall report on scheduling activities and status of the MPMS in the Progress Reports (*SDRL PM-008*).

G.2.5 Meetings, Reviews and Audits

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- G.2.5.1 Start of Work Meeting (SOW-M).** The Subcontractor shall host a Start of Work Meeting at the Subcontractor's facility, no later than five (5) working days after contract award. The Subcontractor shall present an overview of its entire contractual effort to include, as a minimum: the program WBS to the third level, design and integration schedules, detailed paths/entrance and exit criteria for each milestone leading to full capability for ** supply including integration to vehicle requirements; detailed delivery schedules including those that satisfy the qualification, and development; any required testing; Logistics Engineering (LE) efforts; Risk Registry, Compliance Matrix; Subcontractor award schedules/status, and the Production Management Plan.
- G.2.5.2 Project Management Reviews (PMRs).** The initial PMR shall be conducted one (1) MAC, the second PMR shall be three (3) MAC, and the third PMR shall be five (5) MAC. ** reserves the right to request additional PMRs on an as required basis, based on the performance of the program.
- G.2.5.2.1** The Subcontractor shall, in the PMRs, identify all progress and risks as related to Project Management, Engineering, Test and Evaluation, Logistics Engineering, Configuration Management, and Serial Production, under this Subcontract. This shall include cost, performance and schedule metrics for each major element of the Subcontract work.
- G.2.5.3 Weekly Action Item Reviews.** Weekly teleconferences will be held at the discretion of ** to monitor resolution of critical issues and to identify pending issues. The teleconferences shall be initiated by the ** designated Subcontract Authority and the Subcontractor will participate as required.
- G.2.5.4 Meetings, Reviews, Audits.** The Subcontractor shall schedule and conduct all meetings that are identified in the Statement of Work. The ** designated Subcontract Authority shall be notified in advance of any plans for or meetings held between ** and the Subcontractor.
- G.2.5.4.1 Informal Reviews.** Informal reviews between ** and the Subcontractor are encouraged to facilitate the flow of information between the parties and to foster effective working relationships. Such meetings help to provide to ** visibility with respect to the conduct and progress of the Work.
- G.2.5.5 Special Meetings.** In addition to the formal and informal reviews, ** at its sole discretion, may call upon the Subcontractor to provide representation at special meetings. Special meetings are intended to address matters of a serious nature that cannot reasonably be delayed until the next schedule formal review.
- G.2.5.6 Meeting Agendas.** The Subcontractor shall provide agendas for all meetings, reviews and audits, for approval by ** five (5) days in advance of the meeting. Meeting agendas shall be provided in accordance with *SDRL PM-006*.
- G.2.5.7 Meeting Minutes.** The Subcontractor shall provide minutes for all meetings, reviews and audits, for approval by ** five (5) days after the conclusion of the meeting. Meeting minutes shall be provided in accordance with *SDRL PM-007*.
- G.2.5.8 System Functional Review (SFR), Preliminary Design Review (PDR) and Critical Design Review (CDR).** The Subcontractor shall host a SFR, PDR, and CDR at the Subcontractor's facility.

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- G.2.5.8.1 System Functional Review (SFR).** There shall be an SFR concurrent with the Start of Work Meeting.
- G.2.5.8.2 Preliminary Design Review (PDR).** There shall be a PDR one (1) month after Subcontract award concurrent with PMR #1.
- G.2.5.8.3 Critical Design Review (CDR).** There shall be a CDR concurrent with PMR #2 at three (3) months after Subcontract award.
- G.2.6 Reports**
- G.2.6.1 Progress Reports.** The Subcontractor shall prepare, amend and deliver monthly Progress Reports in accordance with *SDRL PM-008*. Progress Reports shall describe the progress made by the Subcontractor in performing both Subcontracted and directed Work. The Progress Report shall be used by the Subcontractor as the basis for developing the agenda for the PMRs.
- G.2.7 Organizational Arrangements.**
- 2.7.1** The Subcontractor shall designate an individual as the "Program Manager", who shall be the single point of contact within the Subcontractor's organization for all substantive matters related to the Subcontract. The Subcontractor's Program Manager shall have Terms of Reference that clearly establish his/her responsibilities.
- G.2.7.2** The Subcontractor shall designate points of contact for the exchange of information in each of the following areas:
- a. Project Management;
 - b. Engineering Management;
 - c. Senior Design Engineer;
 - d. Configuration Management;
 - e. Quality Assurance Management;
 - f. LEM Management;
 - g. Financial Management;
 - h. Procurement and Subcontract Management;
 - i. Production Management;
 - j. Obsolescence Management
- G.2.7.3** The Subcontractor's organizational arrangements and associated lines of communication shall recognize the interfacing and liaison necessary with **.
- G.2.7.4** The Subcontractor shall report their Organizational Structure in the PMP.
- G.2.7.5** The Subcontractor shall advise ** in writing of any changes to the organizational structure fourteen (14) days prior to any such change.
- G.2.7.6 Subcontracting Authority.** All Subcontract correspondence and unclassified document deliverables shall be addressed to the ** Subcontract Authority at:

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**

G.2.7.7 Classified Documentation. Classified documentation shall be sent to the following contact at the Government of ** prior to reaching the Company Security Officer for **

**

G.2.7.7.1 The Subcontractor shall include a cover letter to the Government of ** stating that the classified documentation shall be sent to the following Company Security Officer at ** upon receipt:

**

G.2.7.7.2 Notification shall be provided to the ** Subcontract Authority pending classified documentation is sent.

G.2.8 Data Management System

G.2.8.1 The Subcontractor shall use a data management system for the identification, acquisition, distribution, delivery and control of data and the maintenance of an overall status and record keeping system of project data as part of the work. The data management system shall be in accordance with the Subcontractor's current process.

G.2.8.2 The Subcontractor shall describe the Subcontractor's data management process in the PMP and shall report on data management in Progress Reports.

G.2.9 Risk Management

G.2.9.1 Risk Management Plan. The Subcontractor shall develop and implement a Risk Management Plan that identifies the risks associated with this project, in accordance with *SDRL PM-011*. The Risk Management Plan shall include Risk Management Planning, Risk Identification, Qualitative and Quantitative Risk Analysis, Risk Response Planning, and Risk Monitoring and Control through an integrated approach involving cost, schedule, and technical performance. Risk mitigation shall be an integral part of all reviews, and meetings.

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G.2.9.2 The Subcontractor shall report on all identified risks in the Progress Reports (*SDRL PM-008*). The Subcontractor shall report risks that satisfy at least one of the following potential impacts:

- a. **\$100,000 variation on Subcontract Price;
- b. Two (2) weeks or more schedule slippage in any of the elements identified in the MPMS;
- c. One (1) week variance to the MPMS Critical Path, and/or
- d. Specification or Statement of Work non-compliance.

G.2.11 Subcontract/Material Management

G.2.11.1 Reserved.

G.2.11.2 The Subcontractor shall establish, maintain and use procedures that control, manage and track all Subcontracts and procurements in accordance with the Approved Subcontract Management Plan.

G.2.12 Subcontract Change Proposal. When requested by **, the Subcontractor shall submit Subcontract Change Proposals (SCPs) in accordance with *SDRL PM-013*.

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G.3 CONFIGURATION MANAGEMENT (CM)

G.3.1 Applicable Documents. The following documents, of the issue or revision in effect at Subcontract Award, unless otherwise specified, form a part of this statement of work to the extent specified herein.

| | |
|---------------------------|---|
| STANAG 4569 AEP-55, Vol.2 | Procedures for Evaluating Protection Levels |
| MIL-STD-130N | Identification Marking of U.S. Military Property |
| MIL-HDBK-61A | Configuration Management Guidance |
| MIL-STD-31000 | Technical Data Packages |
| ASME Y14.100-2004 | Engineering Drawing Packages |
| ANSI/EIA-649-1998 | National Consensus Standard for Configuration Mgt |
| DoD DID DI-CMAN-80639C | Engineering Change Proposal |
| DoD DID DI-CMAN-80556A | Configuration Audit Plan |
| DoD DID DI-CMAN-81022C | Configuration Audit Summary Report |
| ** | Identification Marking of ** Military Property |

G.3.2 Configuration Identification. The Subcontractor shall develop a technical data package to the extent required for effective manufacture, and quality assurance purposes, and shall provide ** sufficient specification details for ** to detail requirements in appropriate drawings of the **. The Subcontractor shall document and maintain Configuration Items (CI's) to ensure complete identification, status accounting, configuration control, and audits.

G.3.2.2 Part Marking Identification. The ** shall be marked in accordance with ** standard **-Identification Marking of ** Military Property (English/French).

G.3.3 Configuration Documentation

G.3.3.1 Reserved

G.3.3.2 Product Configuration Documentation (PCD). The PCD is defined as the combined performance and/or design documentation utilized for the production and/or procurement of the **. The PCD includes documentation that describes functional, performance, interoperability and interface requirements, and the verifications necessary to confirm the achievement of those specific requirements.

G.3.3.3 Functional Configuration Documentation (FCD). The FCD includes only those documents that describe the functional and performance requirements and the verifications necessary to confirm the achievement of those specific requirements. The PCD and FCD shall document the hardware that successfully passes the Physical Configuration Audit (PCA).

G.3.4 Configuration Baselines

G.3.4.1 Initial Configuration Baseline. An initial Configuration Baseline shall be established upon initial release of the Technical Data Package (TDP) following the / each CDR. Any changes made to the hardware or TDP during the period prior to establishing the Functional Configuration Baseline and the Product Configuration Baseline shall be submitted to ** in accordance with *SDRL CM-002* for informational purposes.

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- G.3.4.2. Functional Configuration Baseline.** The Functional Configuration Baseline (FCB) shall be established upon successful completion of Subcontractor Functional Configuration Audit (FCA) Ref. Para G.3.7.
- G.3.4.3. Product Configuration Baseline.** The Product Configuration Baseline (PCB) shall be established upon successful completion of the Physical Configuration Audit (PCA) -Ref. Para G.3.7. Following the establishment of the PCB, changes that affect the PCD shall be submitted to ** for approval or concurrence as required.
- G.3.5 Configuration Management.**
- G.3.5.1** The Subcontractor shall maintain a discrete configuration management department within its manufacturing facility. The Subcontractor shall assign a senior CM point of contact throughout the life of the contract with whom ** can communicate any configuration management related issues.
- G.3.5.2** The Subcontractor's CM department personnel shall be responsible for configuration identification, control, and status accounting (for hardware and documentation) using MIL-HDBK-61A and/or ANSI/EAI 649-1998 as a guide.
- G.3.5.3 Engineering Change Proposals (ECPs).** Should engineering changes occur upon completion of each CDR, the Subcontractor shall submit ECPs to ** for informational purposes. After establishment of each PCB, the Subcontractor shall prepare and submit formal ECPs to identify and record any and all new drawings/specifications and changes to existing ** documentation. ECPs shall be submitted in accordance with *SDRL CM-002*. All formal changes regardless of classification shall be submitted to ** for approval prior to implementation. ** shall either approve or disapprove Class I changes and provide concurrence of Class 2 changes prior to implementation.
- G.3.5.3.1 Classification of Engineering Changes.** The change shall be Class I if it affects:
- The item performance as it relates to Section G, Annex G1, Performance Specification
 - The Product Configuration Documentation (PCD), once established;
 - Safety;
 - Retrofits; and
 - Item fit, form, function
- G.3.5.4 Request For Deviation (RFD).** The Subcontractor shall prepare RFDs in accordance with *SDRL CM-006*, using MIL-HDBK-61A Section 6.3 as a guide. An RFD shall be used to obtain authorization to deliver nonconforming material which may not meet an item's approved documentation but is nevertheless suitable for use "As is" or after a repair and/or retrofit. ** shall have approval authority for all classifications of RFD's.
- G.3.6 Serialization.** All supplied ** and attaching hardware, shall be marked in accordance with ** Identification Marking of ** Military Property. The Subcontractor shall ensure each ** is uniquely identified. A part number (** and Supplier), serial number, and Subcontractor Cage Code shall be permanently applied to the ** and the Subcontractor shall maintain serialization records as part of its ** whereby each ** has traceability.

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- G.3.6.1 Lot Traceability.** The Subcontractor shall also ensure that there will be batch/lot traceability such that the production batch from which the ** are manufactured can be traced.
- G.3.7. Configuration Audits.** If requested by **, the Subcontractor shall identify, schedule and conduct the following configuration audits:
- a. Functional Configuration Audit (FCA) using MIL-HDBK-61A Section 8 as a guide
 - b. Physical Configuration Audit (PCA) in accordance with MIL HDBK-61A Section 8 as a guide
- G.3.7.1 Functional Configuration Audit.** If requested by **, the FCA(s) shall be conducted which will verify the ** performance to the requirements as defined in the Performance Specification. Test data presented and reviewed during the FCA(s) shall be that collected from the analysis, inspections and tests delineated in the Inspection and Test Summary Matrix found in the Performance Specification. All inspections and tests shall be those conducted on a production representative Article. Subject to mutual agreement between the Subcontractor, ** and ** as the case may be, the FCA(s) may be conducted in increments or progressively to ensure that all requirements of the FCA have been satisfied while minimizing the risk of generating ECPs and retrofits after the PCB has been established. In cases where the item verification can only be completely determined after system level integration and testing, a final FCA shall be conducted using the results of these tests. MIL-HDBK-61A Section 8 shall be used as a guide in planning and performing the FCA(s). The FCA(s) shall be conducted following the/each scheduled CDR. Each FCA shall not exceed one (1) day in duration.
- G.3.7.1.1 FCA Verification Matrix.** To support the FCA(s), the Subcontractor shall provide an FCA Verification Matrix. The Matrix shall be prepared and delivered in accordance with *SDRL CM-009*.
- G.3.7.2 Physical Configuration Audit.** If requested by **, the PCA(s) shall consist of the formal physical examination of the "As-Built" production configuration of a Configuration Item against its technical documentation and any related data. All end product configuration items shall be audited. The audit shall be performed on the First Production Article which will be the ** Configuration Items submitted for First Article Testing. MIL-HDBK-61A Section 8 shall be used as a guide in planning and performing the PCA(s). A PCA candidates list shall be provided with the PCA Agenda (*SDRL CM-004*) for each audit, The list shall include all CI's that will be audited against their design documentation, estimated duration being four (4) days for the/each PCA.
- G.3.7.3 FCA/PCA Plan.** The Subcontractor shall provide a set of audit procedures in the form of an FCA and PCA plan. DI-CMAN-80556A shall be used as a guide in the preparation of the Configuration Audit plan. The FCA and PCA plan shall be submitted in accordance with *SDRL CM-003*.
- G.3.7.4 Audit Agenda and Report.**
- G.3.7.4.1** The Subcontractor shall prepare a separate Audit Agenda and Audit Report for each FCA and PCA conducted.
- G.3.7.4.2** Each Audit Agenda shall be submitted to ** in accordance with *SDRL CM-004*.

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- G.3.7.4.3** An Audit Report shall be submitted to ** thirty (30) days after successful completion of the audit. The Audit Report shall be submitted in accordance with *SDRL CM-005*.
- G.3.8** **Technical Data Package.** The Subcontractor shall deliver a Technical Data Package (TDP) in accordance with the following:
- G.3.8.1** **Existing Drawings.** Existing Subcontractor drawings are acceptable provided they meet the requirements as stated in MIL-STD-31000 Technical Data Packages. **
- G.3.8.2** **New Drawings.** New drawings and parts lists created by the Subcontractor in support of the ** contract shall meet the requirements of MIL-STD-31000. Drawings shall be prepared in accordance with ASME Y14.100-2004 Engineering Drawing Packages.
- G.3.8.3** **TDP Delivery.** The Subcontractor shall provide ** TDPs as follows:
- a. Preliminary TDP – the preliminary TDP shall include drawings, associated lists, and supporting data. The technical/engineering data required by ** shall be prepared by the Subcontractor in the form of a Technical Data Package (TDP). The TDP shall be prepared and delivered prior to each ** conducted in accordance with *SDRL CM-010*.
 - b. Final TDP – The final TDP shall include all updates to the Preliminary TDP resulting from the FCA/PCA. The final TDP shall be prepared and delivered in accordance with *SDRL CM-010*.
 - c. Drawing Revisions - Within 15 days of receipt of ** approval of Subcontractor Class I and Class II ECP's, the Subcontractor shall revise the associated drawings to include the changes shown on such ECP's."
- G.3.9** **Configuration Status Accounting (CSA).** The Subcontractor shall implement and maintain Configuration Status Accounting (CSA) processes and procedures as part of the CM Program, for the duration of the Subcontract. The Subcontractor shall prepare and deliver CSA Reports in accordance with *SDRL CM-007*, to provide the information required to effectively manage the Configuration of the ** and provide visibility of CM activities including status of deviations and engineering changes (proposed and approved).
- G.3.10** **Indented Bill of Material (IBOM).** The Subcontractor shall develop an Indented Bill of Material for each ** and ** as applicable in accordance with *SDRL CM-008*. The IBOM shall be submitted concurrently with the preliminary and Final TDP delivery (s).

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G.4 ENGINEERING**G.4.1 Engineering Management**

G.4.1.1 The Subcontractor shall conduct the engineering activities required to ensure that the ** procured under this Subcontract meet all the requirements of the Performance Specification, as included under Section G, Annex G1 of this Subcontract.

G.4.2 Project Engineering

G.4.2.1 The Subcontractor shall provide an Engineering Point of Contact to oversee the engineering activities under the Subcontract including: design engineering, reliability and maintainability engineering, human factors engineering, safety engineering, obsolescence management, and design reviews.

G.4.3 Prototypes and Engineering Units

G.4.3.1 The Subcontractor shall provide one (1) Prototype Unit and deliver to ** in accordance with the program schedule at Para 1.9. This unit will be used for evaluation and will remain with **.

G.4.3.1.1 The Prototype Unit shall be at Test Readiness Level (TRL) 6. TRL 6 is defined as a system or prototype that has been demonstrated in a relevant environment. The system is beyond the breadboard tested for TRL 5 and has been tested in a relevant environment. It represents a major step up in a technology's demonstrated readiness. Examples include testing a prototype in a high fidelity laboratory environment or in simulated operational environment.

G.4.3.2 The Subcontractor shall provide two (2) updated Prototype Units incorporating any changes from design and integration in accordance with the program schedule at Para 1.9. These units shall represent the expected hardware and software production configuration. One unit upgrades or replaces the prototype previously delivered.

G.4.3.3 The Subcontractor shall provide two (2) Engineering Development Units (EDU) in accordance with the program schedule at Para 1.9. These units upgrade or replace the prototypes previously delivered.

G.4.3.3.1 The EDU shall be at TRL 7. TRL 7 is defined as a prototype near or at planned operational system. It represents a major step up from TRL 6, requiring the demonstration of an actual system prototype in an operational environment, such as in an aircraft, vehicle or space. Examples include testing the prototype in a test bed aircraft.

G.4.3.4 The Subcontractor shall provide one (1) Production Representative Unit (PRU) in accordance with the program schedule at Para 1.9. This unit upgrades or replaces a prototype previously delivered and shall be in the same configuration as units going through qualification.

G.4.3.5 The Subcontractor shall provide two (2) Final Production Representative Units (PRU) with any changes resulting from qualification in accordance with the program schedule at Para 1.9. These units upgrade or replace any prototypes previously delivered.

G.4.4 Current Specification

G.4.4.1 The Subcontractor is requested to provide a copy of any readily-available Specification per *SDRL ENG-001*.

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G.4.5 Updated Specification

G.4.5.1 The Subcontractor shall submit updated ** Specifications as required per *SDRL ENG-001*.

G.4.6 Software Requirements Specification (SRS)

G.4.6.1 The Subcontractor shall submit a SRS. An initial and updated version of the SRS shall be delivered per *SDRL ENG-002*.

G.4.7 Envelope and Installation Drawing

G.4.7.1 The Subcontractor shall provide an Envelope and Installation Drawing per *SDRL ENG-006*.

G.4.8 Interface Control Drawing

G.4.8.1 The Subcontractor shall provide an Interface Control Drawing per *SDRL ENG-006*

G.4.9 CAD Model

G.4.9.1 The Subcontractor shall provide a CAD model of ** in either Unigraphics or Pro-E per *SDRL ENG-004*.

G.4.10 Design Reviews

G.4.10.1 The ** design process includes, at a minimum, three (3) major milestone events. If necessary, an In-Process Design Review (IPDR) may be requested between any of the major design reviews.

- a. System Functional Review (SFR);
- b. Preliminary Design Review (PDR);
- c. Critical Design Review (CDR).

G.4.10.2 The Subcontractor shall conduct the Design Reviews (SFR, PDR, and CDR) at the Subcontractor's facilities. In order to minimize the number of design review meetings, the Subcontractor shall be permitted, with prior approval from **, to combine the design review milestone events. The Design Reviews shall include, but are not limited to, the items as described as per the following discussion points and shall use the Design and Production Review Checklist at Annex G4 as a guide:

- a. progress of ongoing activities, special issues, and the resolution of problems;
- b. status of the design and the development of the TDP and other schedule milestones;
- c. any new problems and recommended solutions;
- d. activities planned until the next Design Review;
- e. explanation of any schedule variation and the corrective action to be taken; and
- f. review of changes to the design as presented at Prior Design Review shall be carried forward to the next Design Review for approval and tracking.

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G.4.11 System Functional Review (SFR)

G.4.11.1 The Subcontractor shall host an SFR in accordance with the program schedule at Para 1.9.

G.4.11.2 The Subcontractor shall conduct a System Functional Review (SFR) to the extent that all aspects of the review may be addressed. The SFR shall include, but is not limited to;

- a. an in-depth review of the performance and technical requirements and a presentation of the Subcontractor's design approach to satisfy the technical requirements of the **, and its integration with the ** supplied turret configuration data;
- b. a presentation of the Subcontractor's concept of design to include solid/math model representation(s) and trade off studies as appropriate;
- c. a detailed review of the Subcontractor's development and integration schedules;
- d. present draft sub system specification/ICD documentation;
- e. present budget estimates for weight;
- f. a completed, formal check list for the content of the SFR/PDR/CDR
- g. present and status the Performance Specification Qualification matrix in accordance with **SDRL ENG-013**; and, present and status the Risk Registry.

G.4.11.3 SFR Material. The Subcontractor shall submit the materials to be presented at the design review, in accordance with **SDRL ENG-014**, five (5) days before the SFR.

G.4.11.4 SFR Action Items. The Subcontractor shall respond to action items as assigned in the SFR Meeting Minutes.

G.4.11.5 SFR Exit Criteria. The Subcontractor shall meet the SFR requirements including:

- a. ** approval of the CAD model submitted in accordance with **SDRL ENG-004**.
- b. ** approval of SFR action item responses as assigned in the SFR Meeting Minutes.
- c. Completed, formal check list for the content of the Design Review.

G.4.12 Preliminary Design Review (PDR)

G.4.12.1 The Subcontractor shall host a PDR in accordance with the program schedule at Para 1.9.

G.4.12.2 The Subcontractor shall conduct a Preliminary Design Review (PDR) to the extent that all aspects of the review may be addressed. The PDR shall include but not be limited to:

- a. present the ** design, integration and requirements compliance;
- b. evaluate the progress, technical adequacy, and risk resolution (on a technical, cost, and schedule basis) of the Subcontractor's design approach;
- c. present and status the Performance Specification Qualification Matrix in accordance with **SDRL ENG-013**;
- d. evaluate the degree of definition and assess the technical risk associated with the Subcontractor's design approach;
- e. establish the existence and compatibility of the physical and functional interfaces of the Subcontractor's preliminary designs with the turret;
- f. present models of the complete design for the **, including its integration;
- g. present sub system specification/ICD documentation;
- h. support the design decision making process with trade off studies and qualification data reports;

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- i. present budget performance against initial estimates for weight;
- j. present the status of the release of the TDP;
- k. present suggested manufacturing/ processing information

G.4.12.3 PDR Material. The Subcontractor shall submit the materials to be presented at the design review, in accordance with *SDRL ENG-014*, five (5) days before the PDR.

G.4.12.4 PDR Action Items. The Subcontractor shall respond to action items as assigned in the PDR Meeting Minutes.

G.4.12.5 PDR Exit Criteria. The Subcontractor shall meet the PDR requirements including:

- a. ** acknowledgement of receipt of the preliminary drawings submitted in accordance with *SDRL ENG-006*.
- b. ** approval of PDR action item responses as assigned in the PDR Meeting Minutes.
- c. ** acknowledgement of receipt of the CAD model submitted in accordance with *SDRL ENG-004*.
- d. Completed, formal check list for the content of the Design Review.

G.4.13 Critical Design Review (CDR)

G.4.13.1 The Subcontractor shall host a CDR in accordance with the program schedule at Para 1.9.

G.4.13.2 The Subcontractor shall conduct a Critical Design Review (CDR) to the extent that all aspects of the review may be addressed. During the CDR, the Subcontractor shall:

- a. present the complete, detailed ** design, integration and requirements compliance;
- b. present a detailed review of the hardware breakdown and Bill of Material (“BOM”);
- c. present final Performance Specification Qualification Matrix in accordance with *SDRL ENG-013*
- d. present the qualification documentation and verification in accordance with *SDRL ENG-018* for the system;
- e. assess configuration risk areas (on a technical, cost, and schedule basis);
- f. present final sub system specification/ICD documentation;
- g. present the status of the release of the final TDP.

G.4.13.3 CDR Material. The Subcontractor shall submit the materials to be presented at the design review, in accordance with *SDRL ENG-014*, five (5) days before the CDR.

G.4.13.4 CDR Action Items. The Subcontractor shall respond to action items as assigned in the CDR Meeting Minutes.

G.4.13.5 CDR Exit Criteria. The Subcontractor shall meet the PDR requirements including:

- a. ** acknowledgement of receipt of the final drawings submitted in accordance with *SDRL ENG-006*.
- b. ** approval of CDR action item responses as assigned in the CDR Meeting Minutes
- c. ** acknowledgement of receipt of the CAD model submitted in accordance with *SDRL ENG-004*.
- d. Completed, formal check list for the content of the Design Review.

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G.4.14 Engineering Support

G.4.14.1 The Subcontractor shall be available to provide any hardware/software integration support on an as required basis.

G.4.14.2 The Subcontractor may be required to travel to support hardware and software integration at ** sites in Woodbridge, Virginia; ** and **.

G.4.15 Qualification

G.4.15.1 Qualification. The Subcontractor shall conform to Section G, Annex G1, Performance Specification and shall provide objective evidence that the requirements have been satisfied according to the final Qualification Matrix. The Subcontractor shall manage the Qualification Matrix in accordance with **SDRL ENG-013** that shall summarize current compliance status, as well as planned and completed qualification activities.

G.4.15.2 Qualification Test Plan. The Subcontractor shall provide a Qualification Test Plan in accordance with **SDRL ENG-017** and fifteen (15) days prior to conducting any new qualification activity. ** reserves the right to witness any of the required qualification activities. The Subcontractor shall support ** on-site qualification attendance.

G.4.15.3 Qualification Test Report. The Subcontractor shall provide a Qualification Test Report in accordance with **SDRL ENG-018**.

G.4.16 Hazardous Materials

G.4.16.1 The Subcontractor shall not use the hazardous materials identified the Hazardous Materials section of the Performance Specification.

G.4.16.2 Hazardous Materials Management Report. The Subcontractor shall submit Hazardous Material Management Reports in accordance with **SDRL ENG-008** which, at a minimum, shall identify all hazardous materials required for system production, a listing of prioritized hazardous materials for minimization/elimination per the criteria established in the Hazardous Materials Management Plan, and identify those hazardous materials/processes for which non-hazardous substitute materials/technologies may be available for implementation.

G.4.17 Human Factors Engineering

G.4.17.1 The Subcontractor is responsible for implementing a Human Factors program that incorporates effective design principles and practices in order to meet the performance and HFE requirements of the Performance (or other) Specification. Changes and modifications to current design affecting the soldier-machine interface and soldier performance (for operator, maintainer and support personnel) shall meet the appropriate HFE criteria and requirements, defined in MIL-STD-1472 and MIL-HDBK-759. As part of the human factors program, the Subcontractor shall complete the necessary activities to generate the data requested by **.

G.4.17.2 Human Factors Data Report. The Subcontractor shall report the results of the above activities in a Human Factors Data Report in accordance with **SDRL ENG-011**. The Human Factors Data Report (HFDR) shall detail the following information, consistent with MIL-STD-46855.

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- a. Detail a Task Description & Analysis (TD&A) of activities performed by each operator of the equipment during normal operations.
- b. Detail the type and frequency of interaction with each man-machine interface.

Detail the results from a workload analysis, detailing the task loading for each operator during normal operation of the equipment. Software such as WinCrew® is recommended but manual application of Subjective Workload Assessment Technique (SWAT) or NASA-TLX will also be accepted.

G.4.18 System Safety Engineering

G.4.18.1 Safety Program. The Subcontractor shall develop and implement a safety program using MIL-STD-882C in determining whether safety engineering objectives are met. The Subcontractor shall complete a safety assessment, in accordance with MIL-STD-882C, Task 301. As a minimum, the Subcontractor shall do the following:

- a. Identify hazards associated with the product by conducting safety analyses and hazard evaluations. Analyses shall include both operational and maintenance aspects of each component.
- b. Eliminate or reduce significant hazards by appropriate design or materiel selection. If hazards to personnel are not avoidable or eliminated, take steps to control or mitigate those hazards.

Ensure that revisions, upgrades and modifications meet safety requirements.

G.4.18.2 Safety Assessment Report (SAR). The Subcontractor shall develop a Safety Assessment Report (SAR) which documents all safety analyses completed to support system design development. The SAR shall also identify all safety features and inherent hazards associated with the system. The SAR shall be generated in accordance with **SDRL ENG-012**. Further, the SAR shall identify special procedures and/or precautions to be observed by test agencies and product item users. As an appendix to the SAR, the Subcontractor shall identify and incorporate Health Hazards associated with the product. The Subcontractor shall provide a description and discussion of each potential or actual health hazards of concern for each subsystem or component.

G.4.18.3 Health Hazards. The Subcontractor shall identify potential health hazards that are indigenous to and generated by the product and eliminate or reduce such health hazards to an acceptable level as determined by **. Health hazards shall be reported as a part of the Safety Assessment Report in accordance with **SDRL ENG-012**. The following are examples of some areas of concern that may contain safety and health hazards. This is not an all-inclusive list:

- a. Fire prevention issues
- b. Toxic gases
- c. Noise levels
- d. Electrical issues
- e. Radiation Hazards (HERO/HERP/HERF)
- f. Radioactive Materials (if any)

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G.4.19 Finite Element Analysis (FEA).

G.4.19.1 The Subcontractor shall submit the results of the Finite Element Analysis (FEA) which was conducted on the system in accordance with *SDRL ENG-015*. This shall be delivered ten (10) days prior to the PDR and CDR and as required.

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G.5 QUALITY ASSURANCE

G.5.1 Quality Management System

G.5.1.1 The Subcontractor shall have a quality system that meets the requirements of ISO 9000 and demonstrates continuous improvement. The Subcontractor's system may be audited for evidence of compliance.

G.5.1.2 The Subcontractor shall make available to **, a record of all their annual Internal Audit Reports and any third party audit reports for the duration of this Subcontract.

G.5.2 Quality Assurance Plan

G.5.2.1 The Subcontractor shall prepare and submit to ** for approval, a detailed Quality Plan that describes its QA Program. This plan shall include as a minimum a plan to control suppliers, Subcontractors, and internal and external quality processes that will be used to assure the quality of the product. The plan should make specific provisions for the delivery and inspection of the production representative hardware to be delivered in accordance with this subcontract. The plan and associated revisions shall be in accordance with **SDRL QA-001**. This document will form part of this contract and cannot be changed without ** approval.

G.5.2.2 Once approved, compliance with the requirements of the Quality Plan shall be subject to audit and surveillance by **.

G.5.2.3 The plan must take into consideration that Government Quality Assurance is a requirement of this order. Arrangements must be made promptly with the Quality Assurance representative for the Subcontractor's area or facility so that appropriate Government Quality Assurance can be accomplished prior to release authorization. Government Quality Assurance shall not be used by the Subcontractor as evidence of effective control of quality. Government Quality Assurance shall not absolve the Subcontractor of the responsibility to provide acceptable product.

G.5.2.4 Quality Assurance Clauses EQD2A.0, QG5.2, QJ7H.0, QJ21.1, QK12.0, QP5.1, QY-10, QG7.0, QY11.9, QP44.0, QP8.0, QL46.0 apply to this contract. Refer to Section C, Quality Clauses, ** Form 4417, Rev K, for a detailed description of the below:

- EQD2A.0 (01/01/99) GD Source Inspection
- QG5.2 (04/18/00) C = O Sampling Plan
- QJ7H.0 (10/5/98) Government GSI
- QJ21.1 (12/8/97) Inspection Delegation
- QP5.1 (12/7/06) Serialization Requirements
- QY-10 FLOWCHART/CONTROL PLAN (FC/CP)
- QG7.0 (9/26/01) ISO 9000 System Requirement
- QY11.9 (7/08/09) First Piece Inspection
- QP44.0 (07/10/09) North American High Strength Fasteners
- QP8.0 (7/10/09) Sub-Contract Requirements
- QL46.0 (7/10/09) CARC Paint Process Certification

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G.5.3 First Piece Inspection (FPI)

G.5.3.1 FPI is ** first piece inspection process. The FPI submission must be accepted prior to parts being released for shipment, unless otherwise authorized by **. FPI documentation will be submitted in accordance with *SDRL QA-004*.

G.5.3.2 The submission shall be in accordance with **, QY11. The Subcontractor shall retain a warrant, design records, change documents, dimensional results, checking aids, test results and process flow charts. The other requirements are only applicable when directed in writing by **.

G.5.3.3 The Subcontractor shall notify ** ten (10) working days prior to the FPI submission. The FPI shall be conducted in accordance with the requirements defined in the TDP.

G.5.3.4 During production, FPI resubmission may be required. The reasons for FPI resubmission are:

- Initial submission
- ** engineering changes, ECO;
- Tooling: transfer, replacement, refurbishment;
- Correction of discrepancy;
- Change to optional construction or material;
- Sub-supplier or material source change;
- Change in part processing;
- Parts produced at additional location; and,
- Other

Clarification or examples for the above may be found in the **, QY11 – First Piece Inspection.

G.5.4 First Article Inspection

G.5.4.1 First Article Test Plan. The Subcontractor shall develop and provide a First Article Test Plan for ** approval in accordance with *SDRL QA-005* that completely addresses the First Article (FA) verification requirements detailed in the technical specification outlined in the subcontract.

G.5.4.2 First Article Test Report. The Subcontractor shall provide a First Article Test Report per *SDRL QA-008* that fully documents the results of the First Article (FA) verification of the requirements detailed in the technical specification outlined in the subcontract.

G.5.4.3 Testing Notification. Prior to the commencement of any Subcontractor tests, special inspections or demonstrations intended to prove compliance with requirements of the Subcontract Specification, the Subcontractor shall furnish in advance, written notification to **. The required notifications shall be not less than fifteen (15) days in advance of the planned activity. reserves the right to witness any of the required verification activities. The Subcontractor shall support ** on-site Acceptance Test and First Article attendance.

G.5.4.4 Documentation. Upon request, the Subcontractor shall make available to **, at the time of product inspection, the applicable product inspection records, drawings, Engineering Change Orders/Engineering Change Requests (ECOs/ECRs), specifications, Request for Deviations (RFDs), Request for Waiver (RFWs), to which the product was manufactured.

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These documents shall be of the revision used to produce the product. Upon completion of product inspection and acceptance by the ** inspector, all documents will be returned to the Subcontractor.

- G.5.4.5 Inspection Equipment.** Inspection equipment shall be made available to ** upon request for any ** end item or component inspections at the subcontractor's facility. Upon completion of the inspection by ** such inspection equipment will be returned to the Subcontractor.
- G.5.4.6 Inspection and Test Equipment.** Except as otherwise expressly provided for under this subcontract, the Subcontractor is responsible for the supply and maintenance of all inspection and test equipment necessary to ensure that the end item/end item components (including GFM) conform to contract requirements. All Subcontractor furnished inspection equipment shall be available for use on or before the start of production.
- G.5.5 Production Representative Hardware.** The unit provided as production representative will be in accordance with the specifications of this statement of work. The unit will represent a production configuration and will be subject to inspection criteria as outlined in the system specification which should be clearly defined in the Subcontractors quality plan *SDRL QA-001*.
- G.5.6 Subcontractor Inspection & Test**
- G.5.6.1** The Subcontractor shall implement and maintain a product acceptance system to ensure production compliance with the TDP requirements prior to offering any product to ** for acceptance. The Subcontractor shall ensure that all production material including purchased products conforms to the TDP and applicable specifications. An Inspection and Test Plan in accordance with *SDRL QA-002* shall be provided by the Subcontractor. The Inspection and Test Plan shall be subject to approval by **. Manufacturing activities shall not commence until the approval of the relevant Inspection and Test Plan.
- G.5.6.2** The inspection and certification requirements of the approved Quality Plan are to apply to all work associated with the product.
- G.5.6.3** ** and Government Quality Assurance Representatives (GQARs) shall be permitted access to all records, documentation, test pieces and samples, suppliers test data / results for audit purposes.
- G.5.6.4 Inspection & Test Equipment.** Except as otherwise expressly provided for under this Subcontract, the Subcontractor is responsible for the supply and maintenance of all inspection and test equipment necessary to ensure end item conformance to the Subcontract requirements. All Subcontractor furnished inspection and test equipment shall be available for use on or before the start of production and shall be made available to ** or the Government at the Subcontractor's facility upon request for any ** or Government tests and inspections.
- G.5.6.5 Test Deficiencies**
- G.5.6.5.1 Failure.** A failure is defined as an event, or state, in which the system or a component of the test set does not or would not perform as specified in the applicable specification.

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- G.5.6.5.2 Defect.** A defect is defined as a nonconformance to a technical requirement. Defects are classified as critical, major and minor, as defined in the applicable specification.
- G.5.6.5.3** In the event of component failure, ** reserves the right to retest the component upon correction of the defects by the Subcontractor to the complete extent and duration specified in the test program, or to such a lesser extent as ** shall consider appropriate at their sole discretion. The Subcontractor shall be responsible for delays in the program. Delays caused by defective items shall not be a basis for adjustment of the Subcontract delivery schedule or the Subcontract price. Any Subcontractor modifications to the system shall first be approved by **. The Subcontractor, at no additional cost to **, shall correct defects.
- G.5.6.6 Control of Nonconforming Product**
- G.5.6.6.1** The Subcontractor shall document all inspection and test failures and take appropriate corrective action. The Subcontractor shall document all rework and record re-inspection and re-test results.
- G.5.6.6.2** The Subcontractor does not have the authority to deviate from the applicable Technical Data Package. All deviation requests classified as Class I as described in G.3.5.2.1 shall require ** approval prior to implementation. All other deviations or waivers will be made available to ** upon delivery as referenced in G.5.4.4.
- G.5.6.6.3** The Subcontractor shall establish and maintain a functional system to maintain traceability of non-conforming material released with ** authority.
- G.5.6.7** Quality Records. The Subcontractor shall retain quality records for a period of seven (7) years after completing of the subcontract.
- G.5.7 Supplier/Subcontractor Evaluation and Approval Survey**
- G.5.7.1** The Subcontractor shall complete and return a copy of ** Form 4615 in accordance with SDRL QA-003.
- G.5.7.2** The Subcontractor shall support a QA site visit / audit prior to start of production build.
- G.5.8 Acceptance Testing.**
- G.5.8.1 Acceptance Test Plan/Report.** The Subcontractor shall develop and implement an Acceptance Test Procedure (ATP) for the units delivered under this contract in accordance with SDRL QA-006 and QA-007. ** will validate the ATP used for acceptance. The Subcontractor shall notify ** prior to making any procedural changes to the ATP. ** reserves the right to require revalidation of any ATP changed/modified by the Subcontractor. If revalidation is required, it shall be coordinated such that no hardware is offered for acceptance until the change has been incorporated and validated by **. A completed copy of the ATP shall be retained by the Subcontractor for all units produced.

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G.6 PRODUCTION MANAGEMENT

G.6.1 General. The Subcontractor shall supply a ** that meets the requirements of this Statement of Work, and the Performance Specification. The Subcontractor shall have system responsibility as defined herein and in the Performance Specification for all ** supplied for this program.

G.6.2 Production Plan. The Subcontractor shall develop and implement a Production Management Plan. The plan shall address all efforts required to produce a ** in accordance with the schedule set forth in Section H. The Subcontractor shall deliver the Production Management Plan in accordance with *SDRL PM-014*. Amendments to the Production Management Plan are to be approved by ** prior to the amended Plan being executed by the Subcontractor.

G.6.2.1 Production Program. The Subcontractor shall establish, implement and maintain a program for the production and delivery of the ** in accordance with the Approved Production Plan. ** will use the plan as the principal standard by which to monitor the Subcontractor's performance, achievement and schedules with respect to the Production Program.

G.6.2.2 Line of Balance. The Subcontractor shall submit a Line of Balance in accordance with SDRL PM-015 to detail deliveries of major Line Replaceable Units (LRUs) to the Subcontractor's facility and final deliveries.

G.6.3 Schedule. The Subcontractor shall execute the program in accordance with the deliveries and performance schedule provided in Section H.

G.6.4 Production Meetings and Reviews

G.6.4.1 Production Start of Work (SOW) Meeting. As part of the project, the Subcontractor shall present the Production Management Plan concurrent with the Start of Work Meeting. As a minimum, this plan shall include an overview of the Subcontractors' production plans, production locations, facility status, material lead-time assessment, detailed production schedules.

G.6.4.2 Reserved.

G.6.4.3 Production Readiness Review (PRR). The Subcontractor shall host a PRR concurrent with PMR #1. The PRR shall address the management and technical discipline areas: design maturity, item configuration, facilities, equipment, production line status, and overall production readiness of the system. The Subcontractor shall provide the personnel and facilities necessary to support the review team. The Subcontractor shall make available the working papers, documents, and data developed and/or utilized under this contract. During the PRR, the Subcontractor shall status the following production activities and shall use the Design and Production Review Checklist at Annex G4 as a guide::

- Program Overview

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- Production Plan and Requirements
- Material Delivery and Status
- Personnel Requirements
- Training Requirements
- Security Requirements
- Review of Facility Start-up Checklist
- Lessons Learned from Previous Builds
- Pre-Operational Safety Assessment
- Potential Risk and Mitigation Plans
- Quality Issues
- Engineering/Technical Issues
- TDP Baseline Review
- Tour and Inspection of the Production Facilities

G.6.4.3.1 Rate Capability. At the PRR, the Subcontractor shall demonstrate, through analysis, the capability to meet the required delivery rate of 10 vehicle sets per month.

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G.7 LOGISTICS ENGINEERING (LE)

- G.7.1 Supportability Technical Data Request.** The Subcontractor shall complete and return the Supportability Data Requested Form, *SDRL LE-001*.
- G.7.2 Indented Engineering Bill of Materials.** The Subcontractor shall provide an indented Engineering Bill of Material (EBOM) for the system. The EBOM shall be documented to the depth of the Line Replaceable Unit (LRU / Shop Replaceable Assembly (SRA)). The document shall be in Microsoft Excel 2003 format (.xls). The EBOM shall be delivered in accordance with *SDRL LE-002*.
- G.7.3 Technical Data Documentation.** The Subcontractor shall deliver TDP/SPTD down to the Line Replaceable Unit (LRU) / Shop Replaceable Assembly (SRA) per the maintenance philosophy established for the system. The TDP/SPTD may be altered to conceal proprietary information critical to manufacturing, as long as the required information listed above is provided. TDP/SPTD is not required for parts that are identified by a Military Standard or Government Specification. SPTD delivered to ** shall comply with MIL-PRF-49506 (Logistics Management Information) and DOD 4100.38.M. The Subcontractor will submit TDP/SPTD in order to catalogue new items into the supply system, and to assign NATO Stock Numbers (NSN) to procurable items. All Technical data delivered to ** shall be free of any restrictive markings or legends and be delivered in accordance with *SDRL LE-003*.
- G.7.4 Spare Parts.** Spare parts may be procured by ** in conjunction with the production buy of the system. The Subcontractor shall complete and deliver a list of all procurable LRUs, SRAs, repair piece parts, hardware, and consumables in accordance with *SDRL LE-004*.
- G.7.5 Technical Manuals.** The Subcontractor shall deliver existing commercial or military standard technical publications - examples include but are not limited to; installation and removal instructions, operation, maintenance, and illustrated parts manuals. The Subcontractor shall provide with all delivered manuals, a written copyright-release for ** to use the data in the development of technical manuals that are required by the customer. The technical publications shall be delivered in electronic format (MS Word or SGML/XML format, SGML/XML preferred). The technical publications shall be delivered in the English, and in accordance with *SDRL LE-005*.
- G.7.6 Technical Illustrations.** The Subcontractor shall deliver parts illustrations for the system and associated down components to the LRU/SRA level. The illustrations shall be provided in electronic medium and in a format in accordance with *SDRL LE-006*.
- G.7.7 Support Equipment List.** The Subcontractor shall provide a list of all the tools required to install/remove and repair the system/assembly in question. The list of tools shall include all Special Tools and Test Equipment (STTE). Available part numbers, NSNs, drawings, and pricing shall be provided. The data shall be delivered in Subcontractor format and in accordance with *SDRL LE-007*.

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G.7.8 LEM Impact Statement. The Subcontractor shall have in place a procedure for assessing and providing impact statements to ** with respect to Subcontract Change Proposals (SCPs) and Engineering Change Proposals (ECPs), including deviations and waivers. The Subcontractor shall prepare and include LEM Impact Statements for each change proposal to identify the impact on the program. The Logistic Impact Statements shall identify the specific nature and impact of the proposed change, including but not limited to impacts to Subcontractor provided technical data, support equipment requirements, and schedule impacts. The LE Impact Statements shall be delivered in accordance with the Configuration Management requirements outlined in this Subcontract.

G.7.9 Subcontractor Technical Support. The Subcontractor shall provide technical support to ** during the supportability data development period. Technical support shall include telephone and e-mail support to technical questions related to the product and/or the supportability data provided. Technical support shall be made available, as required, to support customer validation/verification activities and logistics demonstrations.

G.7.10 Reliability and Maintainability Support Data. The Subcontractor shall deliver the results of the reliability and maintainability analysis that has been conducted such that ** can substantiate repair policies and produce vehicle level reliability prediction and Life Cycle Cost (LCC) estimates for the end customer. The data shall be provided in accordance with *SDRL LE-008*.

G.7.11 Diagnostic Support Data. If the data is not made available within the Subcontractor provided technical/commercial manuals, the Subcontractor shall provide documentation to enable ** to create accurate and complete troubleshooting manuals. Such information includes a list of error messages and/or fault codes that the systems produces and how to interpret and diagnose the problem related to the error message/fault code. For powered systems (for instance electrical or hydraulic systems), a schematic shall be provided that is suitable for troubleshooting purposes. If special diagnostic equipment/software has been developed for the system in question, the Subcontractor shall provide instructions how to properly and safely use the equipment to diagnose the system. Diagnostic supporting data shall be provided in accordance with *SDRL LE-009*.

G.7.12 Definitions.

Corrective Maintenance

All actions performed as a result of failure, to restore an item to a specified condition. Corrective maintenance can include any or all of the following steps: localization, isolation, disassembly, interchange, re-assembly, alignment and checkout.

Life Cycle Cost (LCC)

The total cost of acquisition and ownership of the system over its full life. It includes the cost of development, acquisition, operation, support, and where applicable, disposal.

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Line Replaceable Unit (LRU)

A Line Replaceable Unit (LRU) is an essential support item which is removed and replaced at field level maintenance to restore the end item to an operationally ready condition. An LRU must be part of the engineering bill of material breakdown.

Logistics Engineering

Those systems engineering activities aimed at improving mission reliability, maintainability, supportability, human factors and safety. Logistics engineering is an integral part of the design process.

Logistic Support Analysis (LSA)

Logistic Support Analysis (LSA) is the selective application of scientific and engineering efforts undertaken during the acquisition process, to assist in causing support considerations to influence design; defining support requirements that are related optimally to design and to each other; acquiring the required support; and providing the required support during the in- service phase at the lowest possible cost.

LSA Candidate Item

An LSA Candidate Item is a portion of the system/equipment identified for the purpose of conducting LSA tasks to determine the logistic requirements of introducing and supporting that item throughout the life cycle of the equipment.

Maintenance Concept

The Maintenance Concept constitutes a series of statements and/or illustrations identifying the broad, planned approach to be employed in sustaining the system/equipment at a defined level of readiness in support of the operational requirement. The Maintenance Concept is used as the basis for the maintenance plan by defining criteria covering maintenance levels, major functions accomplished at each level of maintenance, basic support policies, and primary logistic support requirements.

Maintenance Plan

The Maintenance Plan is a detailed plan specifying the methods and procedures to be followed for system support throughout the life cycle. The Maintenance Plan is developed from LSA data (Task 401 of MIL-STD 1388-2B). Each repairable item in the system should have a Maintenance Plan derived from the LSA data.

Preventive Maintenance

All actions performed in an attempt to retain an item in specified condition by providing systematic inspection, detection, and prevention of incipient failures.

Shop Replaceable Assembly (SRA)

A Shop Replaceable Assembly (SRA) is a down part from an LRU. The parts which comprise the LRU which are repaired or replaced as authorized in the detailed maintenance plans are SRAs.

System or Equipment

System or equipment refers to all the equipment supplied by the Subcontractor, including all LRUs and SRAs.

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G.7.13 Abbreviations

| | |
|-------|---|
| CBIL | Consumable and Bulk Item List |
| CCP | Contract Change Proposal |
| CDRL | Contract Data Requirements List |
| DID | Data Item Description |
| EBS | Equipment Breakdown Structure |
| ECP | Engineering Change Proposal |
| FACAR | Failure Analysis Corrective Action Report |
| FFP | Firm Fixed Price |
| FMECA | Failure Modes Effect and Criticality Analysis |
| ** | ** |
| IBM | Indented Bill of Material |
| ILS | Integrated Logistics Support |
| ILSMT | Integrated Logistics Support Management Team |
| IP | Initial Provisioning |
| LCC | Life Cycle Cost |
| LCN | Logistics Control Number |
| LE | Logistics Engineering |
| LLRC | Long Life Reusable Container |
| LORA | Level of Repair Analysis |
| LRR | Logistics Requirements Review |
| LRU | Line Replaceable Unit |
| LSA | Logistic Support Analysis |
| LSAR | Logistic Support Analysis Record |
| MSDS | Material Safety Data Sheet |
| MTA | Maintenance Task Analysis |
| NSN | NATO Stock Number |
| PHST | Packaging, Handling, Storage and Transportability |
| PM | Preventative Maintenance |
| POC | Point of Contact |
| PPL | Provisioning Parts List |
| RCM | Reliability Centered Maintenance |
| RFP | Request for Proposal |
| RSCL | Reusable Shipping Containers List |
| RSERL | Recommended Support Equipment Requirements List |
| RSPL | Recommended Spare Parts Lists |
| RPSTL | Repair Parts and Special Tools List |
| RTAEL | Recommended Training Aids and Equipment List |
| SOW | Statement of Work |
| SPTD | Supplemental Provisioning Technical Documentation |
| SRA | Shop Replaceable Assembly |
| STTE | Special Tools and Test Equipment |
| TDP | Technical Data Package |

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G.8 OBSOLESCENCE MANAGEMENT

G.8.1 General The Subcontractor shall provide Obsolescence Management (OM) Services for the Equipment. The intent of this service is to ensure that the potential impacts of obsolescence in terms of equipment supply, effectiveness and support costs are mitigated by proactive management activities completed by the Subcontractor. These activities and reporting requirements are described below. The Subcontractor shall be responsible, at their expense, for resolving obsolescence on their delivered equipment in a timely manner such that the equipment availability due to obsolescence is not impacted for the duration of this contract + 2 years.

G.8.2 OM Plan. The Subcontractor shall deliver an Obsolescence Management Plan in accordance with *SDRL OM-001*.

G.8.3 OM Candidates List. The subcontractor shall develop and deliver for approval an Obsolescence Management Candidate List in accordance with *SDRL OM-002*. Once approved, the list shall be updated quarterly and the subcontractor shall perform proactive OM on items listed on the OM Candidates List.

G.8.4 OM Issues Report. The Subcontractor shall provide ** an Obsolescence Management Issues Report for the Equipment in accordance with *SDRL OM-003*. The OM Issues Report shall outline the specifics of a pending issue for all high-risk LRUs or component parts. A component shall be considered to be high risk if it will become obsolete within one year or less.

G.8.5 Critical OM Issues Advisement. If the Subcontractor, through daily proactive obsolescence management, is made aware of a critical OM issue that is time-sensitive in nature and requires immediate action in order to take advantage of any risk-mitigating available opportunity, they are to promptly notify ** via email. The Subcontractor shall provide all pertinent and available details pertaining to the OM issue, and their recommended course of action.

G.8.5.1. Upon arriving at a proposed course of action to resolve a given obsolescence issue, the Subcontractor shall provide a proposed corrective action plan to ** for their review and concurrence.

G.8.6 Quarterly OM Issues Review Meeting. The Subcontractor will host a quarterly teleconference to review the OM Candidates List and OM Issues Report with **.

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CONFIDENTIAL TREATMENT REQUEST BY OPTEX SYSTEMS HOLDINGS, INC.

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CONFIDENTIAL TREATMENT REQUEST BY OPTEX SYSTEMS HOLDINGS, INC.

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CONFIDENTIAL TREATMENT REQUEST BY OPTEX SYSTEMS HOLDINGS, INC.

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CONFIDENTIAL TREATMENT REQUEST BY OPTEX SYSTEMS HOLDINGS, INC.

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Subcontract PO 35334144
Section G, Annex G2 - SDRL
Rev NR

Subcontracts Data Requirements List (SDRL)

| SDRL No. | Description | Subcontract Reference | Initial Delivery Date | Frequency | No. of Copies | Format | Approval |
|-----------------|--------------------|------------------------------|------------------------------|------------------|----------------------|---------------|-----------------|
| Comments: | | | | | | | |

H : Hard Copy **E**: Electronic File **A**: Approval Required **A / XX**: Approval within XX days **One / R**: Initial Submission plus revisions as required

I: Information Only **AOC**: Award of Contract

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| PM-001 | Program Management Plan | SOW G.2.2.1 | With Proposal | Final 15 days AOC. Updates as required | 1-E | Subcontractor Format | Final A/30 |
| Refer to DID PM-001 | | | | | | | |
| PM-003 | Master Project Management Schedule (MPMS) | SOW G.2.4.2 | With Proposal | Final 15 days AOC. Updates as required | 1-E | Subcontractor Format | Final A/30 |
| Refer to DID PM-003 | | | | | | | |
| PM-006 | Meeting Agenda | SOW G.2.5.6 | 5 days prior to planned meeting date | N/A | 1-E | Subcontractor Format | A/2 |
| Refer to DID PM-006. Meeting Agenda shall be provided to ** for approval and input 5 days prior to planned meeting date. ** will provide comments within 2 working days. ** requested agenda items will be included as presentation topics. | | | | | | | |
| PM-007 | Meeting Minutes | SOW G.2.5.7 | Within 5 working days following meeting completion. | Per comments | 1-E | Subcontractor Format | A/10 |
| Refer to DID PM-007. Minutes shall be provided within 5 working days following meeting completion. ** will provide comments or approval within 10 working days. Updates incorporating agreed upon ** revisions shall be provided within 3 working days. | | | | | | | |
| PM-008 | Progress Reports | SOW G.2.4.3 G.2.6.1 G.2.9.2 | 1 Month AOC | Monthly | 1-E | Subcontractor Format | I |
| Refer to DID PM-008 | | | | | | | |

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| PM-011 | Risk Management Plan | SOW G.2.9.1 | With Proposal | Final 15 days AOC. Updates as required | 1-E | Subcontractor Format | Final A/30 |
| Refer to DID PM-011 | | | | | | | |
| PM-013 | Subcontract Change Proposal | SOW G.2.12 | As Required | As Required | 1-E | Refer to DID | A/30 |
| Refer to DID PM-013 | | | | | | | |
| PM-014 | Production Management Plan | SOW G.6.2 | With Proposal | Final 15 days AOC. Updates as required | 1-E | Subcontractor Format | Final A/30 |
| Refer to DID PM-014 | | | | | | | |
| PM-015 | Line of Balance | SOW G.6.2.2 | Refer to DID | Weekly | 1-E | Refer to DID | I |
| See DID PM-015 | | | | | | | |
| CM-002 | Engineering Change Proposal (ECP) | SOW G.3.4.1 G.3.5.3 | From Completion of CDR | As Required | 1-E | Refer to DID | Refer to DID |
| Refer to DID CM-002 | | | | | | | |
| CM-003 | FCA/PCA Plan | SOW G.3.7.3 | With Proposal | See comments | 1-E | Subcontractor Format | Final A/15 |
| Refer to DID CM-003. – 30 days prior to Configuration Audit | | | | | | | |
| CM-004 | Audit Agenda | SOW G.3.7.2 G.3.7.4.2 | See comment | Refer to DID | 1-E | Subcontractor Format | A/30 |

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| Refer to DID CM-004. Initial Audit Agenda shall be submitted to ** 10 days prior to the date of the Configuration Audit. Agenda shall contain as a minimum: location, date(s), duration and daily chronological listing of events which are to take place. | | | | | | | |
| CM-005 | Audit Report | SOW G.3.7.4.3 | 30 days after successful completion of FCA/PCA | As Required | 1-E | Subcontractor Format | A |
| Refer to DID CM-005. | | | | | | | |
| CM-006 | Request for Deviation (RFD) | SOW G.3.5.4 | As Required | As Required | 1-E | Subcontractor Format | A/Refer to DID |
| See DID CM-006 | | | | | | | |
| CM-007 | Configuration Status Accounting Report | SOW G.3.9 | 10 days prior to PCA | See comment | 1-E | Subcontractor Format | I |
| Refer to DID CM-007. Deliveries to be monthly until 30 days after the last delivery concurrent with SDRL CM-008. | | | | | | | |
| CM-008 | Indented Bill of Material (IBOM) | SOW G.3.10 | Refer to DID | See Comment | 1-E | Subcontractor Format | A/10 |
| Refer to DID CM-008. Deliveries to be monthly until 30 days after the last delivery concurrent with SDRL CM-007. | | | | | | | |
| CM-009 | FCA System Spec Verification Matrix | SOW G.3.7.1.1 | With Proposal | Concurrent with delivery of FCA Plans | 1-E | Refer to DID | A/30 |
| Refer to DID CM-009 for Preparation instructions | | | | | | | |
| CM-010 | Technical Data Package (TDP) | SOW G.3.8.3 | With Proposal | See Comment | 1-E | Refer to DID | A/10 |

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| | Refer to DID CM-010 for Preparation instructions. TDPs shall be delivered 10 days prior to PCA. Final TDP shall be delivered not later than 30 days after Final Delivery. Updates are required as a result of ECP activity. Updated drawings shall be delivered no later than 15 days after approval or classification concurrence of ECPs. | | | | | | |

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| ENG-001 | Current Specification | SOW G.4.4.1 G.4.5.1 | With Proposal | As Required. | 1 – E | Subcontractor Format | I |
| No DID. | | | | | | | |
| ENG-002 | Software Requirements Specification (SRS) | SOW G.4.6.1 | With Proposal | As Required. | 1 – E | Subcontractor Format | I |
| No DID. | | | | | | | |
| ENG-004 | CAD Model | SOW G.4.9.1 | With Proposal | At SFR, PDR, CDR and As Required. | 1 – E | Refer to DID. | I |
| Refer to DID ENG-004. | | | | | | | |
| ENG-006 | Drawings | SOW G.4.7.1 G.4.8.1 | With Proposal | At SFR, PDR, CDR and As Required. | 1 – E | Refer to DID. | I |
| Refer to DID ENG-006. | | | | | | | |
| ENG-008 | Hazardous Material Management Report | SOW G.4.16.2 | 30 days after AOC | One/R | 1-E | Refer to DID | A/30 |
| Refer to DID ENG-008. | | | | | | | |
| ENG-011 | Human Factors Data Report (HFDR) | SOW G.4.17.2 | 5 days before ** SFR | Final: 20 days before ** PDR | 1 - E | Refer to DID | A/30 |

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| Refer to DID ENG-011. | | | | | | | |
| ENG-012 | Safety Assessment Report (SAR) | SOW G.4.18.2 G.4.18.3 | 5 days before ** SFR | Final – 20 days before ** PDR | 1 – E | Refer to DID. | A/30 |
| Refer to DID ENG-012. | | | | | | | |
| ENG-013 | Qualification Matrix | SOW G.4.11.2 G.4.12.2 G.4.13.2 G.4.15.1 | With Proposal | Refer to DID | 1 – E | Refer to DID. | A/30 |
| Refer to DID ENG-013. | | | | | | | |
| ENG-014 | Design Review Presentation Material | SOW G.4.11.3 G.4.12.3 G.4.13.3 | 5 days prior to SFR | At PDR, CDR, & as required | 1 – E | Refer to DID. | I |
| Refer to DID ENG-014. | | | | | | | |
| ENG-015 | Finite Element Analysis (FEA) Report | SOW 4.19.1 | Refer to DID | Refer to DID | 1 – E | Refer to DID. | I |
| Refer to DID ENG-015. | | | | | | | |
| ENG-017 | Qualification Test Plan | SOW G.4.15.2 | 4 MAC | Refer to DID | 1 – E | Refer to DID. | A/30 |
| Refer to DID ENG-017. | | | | | | | |

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| ENG-018 | Formal Qualification Report | SOW G.4.15.3 | 8 MAC | Refer to DID | 1 – E | Refer to DID. | A/15 |

Refer to DID ENG-018.

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| QA-001 | Quality Assurance Plan | SOW G.5.2.1 G.5.5 | With Proposal | Refer to DID | 1- E | Subcontractor Format | Final A/30 |
| Refer to DID QA-001 | | | | | | | |
| QA-002 | Quality Assurance Inspection and Test Plan | SOW G.5.6.1 | With Proposal | Refer to DID | 1 – E | Subcontractor Format | Final A/15 |
| Refer to DID QA-002 | | | | | | | |
| QA-003 | Supplier / Subcontractor Evaluation & Approval Survey | SOW G.5.7.1 | With Proposal | N/A | 1-E | Subcontractor Format | See DID |
| Refer to DID QA-003 | | | | | | | |
| QA-004 | First Piece Inspection | SOW G.5.3.1 | 14 days prior to first shipment of production material. | Refer to DID | 1-H | Refer to DID | A/15 |
| Refer to DID QA-004 | | | | | | | |
| QA-005 | First Article Test Plan | SOW G.5.4.1 | 30 days prior to First Article production. | N/A | 1-E | Subcontractor Format | A/30 |
| Refer to DID QA-005. | | | | | | | |
| QA-006 | Acceptance Test Plan | SOW G.5.8.1 | Refer to DID | Refer to DID | 1-E | Subcontractor Format | A/7 |
| Refer to DID QA-006 | | | | | | | |

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| QA-007 | Acceptance Test Report | SOW G.5.8.1 | Refer to DID | Refer to DID | 1-E | Subcontractor Format | A/30 |
| Refer to DID QA-007 | | | | | | | |
| QA-008 | First Article Test Report | SOW G.5.4.2 | Refer to DID | N/A | 1-E | Subcontractor Format | A/30 |
| Refer to DID QA-008 | | | | | | | |

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| SDRL No. | Description | Subcontract Reference | Initial Delivery Date | Frequency | No. of Copies | Format | Approval |
|----------------------|--|-----------------------|-----------------------|----------------------|---------------|----------------------|----------|
| LE-001 | Supportability Technical Data Request | SOW G.7.1 | With Proposal | One/R | 1-E | Refer to DID | A/5 |
| Refer to DID LE-001. | | | | | | | |
| LE-002 | Indented Bill of Materials (IBOM) | SOW G.7.2 | 10 Days prior to PDR | Refer to DID | 1-E | Refer to DID | A/5 |
| Refer to DID CM-008. | | | | | | | |
| LE-003 | Technical Data Package | SOW G.7.3 | 10 Days prior to PDR | 30 Days post CDR | 1-E | Refer to DID | A/30 |
| Refer to DID LE-003. | | | | | | | |
| LE-004 | List of Spare Parts | SOW G.7.4 | 10 Days prior to PDR | 30 Days post CDR | 1-E | Refer to DID | A/30 |
| Refer to DID LE-004 | | | | | | | |
| LE-005 | Technical Publications | SOW G.7.5 | 10 Days prior to PDR | 30 Days post CDR | 1-E | Refer to DID | A/5 |
| Refer to DID LE-005. | | | | | | | |
| LE-006 | Technical Illustrations | SOW G.7.6 | 30 Days post CDR | One/R | 1-E | Refer to DID | A/10 |
| Refer to DID LE-006. | | | | | | | |
| LE-007 | Support Equipment List | SOW G.7.7 | 10 days prior PDR | 10 days post CDR | 1-E | Refer to DID | A/5 |
| Refer to DID LE-007. | | | | | | | |
| LE-008 | Reliability and Maintainability Support Data | SOW G.7.10 | 10 days prior PDR | 10 Days prior to CDR | 1-E | Subcontractor Format | A/5 |
| Refer to DID LE-008. | | | | | | | |

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| SDRL No. | Description | Subcontract Reference | Initial Delivery Date | Frequency | No. of Copies | Format | Approval |
|----------|-------------------------|-----------------------|-----------------------|------------------|---------------|----------------------|----------|
| LE-009 | Diagnostic Support Data | SOW G.7.11 | 10 Days prior to CDR | 30 days post CDR | 1-E | Subcontractor Format | A/10 |

Refer to DID LE-009.

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| SDRL No. | Description | Subcontract Reference | Initial Delivery Date | Frequency | No. of Copies | Format | Approval |
|---------------------|--------------------|-----------------------|-----------------------|--|---------------|----------------------|----------|
| OM-001 | OM Plan | SOW G.8.2 | With Proposal | 1MAC | 1-E | Subcontractor Format | I |
| Refer to DID OM-001 | | | | | | | |
| OM-002 | OM Candidates List | SOW G.8.3 | With Proposal | Quarterly – Concurrent with OM Issues Report | 1-E | Subcontractor Format | A/15 |
| Refer to DID OM-002 | | | | | | | |
| OM-003 | OM Issues Report | SOW G.8.4 | With Proposal | Quarterly – Concurrent with OM Candidates List | 1-E | Subcontractor Format | A/15 |
| Refer to DID OM-003 | | | | | | | |

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DID PM-001

Data Item Descriptions

- | | |
|---|--|
| 1. <u>TITLE:</u> Program Management Plan (PMP) | 2. <u>IDENTIFICATION NO.:</u> DID PM-001 |
| 3. <u>DESCRIPTION/PURPOSE:</u> The PMP shall describe how the Subcontractor intends to provide effective Program Management conducted and the methods, procedures and controls used to assure effective Program Management. | 4. <u>APPLICABLE REFERENCES:</u> SDRL PM-001 SOW G.2.2.1 of the Work, how it is organized, how it will be |
| 5. <u>TO BE SUBMITTED TO:</u> ** | 6. <u>APPROVAL LIMITATION:</u> A/30 |
| 7. <u>INITIAL DELIVERY:</u> Initial copy with proposal | 8. <u>REVISIONS/FREQUENCY:</u> Final copy 15 days after a ward of contract. Updates as required. |
9. **PREPARATION INSTRUCTIONS:**
- 9.1 **General.** The format shall be suitable for the use of the PMP as an overview of the system for Subcontractor personnel as well as detailing the Subcontractor's arrangements for management and control of the Work. Where identified, annexes shall be prepared, delivered and amended in accordance with their respective DIDs.
- 9.2 **Content.** The following represents the recommended content of the PMP. ** may approve Subcontractor proposed alternatives to this PMP as long as the requirements of this DID are met.

| <u>SECTION</u> | <u>TITLE</u> |
|----------------|---|
| 1.0 | Introduction, Purpose and Scope |
| 2.0 | Organisational Arrangements |
| 3.0 | Program Management Approach and Processes |
| 4.0 | Spare Parts Management |
| 5.0 | Risk Management |
| 6.0 | Data Management |
| 7.0 | Production Management |
| 8.0 | Procurement and Subcontract Management |

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- 9.0 Engineering
- 10.0 Configuration Management
- 11.0 Quality Assurance
- 12.0 Logistics Engineering Management
- 13.0 Business and Financial Management

ANNEXES

- A Work Breakdown Structure
- B Master Program Management Schedule
- C Delivery Schedule
- D Cash Flow Forecasts
- E List of Figures
- F List of Acronyms
- G Master Review and Audit Plan
- H Risk Management Plan
- I Subcontract Management Plan

9.3 The content of each section should provide an overview of how the Subcontractor intends to meet the requirement of the SOW.

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DID PM-003

Data Item Descriptions

- | | |
|--|---|
| 1. <u>TITLE:</u> | 2. <u>IDENTIFICATION NO.:</u> |
| Master Project Management Schedule (MPMS) | DID PM-003 |
| 3. <u>DESCRIPTION/PURPOSE:</u> | 4. <u>APPLICABLE REFERENCES:</u> |
| THE MPMS shall schedule and report all elements of the subcontractor's Work defined by the approved WBS. | SDRL PM-003 SOW G.2.4.2. |
| 5. <u>TO BE SUBMITTED TO:</u> | 6. <u>APPROVAL LIMITATION:</u> |
| ** | A/30 |
| 7. <u>INITIAL DELIVERY:</u> | 8. <u>REVISIONS/FREQUENCY:</u> |
| Initial draft due with proposal | Final copy due 15 days AOC Updates as required. |
| 9. <u>PREPARATION INSTRUCTIONS:</u> | |
| 9.1 The subcontractor shall ensure the MPMS clearly identifies: | |
| a) all activities necessary to complete each WBS | |
| b) actual performance for each activity completed or in progress for all previous and current reporting period | |
| c) detailed activity scheduling for the next reporting period | |
| d) key milestones beyond the next reporting period e) the expected duration for all scheduled activities | |

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DID PM-006
Data Item Descriptions

- | | |
|---|---|
| 1. <u>TITLE:</u> Meeting Agenda | 2. <u>IDENTIFICATION NO.:</u> DID PM-006 |
| 3. <u>DESCRIPTION/PURPOSE:</u> To provide an agenda to ** in support of meetings and reviews. | 4. <u>APPLICABLE REFERENCES:</u> SDRL PM-006 SOW G.2.5.6 |
| 5. <u>TO BE SUBMITTED TO:</u> ** | 6. <u>APPROVAL LIMITATION:</u> A/2 |
| 7. <u>INITIAL DELIVERY:</u> 5 days prior to planned meeting date | 8. <u>REVISIONS/FREQUENCY:</u> NA |
| 9. <u>PREPARATION INSTRUCTIONS:</u> | |
| 9.1 The agenda shall address the following: | |
| a) the scope, purpose and objectives of the review or meeting, | |
| b) time, date, location and anticipated duration | |
| c) suggested Government attendees | |
| d) ** attendees e) Subcontractor attendees | |
| f) Need for any ** or Government documentation to be presented at the review or meeting | |
| g) Alternative dates and location for ** consideration | |
| h) Security classification and visit clearance requirements | |
| i) Review and acceptance of the minutes of the previous meeting | |
| j) Status and update of current items under review | |
| k) New subject items to be introduced by the subcontractor and/or the Government | |
| l) Other business | |

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DID PM-007

Data Item Descriptions

- | | |
|---|--|
| 1. <u>TITLE:</u> | 2. <u>IDENTIFICATION NO.:</u> |
| Meeting Minutes | DID PM-007 |
| 3. <u>DESCRIPTION/PURPOSE:</u> | 4. <u>APPLICABLE REFERENCES:</u> |
| Minutes shall describe the content of the reviews and meetings between ** and the subcontractor. | SDRL PM-007 SOW G.2.5.7 |
| 5. <u>TO BE SUBMITTED TO:</u> | 6. <u>APPROVAL LIMITATION:</u> |
| ** | A/10 |
| 7. <u>INITIAL DELIVERY:</u> | 8. <u>REVISIONS/FREQUENCY:</u> |
| Within 5 working days following meeting completion. | Revisions due within 3 working days of ** revisions or comments. |
| 9. <u>PREPARATION INSTRUCTIONS:</u> | |
| 9.1 The format shall provide for the clear identification of requests for action items resulting from such reviews and meetings and the individual, group or organisation responsible for pursuing such action and the schedule time for response to each action request. | |
| 9.2 Meeting Minutes shall be prepared in a brief narrative form aligned to the topics and sequencing of the discussions. | |
| 9.3 Meeting Minutes shall include hard copies of any presentation material used during the review. | |
| 9.4 Meeting Minutes shall be a true reflection of the discussions and shall not be construed as agreed until signed by the Project Authority. | |
| 9.5 Meeting Minutes shall, in addition to the above requirements, identify, as a minimum: | |
| a) scope, purpose, meeting reference code and objectives of the review | |
| b) time, date, location and attendees | |

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Subcontract PO 35334144
Section G, Annex G2 - SDRL
Rev NR

- c) security classification of the minutes
- d) proposed timing and location of any follow-up reviews
- e) distribution list

9.6 Meeting Minutes shall summarise the requests for action items, the assigned responsibility for responding to such requests and the schedule time for response.

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DID PM-008
Data Item Descriptions

- | | |
|--|---|
| <p>1. <u>TITLE:</u></p> <p>2. <u>IDENTIFICATION NO.:</u></p> <p style="padding-left: 40px;">Progress Report</p> | <p style="padding-left: 40px;">DID PM-008</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p style="padding-left: 40px;">The Progress Reports shall describe the progress made by the subcontractor in performing both subcontracted and directed work. The Progress Report shall be used by the subcontractor as the basis for developing PSR agendas.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p style="padding-left: 40px;">SDRL PM-008 SOW G.2.4.3, G.2.6.1, G. 2.9.2.</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p style="padding-left: 40px;">**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p style="padding-left: 40px;">I</p> |
| <p>7. <u>INITIAL DELIVERY:</u></p> <p style="padding-left: 40px;">One month after award of contract</p> | <p>8. <u>REVISIONS/FREQUENCY:</u></p> <p style="padding-left: 40px;">Monthly</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> <p>9.1 Progress Reports shall present, in an easily readable form, a summary of, as a minimum:</p> <p>a) <u>Project Status:</u> shall include an objective status of, but not limited to, the following:</p> <ul style="list-style-type: none"> i) subcontract value summary ii) subcontract invoicing status iii) milestone payment status iv) status of SCPs v) subcontract deliverable status vi) warranty status vii) schedule status viii) retrofit status ix) ECP status x) waiver and deviation status xi) action item status xii) risk status xiii) technical issue status xiv) part order status | |

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b) Project Issues: shall include a summary report, from Program Management, Engineering, Configuration Management, Quality Assurance, Production, and Logistics Engineering Management of all known project issues and concerns relating to subcontracted and directed Work.

C) Line of Balance Report: shall be prepared, and provided as a separate attachment, for all subcontract activity and graphically depicted with supporting narrative.

The graph shall indicate the following elements:

- i) The Objective – the cumulative delivery schedule
- ii) The Program – the planned production
- iii) Progress – the current performance
- iv) Comparison – program progress to objective

The narrative shall contain the following:

- i) Explanation of variances from scheduled to actual
- ii) Statement of problems which resulted in variances
- iii) Corrective action taken
- iv) Proposed recovery schedules
- v) Impact on delivery schedule

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DID PM-011
Data Item Descriptions

- | | |
|---|--|
| <p>1. <u>TITLE:</u></p> <p>Risk Management Plan</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID PM-011</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>The Risk Management Plan shall describe how the subcontractor intends to provide effective Risk Management for the System, how it is organized, how it will be conducted and the methods, procedures and controls used to assure effective management of risk.</p> | <p>4. <u>APPLICABLE REFERENCE:</u></p> <p>SDRL PM-011 SOW G.2.9.1</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A/30</p> |
| <p>7. <u>INITIAL DELIVERY:</u></p> <p>Draft due with proposal.</p> | <p>8. <u>REVISIONS/FREQUENCY:</u></p> <p>Final copy 15 days AOC. Updates as required.</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> <p>9.1 The subcontractor shall establish, implement and maintain a Risk Management Plan that provides:</p> <ul style="list-style-type: none"> a) early identification of potential risk elements b) monitoring of risk elements for significant trends that would indicate an increase or decrease in risk significance c) Risk Data Management to identify and classify risk d) Quick action to determine the extent of risk, to assess the options available to eliminate risk, to implement a preferred course of action, to monitor progress until a satisfactory solution is achieved and then report the results to management e) A periodic review of unresolved problems and the conduct of a thorough analysis of the impact of these problems of the program f) A review of all problems and their solutions utilising a “lessons learned” philosophy to improve early problem detection, improve methods of correcting and reducing the financial or schedule impact of future problems to the program. | |

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9.2 The Risk Management Plan shall include Risk Management Planning, Risk Identification, Qualitative and Quantitative Risk Analysis, Risk Response Planning, and Risk Monitoring and Control through an integrated approach involving cost, schedule, and technical performance, and shall contain as a minimum the following sections:

| <u>SECTION</u> | <u>TITLE</u> |
|----------------|------------------------------------|
| 1.0 | Scope, Application and Definitions |
| 2.0 | Risk Management Requirements |
| 3.0 | Risk Management Overview |
| 4.0 | Risk Management Process |
| 5.0 | Documentation |
| Annexes | As Required |

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DID PM-013
Data Item Descriptions

- | | |
|---|---|
| <p>1. <u>TITLE:</u></p> <p>Subcontract Change Proposal</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID PM-013</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>The purpose of this DID is to establish a standard content and form for the subcontractor or ** to use when requesting a change to the subcontract.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>SDRL PM-013 SOW G.2.12.</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A/30</p> |
| <p>7. <u>INITIAL DELIVERY:</u></p> <p>As required</p> | <p>8. <u>REVISIONS/FREQUENCY:</u></p> <p>As required</p> |
9. **PREPARATION INSTRUCTIONS:**
- 9.1 Submission shall be in accordance with the attached template.
- 9.2 All SCPs shall be accompanied by supporting data addressing the impact of the proposed change in the following areas:
- a) Operational
 - b) Technical/Production
 - c) Systems Engineering
 - d) Logistics Engineering
 - e) Quality Assurance
 - f) Program Management
 - g) Cost
 - h) Risk
 - i) Implication if not approved
 - j) Other relevant factors and considerations
- 9.3 All SCPs shall be numbered sequentially by the subcontractor. ECPs shall be referenced in the SCPs to which they correspond.
- 9.4 Revisions to SCPs shall be allocated a revision number by the subcontractor.

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| | | |
|--|--------------------------------|--|
| SUBCONTRACT PURCHASE ORDER ___USA SUBCONTRACT CHANGE PROPOSAL | PRIORITY (Tick as appropriate) | |
| | EMERGENCY | |
| | URGENT | |
| | ROUTINE | |

SUBCONTRACT REFERENCE: _____ **SERIAL NUMBER:** _____

WBS NO: _____ **ECP REFERENCE:** _____

ITEM IDENTIFICATION:

TITLE AND SUMMARY OF PROPOSED CHANGE:

DETAIL OF PROPOSED CHANGE AND REASON:

SUBCONTRACT DOCUMENTATION AFFECTED:

LIST OF REVISED SUBCONTRACT DOCUMENTATION PAGES AFFECTED:

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| SUBCONTRACT PURCHASE ORDER _____ USA | | | | | SUBCONTRACT CHANGE PROPOSAL | | | | | SERIAL NO: _____ |
|---|------------------------------|------|------------------------------|-----------------------------------|------------------------------|-------------|---------------------------------------|--------------|------------------------------|------------------|
| IMPACT (Tick as appropriate) | | | | | | | | | | |
| SCH | Yes <input type="checkbox"/> | COST | Yes <input type="checkbox"/> | WEIGHT | Yes <input type="checkbox"/> | PERFORMANCE | Yes <input type="checkbox"/> | OTHER | Yes <input type="checkbox"/> | |
| | No <input type="checkbox"/> | | No <input type="checkbox"/> | | No <input type="checkbox"/> | | No <input type="checkbox"/> | | No <input type="checkbox"/> | |
| All | Yes <input type="checkbox"/> | RISK | Yes <input type="checkbox"/> | ILS | Yes <input type="checkbox"/> | PROD | Yes <input type="checkbox"/> | ENG | Yes <input type="checkbox"/> | |
| | No <input type="checkbox"/> | | No <input type="checkbox"/> | | No <input type="checkbox"/> | | No <input type="checkbox"/> | | No <input type="checkbox"/> | |
| DESCRIPTION OF IMPACT: (Attach Details) | | | | | | | | | | |
| ORIGINATOR'S SIGNATURE _____ | | | | | | TITLE _____ | | | | |
| ORGANISATION _____ | | | | | | DATE _____ | | | | |
| SUBCONTRACTOR AUTHORISED SIGNATORY | | | | | | | | | | |
| _____ Signature | | | | | | | | Approved | <input type="checkbox"/> | |
| _____ Title | | | | | | | | Not Approved | <input type="checkbox"/> | |
| | | | | | | | | Date | _____ | |
| GENERAL DYNAMICS LAND SYSTEMS-CANADA CORPORATION RESPONSE | | | | APPROVED <input type="checkbox"/> | | | NOT APPROVED <input type="checkbox"/> | | | |
| REMARKS: | | | | | | | | | | |
| CORPORATION AUTHROISED SIGNATORY | | | | | | | | | | |
| Date _____ | | | | | | | | | | |

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DID PM-014
Data Item Descriptions

- | | |
|---|--|
| <p>1. <u>TITLE:</u></p> <p>Production Management Plan</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID PM-014</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>The Production Management Plan shall describe how the subcontractor intends to provide effective Production Management for the subcontractor’s work, how it is organized, how it will be conducted and the methods, procedures and controls used to assure effective production management.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>SDRL PM-014 SOW G.6.2</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A/30</p> |
| <p>7. <u>INITIAL DELIVERY:</u></p> <p>Draft due with Proposal</p> | <p>8. <u>REVISIONS/FREQUENCY:</u></p> <p>Final copy 15 days AOC. Updates as required.</p> |
9. **PREPARATION INSTRUCTIONS:**
- 1 The Production Plan shall include the following information and data:
- a) **Overview of Manufacturing Organisational Arrangements.** The Plan should explain the manufacturing management organisation, which will implement and maintain surveillance over all elements of manufacturing. Provide organizational charts and explain functional responsibilities of the manufacturing manager and other key manufacturing personnel to be assigned.
- b) **Resource and Manufacturing Capability.** This section shall include:
- i) **Industrial Facilities**
- Provide a breakdown of Subcontractor facilities to be used in support of the System.
 - List facilities required by the Subcontractor including modification of existing facilities. This listing will contain the items, lead time and required date related to the Master and Support Schedules.

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- ii) **Manpower (Tooling and Manufacturing).** Prepare Charts or tables with forecasts at monthly intervals of tooling and manufacturing (direct and indirect) personnel resources required to support the manufacturing program.
 - iii) **Materials** - Identify any special or hard-to-get material to be utilized on the manufacturing program which relate to previous applications. Present data to justify the selection of new or critical alloys and lead time required to ensure their availability to meet the proposed schedule
 - iv) **Components** - Identify new major units of assemblies to be developed and existing ones that require redesign. Depict their development/testing and production lead times within the MPMS.
 - v) **Tooling Plan and special tooling** - Submit details on tooling philosophy covering planning, fabrication, control and manufacturing, identifying clearly the extent of 'soft' (limited) and/or 'hard' (durable) tooling. The plan will identify each item of special tooling which could be considered as 'common' to manufacturing requirements or maintenance support. The duration of use for this property to support production will be explained, together with an estimated use upon completion of the effort to be carried out by the Subcontractor and Sub-Subcontractors.
- c) Identify by category the special tooling that should be retained for spares support, after phase-out of the production program.
- d) **Production Planning.** This section shall include details on the following:
- i) **Delivery schedule.** Depict the production schedule that will support the contracted delivery schedule for all Deliverable End Items to be produced.
 - ii) **Production Work Breakdown Structure (PWBS).** Provide a logical framework to describe all the production activities and to support schedule monitoring. This shall be traceable to the Approved WBS.
 - iii) **Manufacturing Lead Time.** Depict the relationship of time-phased milestones for in-plant and subcontracted effort from the Effective Date of the Subcontract to the delivery of all Deliverable End Items.
 - iv) **Production Control.** Provide an explanation of the existing or proposed production control system. Details of the system should be outlined to ensure that the planned project can be accomplished. The relationship between configuration control, quality control and production control shall be explained.
 - v) **Plant Utilization.** Describe any other production scheduled to occur concurrently. In particular identify anticipated production constrictions as a basis for determining any production rate tooling costs.

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**

DID PM-015

Data Item Descriptions

- | | |
|--|---|
| <p>1. <u>TITLE:</u> Line of Balance</p> <p>3. <u>DESCRIPTION/PURPOSE:</u> To provide details on major LRUs being delivered to the Subcontractor's facility in support of final system deliveries.</p> <p>5. <u>TO BE SUBMITTED TO:</u> **</p> <p>7. <u>INITIAL DELIVERY:</u> 1 MAC</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID PM-015</p> <p>4. <u>APPLICABLE REFEREN CES:</u> SDRL PM-015 SOW G.6.2.2</p> <p>6. <u>APPROVAL LIMITATION:</u> I</p> <p>8. <u>REVISIONS/FREQUENCY:</u> Weekly</p> |
|--|---|

PREPARATION INSTRUCTIONS:

- 9.1. The Subcontractor shall submit a line of balance showing top level kit part number and deliveries to ** by date.
- 9.2. The kit part number will then be broken down to next level of indenture showing dates of completion in Subcontractor's facility.
- 9.3. The Subcontractor shall include a listing of all major LRUs for the seat and associated hardware showing detailed deliveries dates from their down suppliers to the Subcontractor's facility in support of final kit delivery. Example as follows:

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| | | | Due Date #1 | Due Date #2 |
|---------|----------------------------|---------------------------------------|--|--|
| Kit P/N | | | Quantity of Kits Due | Quantity of Kits Due |
| | Item #1 P/N (# per kit) | | <i>Date Completed, Quantity Date Completed, Quantity, etc.</i> | <i>Date Completed, Quantity Date Completed, Quantity, etc.</i> |
| | | Major LRU #1 (# per Item #1) | <i>Delivery Date, Quantity Delivery Date, Quantity, etc.</i> | <i>Delivery Date, Quantity Delivery Date, Quantity, etc.</i> |
| | | Major LRU #2, etc. (# per Item #1) | <i>Delivery Date, Quantity Delivery Date, Quantity, etc.</i> | <i>Delivery Date, Quantity Delivery Date, Quantity, etc.</i> |
| | Item #2 P/N (# per kit) | | <i>Date Completed, Quantity Date Completed, Quantity, etc.</i> | <i>Date Completed, Quantity Date Completed, Quantity, etc.</i> |
| | | Major LRU #1 (# per Item #2) | <i>Delivery Date, Quantity Delivery Date, Quantity, etc.</i> | <i>Delivery Date, Quantity Delivery Date, Quantity, etc.</i> |

9.4. The line of balance shall be updated as changes occur and submitted to ** on a weekly basis clearly showing any delta changes from one week to the next. Any changes shall be discussed during telecons with **.

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DID CM-002
Data Item Descriptions

- | | |
|--|---|
| <p>1. <u>TITLE:</u></p> <p>Engineering Change Proposal</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID CM-002</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>An engineering Change Proposal (ECP) includes both the engineering change and the documentation by which the change is described and suggested. An ECP describes the changes to the configuration items and associated configuration documentation that are affected by the proposed engineering change.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>DID DI-CMAN-80639C Engineering Change Proposal(ECP)</p> <p>SDRL CM-002</p> <p>SOW G.3.4.1, 3.5.3</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>Submission of ECPs for information purposes shall be initiated from date of completion of each CDR.</p> <p>Formal submission of ECPs shall occur upon establishment of the PCB. Approval limitations for formal submissions are as follows:</p> <p><u>Class I changes:</u></p> <p>Emergency 96 Hours ,Urgent 30 days,Routine:90 days</p> <p>Class II ECPs: shall be submitted to ** for concurrence of classification</p> |
| <p>7. <u>INITIAL DELIVERY:</u></p> <p>From Completion of CDR</p> | <p>8. <u>REVISIONS/FREQUENCY:</u></p> <p>As required</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> <p>9.1 Format and content: The Engineering change proposal shall be prepared in Subcontractor format. The ECP shall include, as applicable, the information as delineated in DID DI-CMAN-80639C.</p> | |

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DID CM-3

Data Item Descriptions

- | | |
|---|--|
| <p>1. <u>TITLE:</u></p> <p>Functional Configuration Audit (FCA) / Physical Configuration Audit (PCA) Plan</p> <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>The Subcontractor's FCA/PCA Plan (CMP) shall provide the Contractor with an overview of the preparation and planning for the FCA/PCA activity.</p> <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> <p>7. <u>INITIAL DELIVERY:</u></p> <p>Due with proposal</p> <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> <p>9.1 The FCA/PCA Plan shall be prepared using DI-CMAN-80856A as a Guide.</p> <p>9.2 MIL-HDBK-61A Section 8 shall be used as guidance in identifying those areas of the audit planning process and pre-audit preparation that should be identified in the Plan.</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID CM-003</p> <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>MIL-HDBK-61A Configuration Management Guidance (Section 8)</p> <p>DID DI-CMAN-80556A</p> <p>SDRL CM-003</p> <p>SOW Para. G.3.7.3</p> <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A/15</p> <p>8. <u>REVISIONS/FREQUENCY:</u></p> <p>30 days prior to Configuration Audit</p> |
|---|--|

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DID CM-4

Data Item Descriptions

- | | |
|---|---|
| <p>1. <u>TITLE:</u> Audit Agenda</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID CM-004</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u> Configuration Audit Agendas are documents that describe particulars with regard to scheduled audit dates, attendance and events during the course of the audit. Audit Agendas are provided in accordance with the requirements of the FCA and PCA Plan (Ref DID CM-003)</p> | <p>4. <u>APPLICABLE REFERENCES:</u> SDRL CM-004 SOW G.3.7.2, G.3.7.4.2</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u> **</p> | <p>6. <u>APPROVAL LIMITATION:</u> A/30</p> |
| <p>7. <u>INITIAL DELIVERY:</u> 10 days prior to schedule date of the Configuration Audit.</p> | <p>8. <u>REVISIONS/FREQUENCY:</u> 10 days prior to scheduled date of all other FCA/PCA audits</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> <p>9.1 Contractor <u>Subcontractor</u> format for the agenda is acceptable; the minimum content of each document is as follows:</p> <p>9.2 Audit Agenda: The agenda shall contain as a minimum the following agenda items and reference material:</p> <ul style="list-style-type: none"> a. Audit date, location and a list of attendees b. Duration c. Daily Chronological listing of events which are to take place. d. PCA candidates list shall be provided with the PCA Agendas | |

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DID CM-5

Data Item Descriptions

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|---|---|
| <p>1. <u>TITLE:</u> Audit Report</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID CM-005</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u> A Configuration Audit Report details the results of the audit and is provided in accordance with the requirements of the FCA/PCA Plan.</p> | <p>4. <u>APPLICABLE REFERENCES:</u> DID DI-CMAN-81022C Configuration Audit Report SDRL CM-005 SOW G.3.7.4.3</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u> **</p> | <p>6. <u>APPROVAL LIMITATION:</u> A</p> |
| <p>7. <u>INITIAL DELIVERY:</u> 30 days after successful completion of FCA/PCA</p> | <p>8. <u>REVISIONS/FREQUENCY:</u> As required</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> <p>9.1 The contractor shall prepare audit reports in accordance with DI-CMAN-81022C.</p> <p>9.2 Contractor format for the agenda and report is acceptable; the minimum content of the audit report is as follows:</p> <ul style="list-style-type: none"> a. Identification of hardware and/or documentation audited b. Identification of reference documents used during the conduct of the audit c. Identification of the audit agenda d. List of personnel involved e. Action items identified, responsible individuals assigned to each action item, f. Status and schedule date for clearing each action item. <p>9.3 Revisions shall be provided until all outstanding FCA/PCA discrepancies are addressed and closed.</p> | |

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DID CM-6

Data Item Descriptions

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|---|--|
| <p>1. <u>TITLE:</u></p> <p>Request for Deviation (RFD)</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID CM-006</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>A request for deviation describes the proposed (prior to manufacture) departure from configuration documentation for a specific number of units or for a specified period of time. A request for Deviation enables ** to determine the impact on performance, operational readiness, logistics support, or other affected areas.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>MIL-HDBK-61A Configuration Management Guideline Section 6.</p> <p>SDRL CM-006</p> <p>SOW G.3.5.4</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>** Approval Limitations are: Critical: 2 Days Major: 5 Days Minor: 10 Days</p> |
| <p>7. <u>INITIAL DELIVERY:</u></p> <p>As Required</p> | <p>8. <u>REVISIONS/FREQUENCY:</u></p> <p>As Required</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> <p>Subcontract format for the Request for Deviation (RFD) is acceptable. Classification of RFDs shall be in accordance with MIL-HDBK-61A Section 6.3.1</p> <p>9.1 All classification of RFDs shall be submitted to ** for approval.</p> <p>9.2 Recurring Deviations are discouraged and may result in the submittal of a Class I ECP.</p> <p>9.3 RFD content shall be in accordance with MIL-HDBK-61A Table 6-9</p> | |

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DID CM-007

Data Item Descriptions

- | | |
|---|---|
| <p>1. <u>TITLE:</u> Configuration Status Accounting Reports</p> <p>3. <u>DESCRIPTION/PURPOSE:</u> Configuration Status Accounting Reports document the configuration status (including proposed changes, deviations) of the configuration items and their related documentation</p> <p>5. <u>TO BE SUBMITTED TO:</u> **</p> <p>7. <u>INITIAL DELIVERY:</u> 10 days prior to PCA or FPI</p> <p>9. <u>PREPARATION INSTRUCTIONS:</u> 9.1 General: The Subcontractor shall provide Configuration Status Accounting Reports which shall include the following:</p> <ul style="list-style-type: none">a. An ECP index listing the ECPs (number, revision, correction, date raised, title, type, class, status and the Configuration Items (CI), part number and documentation affected.b. A Deviation index listing the deviations (number, date raised, title, status and affectivity). | <p>2. <u>IDENTIFICATION NO.:</u> DID CM-007</p> <p>4. <u>APPLICABLE REFERENCES:</u> SDRL CM-007 SOW Para. G.3.9</p> <p>6. <u>APPROVAL LIMITATION:</u> N/A</p> <p>8. <u>REVISIONS/FREQUENCY:</u> Monthly until 30 days after the last End Product delivery</p> |
|---|---|

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DID CM-008
Data Item Descriptions

- | | |
|--|---|
| <p>1. <u>TITLE:</u></p> <p> Indented Bill of Material (IBOM)</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p> DID CM-008</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p> The IBOM defines the Product <u>Baseline</u> of the Equipment/System and shall provide a complete indented breakdown to individual piece part. Both hardware and software items are to be shown. Amendments to the IBOM shall be required to reflect all approved configuration changes. If there are no changes to the IBOM then the applicable quarterly update is not required.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p> SDRL CM-008</p> <p> SOW G.3.10</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p> **</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p> A/10</p> |
| <p>7. <u>INITIAL DELIVERY:</u></p> <p> Concurrent with initial delivery of CM-007 CSA/LE-002 Delivery and TDP</p> | <p>8. <u>REVISIONS/FREQUENCY:</u></p> <p> Monthly concurrent with CM-007 CSA Delivery , LE-002 and / or TDP Updates</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> <p>9.1 The IBOM shall as a minimum include the following:</p> <p style="margin-left: 40px;">(a) Cover sheet to include;</p> <p style="margin-left: 80px;">(1) Title of report,</p> <p style="margin-left: 80px;">(2) System nomenclature,</p> <p style="margin-left: 80px;">(3) Contract number,</p> <p style="margin-left: 80px;">(4) Issue date,</p> <p style="margin-left: 80px;">(5) Contractor's name and address, and</p> | |

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- (6) Section identifier (if sections are separately bound);
- (b) A forward that briefly explains the purpose/intent of the IBOM, followed by: a definition of data elements used in the IBOM; a list of applicable CAGE Codes; and a list of non-standard abbreviations;
- (c) The IBOM shall be a top-down generation breakdown of each System or major equipment.

9.2 The IBOM shall be submitted on CD-ROM or a mutually agreed delivery media.

9.3 The data shall be in a common data format, preferable Excel or Access. The data shall not be write-protected and shall allow filtering and sorting.

9.4 Data elements to include in the IBOM are not restricted. The Subcontractor can include any other data elements that are judged necessary as a management tool:

- (a) As a minimum the following data elements are required;

DATA ELEMENT DEFINITION

Part Number Part Number;
Item Nomenclature Item Nomenclature;
Indenture Level Breakdown Level;
Revision Level of Document;
Parent Part Number Part Number and Parent Assembly; [CCP 20]
Document Number Document Identification
Number (must be unique);
Quantity Per Assy Number found in each parent assembly;

- (b) The following data elements will also be included if available at the time of preparation:

DATA ELEMENT DEFINITION

Model Model of Item;
NSN NATO Stock Number;
STD-Unit-Price Standard Unit Price;
CI-Acronym CI Acronym;

9.5 The Subcontractor can use any code already in use, but these codes must be explained.

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DID CM-009

Data Item Descriptions

- | | |
|--|---|
| <p>1. <u>TITLE:</u></p> <p>Functional Configuration Audit (FCA) System Spec Verification Matrix</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID CM-009</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>The FCA Verification Matrix identifies the method of verification used for compliance to the System Spec Performance. The Matrix shall be used for each FCA.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>Performance Specification SDRL CM-009 SOW G.3.7.1.1</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A/30</p> |
| <p>7. <u>INITIAL DELIVERY:</u></p> <p>FCA verification Matrix Template to be provided with proposal</p> | <p>8. <u>REVISIONS/FREQUENCY:</u></p> <p>Provided concurrent with each FCA Plan</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> <p>9.1 The Subcontractor shall prepare the System Specification Compliance Matrix for System Specification verification. All requirements of the System Specification must be addressed</p> <p>As a minimum the Compliance matrix shall include the following:</p> <p>a. Title of Verification Matrix with revision control</p> <p>Columns arranged to depict the following:</p> <p>b. Item #</p> <p>c. Performance Specification</p> <p>d. Specification Description</p> <p>e. Title of the Specification Section</p> <p>f. The method of verification i.e.,</p> <ul style="list-style-type: none"> • Government Test (GT) • Subcontractor Test (ST) • Subcontractor Demo (Sd) • Subcontractor Analysis | |

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- Inspection/Test (X)
- Certification (X*)

Note: Each method may be a separate column

g. Subcontractor Documentation

(This column should identify the Subcontractor documentation to be audited for Specification compliance)

h. Discrepancy

(This column to identify whether a discrepancy is raised against the Specification paragraph. Should there be a discrepancy, the discrepancy number should be identified in this column otherwise it should be indicated that no discrepancy was observed).

i. Status(Open or Closed)

j. Comments k. Actionee

l. Closure Date

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DID CM-010

Data Item Descriptions

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|--|---|
| <p>1. <u>TITLE:</u> Technical Data Package (TDP)</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID CM-010</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u> The TDP comprises the final, baseline, engineering drawings, associated lists and supporting data</p> | <p>4. <u>APPLICABLE REFERENCES:</u> MIL-STD-31000 Technical Drawing Packages ASME Y14.100-2004 Engineering Drawing Packages SDRL CM-010 SOW G.3.8.3</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u> **</p> | <p>6. <u>APPROVAL LIMITATION:</u> A/10</p> |
| <p>7. <u>INITIAL DELIVERY:</u> Samples Drawings with proposal (hard copy one soft copy). 60 days after CDR</p> | <p>8. <u>REVISIONS/FREQUENCY:</u> As required, no later than 15 days after ECP approval.</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> <p>9.1 The TDP drawings and associated lists and supporting data for the System shall be prepared in accordance with the following:</p> <ul style="list-style-type: none"> a. Existing Drawings will be acceptable if they meet the requirements of MIL-STD- 31000. b. New Drawings and parts lists created by the Subcontractor in support of the subcontract shall meet the requirements of MIL-STD-31000 Drawings shall be prepared IAW ASME Y14.100-2004 Engineering Drawing Packages. <p>9.2 The TDP should be supplied in digital format. TIF or PDF format are acceptable but must meet 200 dpi minimum resolution.</p> | |

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Subcontract PO 35334144

Section A

Rev 03/10/2011

- 9.3 The naming convention for the Drawing files being delivered under the SDRL that comprise the TOP shall be mutually agreed agreed before submittal.
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DID CM-004
Data Item Descriptions

- | | |
|---|---|
| <p>1. <u>TITLE:</u> CAD Model</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID ENG-004</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u> The CAD Model shall be generated for the System. Revisions to the CAD Model shall be required to reflect all configuration changes.</p> | <p>4. <u>APPLICABLE REFERENCES:</u> SDRL ENG-004 G.4.9.1</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u> **</p> | <p>6. <u>APPROVAL LIMITATION:</u> I</p> |
| <p>7. <u>INITIAL DELIVERY</u> With Proposal</p> | <p>8. <u>REVISIONS/FREQUENCY:</u> At SFR, PDR, CDR and as required.</p> |
9. **PREPARATION INSTRUCTIONS**
- 9.1 The subcontractor shall submit a concept design 10 days following the SFR and 10 days prior to PDR and CDR. The CAD model showing the proposed System integration shall form the basis of the design review.
- 9.2 The subcontractor shall provide one (1) electronic copy (UG.PRT files to version 18 or earlier) at each revision and/or issue.
- 9.3 General. The CAD Model shall, as a minimum, include the following:
- a. The CAD Model shall represent all the elements of the System as defined by the program requirements including Interface Control Document (ICD) information.
 - b. The CAD Model shall be a representation of the System in its entirety.
 - c. The CAD Model shall indicate the current revision status at each issue under an agreed configuration management regime.
- 9.4 The Subcontractor shall deliver, to the ** the CAD Model as follows:

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- a. In STEP format compatible with version 18 (or earlier) of UniGraphics engineering software package and Safework human modeling package.
- b. File sizes shall be restricted to TBD.
- c. CAD files shall be delivered on CD or over secure email/web system.

9.5 Data elements included in the CAD Model are not restricted. The Subcontractor may include other data elements that are judged necessary as a management tool.

- a. As a minimum the following data elements are required;

| <u>DATA ELEMENT</u> | <u>DEFINITION</u> |
|---------------------|-----------------------------|
| Part Number | Part Number; |
| Item Nomenclature | Item Nomenclature; |
| Indenture level | Breakdown Level ; |
| Revision | Revision Level of Document; |

- b. The following data elements may be included if available at the time of preparation:

c.

| <u>DATA ELEMENT</u> | <u>DEFINITION</u> |
|---------------------|------------------------------------|
| NSN | NATO Stock Number; |
| NSCM | NATO Supply Code for Manufacturers |

9.6 Subcontractor can use any code already in use, but these codes must be explained.

9.7 If the Subcontractor has an CAD Model system in place, a copy of the format shall be submitted for ** approval but shall be compatible with version 18 (or earlier) of the UniGraphics engineering software package.

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| <p>DID ENG-006</p> <p>Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u></p> <p>Drawings</p> | <p>2. IDENTIFICATION NO.:</p> <p>DID ENG-006</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>To provide drawings for review.</p> | <p>4. APPLICABLE REFERENCES:</p> <p>SDRL ENG-006 G.4.7.1, G.4.8.1</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. APPROVAL LIMITATION:</p> <p>I</p> |
| <p>7. <u>INITIAL DELIVERY</u></p> <p>With Proposal</p> | <p>8. REVISIONS/FREQUENCY</p> <p>At SFR, PDR, CDR and as required</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS</u></p> <p>9.1 The Subcontractor shall submit preliminary drawings depicting the System in its entirety. Drawings, if preliminary, must include all dimensions, bills of material, material specifications, Interface Control Document (ICD) information, and other engineering notes that would be needed for manufacturing. These drawings shall be available for review with proposal.</p> <p>9.2 The subcontractor shall submit a drawing package containing any updates needed since the proposal 10 days prior to a Design Review. The drawing package submitted for the CDR shall be complete and ready for release pending any required changes driven by the CDR. Review of these drawings will form a part of the CDR agenda.</p> | |

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| <p>DID ENG-008</p> <p>Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u></p> <p>Hazardous Material Management Report</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID ENG-008</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>To provide report, based on Hazardous Material Management Plan.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>SDRL ENG-008 SOW G.4.16.2</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A/30</p> |
| <p>7. <u>INITIAL DELIVERY:</u></p> <p>30 days after award of contract</p> | <p>8. <u>REVISIONS/FREQUENCY:</u></p> <p>One/R</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> | |

If a material fits one or more of these categories, it will require reporting in the HMMR. This list is not all encompassing, but should identify most of the targeted products.

- All liquids, gases, pastes, powders, gels, aerosols, and many solids.
- Any product which generates dust, fumes, fog, vapor, etc. during shipping, storage, handling, production, use or disposal.
- Any product which is recommended for use with specific ventilation requirements.
- Any material recommended for use with personal protective equipment (PPE).
- Any material stored in a pressurized cylinder or container.
- Any plating methods that contain hazardous materials
- Any radioactive material

Examples of these products include (but are not limited to):

- (1) Adhesives, Bonding Agents, Glues, Loctites, etc.
- (2) Aerosols
- (3) Castings, Forgings, which are machined on-site
- (4) Cleaners
- (5) Coal
- (6) Compressed Gases
- (7) Construction Steel (e.g. angle iron, flat stock, channel iron, I-beams)
- (8) Coolants

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- (9) Cutting Oils
- (10) Drawing Compounds
- (11) Epoxies
- (12) Flux (soldering flux, welding flux, furnace flux)
- (13) Fuels (gasoline, kerosene, diesel fuel)
- (14) Furnace Refractory Material
- (15) Insulation (e.g. fiberglass)
- (16) Lubricating Oils and Greases
- (17) Metalworking Fluids
- (18) Paint and Related Items (e.g. thinners, varnishes)
- (19) Pesticides
- (20) Plastic Resin
- (21) Sealers
- (22) Shot (for shot peening)
- (23) Soaps
- (24) Solder
- (25) Solvents
- (26) Tapping Compounds
- (27) Welding Rods and Wires
- (28) Plating

Report Content. The Hazardous Materials Management Report (HMMR) shall include the following information:

Table of contents -State in narrative form the purpose of the HMMR

Executive Summary. basic, less than a page, overview of report, should include BRIEF history of part, BRIFF research methodology, and overview of findings.

Section 1: History and Purpose

- a) Introduction - Description of the document and its overall status. Basic assemblies require about a paragraph of information.
- b) Purpose and scope - The scope and goals of the document, and what it will achieve and include, again a paragraph is fine with a basic assembly.

Section 2: System Description and Purpose

Important, this overview (~ half a page) will detail the system itself, what its role will be and what its expected performance is. This will help in the analysis of what hazardous materials are actually required for it to perform its job function.

Section 3: Hazardous Materials

- a) Overview - the how, what, where, when, and why of their hazardous materials.
- b) Determination of Hazard or Analysis Methods - this documents how your company determines the level of hazard associated with a material, and methods of determining how a material gets included as a hazardous material.
- c) Research Methodology - detailed information explaining how parts are captured using your described criteria and how they are controlled or tracked.

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- d) Results of Analysis – As a result of a hazardous materials analysis, summary tables are to be included in this report. For each part/item identified as hazardous, the following information shall also be included:
- The part number you are detailing to include, were applicable, both your companies number and the GM part number
 - The Nomenclature of that part
 - The Hazardous Material component for that part
 - Its application in the completed assembly
 - If the material poses a serious threat to human health or the environment, indicate whether or not there is an alternate material option for that part/application
 - Where applicable the Variant for which the part is being supplied

Each part/item identified as hazardous shall be grouped into 1 of 3 categories.

- (i) Construction Materials – Consumables. These would be materials that once used to assemble the system would not require to be reapplied in the future and would have no adverse effects on human/environmental health after delivery.
- (ii) Maintenance Materials – Consumables. These would be materials that would be required for the ongoing maintenance of the vehicle, and therefor may come in contact with personnel in its reapplication during maintenance or repair.
- (iii) Construction Materials – Persistent. These are materials that once applied will remain hazardous and present throughout the life of the part/assembly/vehicle, and may cause adverse health effects through release or exposure into the environment whether it is during operation or disposal.

Section 4: Closure - If there are any final points or information that is relevant but does not warrant it own are please include that here, along with any summary information you feel is necessary.

Appendices - Include anything you feel is relevant to ensure full information capture in your report.

- a) Documentation – Any reference materials used in the creation of the report
- b) List of Abbreviation – Where not clear in the document, or where there are large numbers of Abb. a list can be included
- c) Anything else as required.

The subcontractor shall provide one (1) electronic copy (in Microsoft Office compatible file formats).

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| <p>DID ENG-011 Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u> Human Factors Data Report</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID ENG 011</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u> To support **</p> | <p>4. <u>APPLICABLE REFERENCES:</u> SDRL ENG-011 SOW G.4.17.2</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u> **</p> | <p>6. <u>APPROVAL LIMITATION:</u> A/30</p> |
| <p>7. <u>INITIAL DELIVERY:</u> 5 days before **</p> | <p>8. <u>REVISIONS/FREQUENCY:</u> Final due 20 days **</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> | |

Contents. The Human Factors Data Report (HFDR) shall include the following information:

Introduction. State in narrative form the purpose of the HFDR.

System Description. This section may be developed by referencing other program documentation, such as technical manuals, etc., and shall include the following:

- a) The purpose and intended use of the system.
- b) A brief historical summary of system development.
- c) A brief description of the system and its components. Include name, type, model number, and general physical characteristics of the overall system and its major subsystems and components.
- d) A brief description of all human factors features associated with the system.
- e) As applicable, either photos, charts, flow/functional diagrams, sketches, or schematics to support the system description, task, or operation. Human Factors Data. This section shall include the following:
 - a) Summarize the task description & analysis of activities performed by each Operator
 - b) Summarize the type and frequency of interaction with each man-machine interface during normal operation

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- c) Summarize the workload analysis for each operator during normal operation
Conclusions and Recommendations. Include a short assessment of the results of the HFE program efforts. Include a list of all major HFE tradeoffs during design development.
References. List all pertinent references such as Test Reports, Preliminary Operating Manuals and Maintenance Manuals.

The subcontractor shall provide one (1) electronic copy (in Microsoft Office compatible file formats).

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| <h2 style="margin: 0;">DID ENG-012</h2> <p style="margin: 0;">Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u></p> <p style="padding-left: 20px;">Safety Assessment Report</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p style="padding-left: 20px;">DID ENG-012</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p style="padding-left: 20px;">The SAR is a comprehensive evaluation of the safety risks being assumed at contract completion. It identifies all safety features of the system, design and procedural hazards that may be present in the system being acquired, and specific procedural controls and precautions that should be followed.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p style="padding-left: 20px;">Task 301 of MIL-STD-882 C SOW G.4.18.2, G.4.18.3</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p style="padding-left: 20px;">**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p style="padding-left: 20px;">A/30</p> |
| <p>7. <u>INITIAL DELIVERY:</u></p> <p style="padding-left: 20px;">5 days before ** SFR</p> | <p>8. <u>REVISIONS/FREQUENCY:</u></p> <p style="padding-left: 20px;">Final due 20 days before **</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> | |

Contents. The Safety Assessment Report (SAR) shall include the following information:
Introduction. State in narrative form the purpose of the SAR.
System Description. This section may be developed by referencing other program documentation, such as technical manuals, etc., and shall include the following:

- a) The purpose and intended use of the system.
- b) A brief historical summary of system development.
- c) A brief description of the system and its components. Include name, type, model number, and general physical characteristics of the overall system and its major subsystems and components.
- d) As applicable, a description of any other system(s) which will be tested or operated in combination with this system.
- e) As applicable, either photos, charts, flow/functional diagrams, sketches, or schematics to support the system description, task, or operation.

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System Operations.

- a) Briefly describe or reference the procedures for operating the system. Discuss the safety design features and controls incorporated into the system as they relate to the operating procedures.
- b) Describe any special safety operational procedures needed to ensure safe operations, including emergency procedures.
- c) Describe anticipated operating environments, and any specific skills required for safe operation, maintenance, and disposal.
- d) Describe any special facility requirements or personal equipment to support the system.

System Safety Engineering. This section shall include the following:

- a) Briefly summarize or reference the safety criteria and methodology used to classify and rank hazardous conditions.
- b) Describe or reference analyses and tests performed to identify hazardous conditions inherent in the system.
- c) List all hazards that have been identified and considered from the inception of the program in an appendix to this SAR. The list should be broken down to the subsystem or major component level.
- d) Discuss the hazards and the actions that have been taken to eliminate or control these hazards.
- e) Discuss the effects of these controls on the probability of occurrence and severity level of the potential mishaps.
- f) Discuss or reference results of tests conducted to validate safety criteria requirements and analyses.

Conclusions and Recommendations.

- a) Include a short assessment of the results of the safety program efforts. Include a list of all significant hazards along with specific safety recommendations or precautions required to ensure the safety of personnel and property. Categorize the list of hazards as to whether or not they may be expected under normal or abnormal operating conditions.
- b) For all hazardous materials generated by or used in the system, the following information shall be included:
 - Material identification as to type, quantity, and potential hazards.
 - Safety precautions and procedures necessary during use, storage, transportation, and disposal.
 - A copy of the Material Safety Data Sheet (or equivalent)
- c) Conclude with a statement signed by the Contractor System Safety Manager and the Contractor Program Manager stating that all identified hazards have been eliminated or controlled and that the system is ready to operate. In addition, the contractor shall make recommendations applicable to the safe interface

References. List all pertinent references such as Test Reports, Preliminary Operating Manuals and Maintenance Manuals.

The subcontractor shall provide one (1) electronic copy (in Microsoft Office compatible file formats).

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| <p>DID ENG-013</p> <p>Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u></p> <p>Qualification Matrix</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID ENG-013</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>To provide a Qualification Matrix to all sections within the Performance Specification</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>Performance Specification</p> <p>SOW G.4.11.2, G.4.12.2, G.4.13.2, G.4.15.1,</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A30</p> |
| <p>7. <u>INITIAL DELIVERY</u></p> <p>With Proposal</p> | <p>8. <u>REVISIONS/FREQUENCY</u></p> <p>As Required</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS</u></p> <p>9.1 The subcontractor shall provide a Qualification Matrix indicating current compliance as well as planned and completed qualification activities for each requirement of the Performance Specification.</p> <p>9.2 Initial delivery shall include requirement qualification assessment as well as any planned dates available. PDR delivery shall include updated qualification assessment, qualification plan document references, planned qualification dates, planned qualification report submittal dates, as well as any completed qualification data. CDR delivery shall include updated qualification assessment, and qualification results and report references.</p> <p>9.3 All qualification activities required during the QUAL Phase shall be planned for completion prior to CDR.</p> <p>9.4 The subcontractor shall provide an electronic copy of the qualification Matrix (in Microsoft Office compatible format).</p> <p>9.5 The format of the Qualification Matrix shall be as follows:</p> | |

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DID ENG-013 Engineering Qualification Matrix - "Project Name"

Date:

Rev:

| Performance Specification Para. Ref. | Requirement Description | Verification Phase | Method of Verification | Subcontractor Verification Plan/Procedure Document (Rev./date) | Planned Verification Date | Verification Location | Planned Verification Report Submittal Date | Subcontractor Verification Report Document (Rev./Date) | Compliance | Discrepancy, Actions or Comments | Actionee | Status (Open/Closed) |
|--------------------------------------|-------------------------|--------------------|------------------------|--|---------------------------|-----------------------|--|--|------------|----------------------------------|----------|----------------------|
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Qualification Categories = Qualification Achievable (requirements are not assessed compliant until verified), Compliant, Partial Compliant, Non-Compliant

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| <p>DID ENG-14 Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u> Design Review Presentation Material</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID ENG-014</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u> To provide advanced copies of presentation material for review at SFR, PDR and CDR.</p> | <p>4. <u>APPLICABLE REFERENCES:</u> SDRL ENG-014 SOW G.4.11.3, G.4.12.3, G.4.13.3</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u> **</p> | <p>6. <u>APPROVAL LIMITATION:</u> I</p> |
| <p>7. <u>INITIAL DELIVERY</u> 5 days prior to SFR</p> | <p>8. <u>REVISIONS/FREQUENCY</u> At PDR, CDR and as required</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS</u></p> | |
| <p>9.1 The subcontractor shall submit advanced copies of all presentation material to be reviewed at each design review (SFR, PDR & CDR), five (5) days prior to each design review.</p> | |
| <p>9.2 One (1) electronic version of the presentation material shall be delivered in a format that will be used at each design review (ie. Microsoft PowerPoint, Word, etc.).</p> | |

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| <p>DID ENG-015 Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u> Finite Element Analysis (FEA) Report</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID ENG-015</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u> To provide advanced copies of FEA presentation material for review at PDR and CDR.</p> | <p>4. <u>APPLICABLE REFERENCES:</u> SDRL ENG-015 SOW G.4.19.1</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u> **</p> | <p>6. <u>APPROVAL LIMITATION:</u> I</p> |
| <p>7. <u>INITIAL DELIVERY</u> Ten (10) days prior to PDR</p> | <p>8. <u>REVISIONS/FREQUENCY</u> Ten (10) days prior to CDR and as required</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS</u></p> <p>9.1 The subcontractor shall submit a report which summarizes the FEA analysis which has been performed on the system, to be reviewed at each design review (PDR & CDR), ten (10) days prior to each design review. The report shall outline the cases performed as well as the results of the analysis.</p> <p>9.2 One (1) electronic version of the presentation material shall be delivered in a format that will be used at each design review (ie. Microsoft PowerPoint, Word, etc.).</p> | |

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| <p>1. <u>TITLE:</u> Qualification Test Plan</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID ENG-017</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u> To provide Qualification plans for each requirement of the Performance Specification</p> | <p>4. <u>APPLICABLE REFERENCES:</u> Performance Specification SOW G.4.15.2</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u> **</p> | <p>6. <u>APPROVAL LIMITATION:</u> A/30</p> |
| <p>7. <u>INITIAL DELIVERY</u> 4 MAC</p> | <p>8. <u>REVISIONS/FREQUENCY</u> As Required</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS</u></p> <p>9.1 Documented plans and/or procedures shall be provided to address each requirement of the Performance Specification (Analysis excepted) (Reference Qualification Matrix). For inspections and demonstrations, the proposed checklist or report format shall be submitted. For tests, the detailed plan or procedure shall be submitted. The Qualification Matrix (DID-ENG-013) shall be updated with specific qualification dates, locations, plan/procedure ref. numbers, and planned report submittal dates and submitted with DID-ENG-017.</p> <p>9.2 The subcontractor shall provide electronic copies of the Qualification Plans (in MicrosoftOffice compatible format).</p> | |

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DID ENG-018
Data Item Descriptions

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| <p>1. <u>TITLE:</u></p> <p>Qualification Test Report</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID ENG-018</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>To provide a qualification report to show compliance to each requirement of the Performance Specification (Refer to Qualification Test Matrix)</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>Performance Specification SOW G.4.15.3</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A/15</p> |
| <p>7. <u>INITIAL DELIVERY</u></p> <p>4MAC</p> | <p>8. <u>REVISIONS/FREQUENCY</u></p> <p>As Required, as stated in DID ENG-013 Submittals.</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS</u></p> <p>9.1 The Subcontractor shall submit a formal Qualification Test Report to include objective evidence and fully document the results of each qualification activity specified by the Performance Specification (Reference Qualification Matrix). For Analysis, reports must completely address all details of the specific requirement. The Qualification Matrix (DID-ENG-013) shall be updated with relevant report references and qualification results and submitted with ENG-018.</p> <p>9.2 The Subcontractor shall provide electronic copies of the Qualification Reports (in Microsoft Office compatible format) in Subcontractor format.</p> | |

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DID QA-001
Data Item Descriptions

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| <p>1. <u>TITLE:</u></p> <p>Quality Assurance Plan</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID QA-001</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>The purpose of the plan is to address the Quality System requirements and will describe the management and control of the supplies to be delivered under the contract. The Quality Plan shall be written to assist ** with Contract quality audit and surveillance activities.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>SOW G.5.2.1, G.5.5</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A/30</p> |
| <p>7. <u>INITIAL DELIVERY:</u></p> <p>Due with proposal</p> | <p>8. <u>REVISIONS/FREQUENCY:</u></p> <p>N/A</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> <p>9.1 The Quality Plan shall be in the supplier’s own format. ISO 9000 should be used for guidance in developing this plan.</p> <p>9.2 The Quality Plan shall identify key appointments, responsibilities and functional relationships to ensure the quality management of the contract.</p> <p>9.3 The Quality Plan shall describe in detail the quality relationship, responsibilities and authorities between the supplier and **.</p> <p>9.4 The Quality Plan shall define the proposed procedures for ensuring conformance of supplies with the specified requirements and in compliance with specified quality standard.</p> <p>9.5 The Quality Plan shall describe the method for amendment and how changes to the Quality Management System will be reflected into the Quality Plan.</p> | |

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- 9.6 The Quality Plan shall address the schedule and timing of quality assurance activities for the contract, including, but not limited to quality system audits, and functional/ physical configuration audits and delivery and inspection of product.

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| <p>DID QA-2 Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u> Quality Assurance Inspection Test Plan</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID QA-002</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u> To define the Inspection and Testing activities to be carried out during the manufacturing of the parts detailed in this subcontract.</p> | <p>4. <u>APPLICABLE REFERENCES:</u> SOW G.5.6.1</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u> **</p> | <p>6. <u>APPROVAL LIMITATION:</u> A/15</p> |
| <p>7. <u>INITIAL DELIVERY:</u> Due with proposal</p> | <p>8. <u>REVISIONS/FREQUENCY:</u> Any changes to Technical Data Package require a minimum of 7-days notification to ** in advance of execution.</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> <p>9.1 The Inspection and Test Plan shall be in the supplier's own format.</p> <p>9.2 The Inspection and Test Plan shall detail all Inspection and Testing activities within the assembly process.</p> | |

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| <p style="text-align: center;">DID QA-3 Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u></p> <p>Supplier / Subcontractor Evaluation & Approval Survey</p> <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>To provide a formal test plan for each First Article verification requirement.</p> <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> <p>7. <u>INITIAL DELIVERY:</u></p> <p>With Proposal</p> <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> <p>9.1. The Subcontractor shall complete and return a copy of ** Form 4615.</p> <p>9.2. The Subcontractor shall support a QA site visit / audit prior to start of production build.</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID QA-003</p> <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>SOW G.5.7.1</p> <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A/15</p> <p>8. <u>REVISIONS/FREQUENCY:</u></p> <p>N/A</p> |
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Date: _____

Supplier Audit and Evaluation

| GENERAL INFORMATION | | |
|--|---|--|
| BUSINESS NAME _____ | CAGE CODE _____ | VENDOR CODE _____ |
| STREET ADDRESS _____ | CITY _____ | PROVINCE / STATE _____ |
| BUSINESS PHONE _____ | WEBSITE _____ | |
| POINT OF CONTACT INFORMATION | | |
| PRIMARY CONTACT NAME _____ | TITLE _____ | |
| TELEPHONE NUMBER & EXTENSION _____ | EMAIL _____ | |
| FAX NUMBER _____ | | |
| QA CONTACT NAME _____ | TITLE _____ | |
| TELEPHONE NUMBER & EXTENSION _____ | EMAIL _____ | |
| FAX NUMBER _____ | | |
| FACILITY INFORMATION | | |
| Approximately Facility Size (Sq. Ft.) _____ | Total Number of Employees _____ | |
| Approximately Size of Manufacturing Area _____ | Total Number of Production Employees _____ | |
| Multiple Shifts in Production? <input type="checkbox"/> YES <input type="checkbox"/> NO | Total Number of QA Employees _____ | |
| MANUFACTURING CAPABILITIES | | |
| CHECK ALL THAT APPLY | | |
| Wiring & Harnesses | | Welding <input type="checkbox"/> |
| Machining <input type="checkbox"/> | | Ballistic Steel Welding <input type="checkbox"/> |
| CARC Painting <input type="checkbox"/> | | Composites / Plastics <input type="checkbox"/> |
| Electronics <input type="checkbox"/> | | Forgings <input type="checkbox"/> |
| Heat Treating <input type="checkbox"/> | | Hydraulic Hose Assemblies <input type="checkbox"/> |
| Castings <input type="checkbox"/> | | Pumps / Motors / Gear Boxes <input type="checkbox"/> |
| Aluminum Fabrication <input type="checkbox"/> | | Wire EDM <input type="checkbox"/> |
| Distributor <input type="checkbox"/> | | |
| QUALITY SYSTEM: GENERAL | | |
| LEVEL OF SYSTEM REGISTRATION | | |
| ISO 9001: 2000 <input type="checkbox"/> | MIL-Q-9858A <input type="checkbox"/> | |
| ISO/TS 16949 <input type="checkbox"/> | MIL-I-45208A <input type="checkbox"/> | |
| QS 9000 <input type="checkbox"/> | OTHER <input type="checkbox"/> | |

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Date: _____

Supplier Audit and Evaluation

| SECTION A: ADMINISTRATIVE | | |
|--|------------------------------|-----------------------------|
| 1. Does the supplier have a documented/established inspection system? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 2. Does the supplier maintain a single standard quality system? If more than one system, please clarify. | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 3. Does the documented quality system require the preparation and use of inspection/test instruction for material, work in process and completed articles? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 4. Do inspection and/or test instructions provide criteria for approval/rejection of the product/service? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 5. Are inspection/test instructions controlled to assure the latest applicable revisions are used? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 6. When inspection stamps are used, are they of a design distinctly different from government/customer stamps? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 7. Are stamp controls established to prevent unauthorized use? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| SECTION B: DRAWING AND CHANGE CONTROL | | |
| 1. Are controls established to assure only the latest applicable drawings, specifications, and instructions are used for fabrication, inspection, and test? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| SECTION C: PROCUREMENT CONTROL | | |
| 1. Does the contractors system assure all purchase order include: | | |
| a) Complete description of supplier, parts and materials ordered? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| b) All requirements for manufacturing inspection, quality system qualifications or approval? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| c) Unique customer requirements? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 2. Does the supplier control the special process suppliers in accordance with the contract or utilize only suppliers specifically required by contract? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| SECTION D: RECEIVING CONTROL | | |
| 1. Are procedures in effect, and followed, which provide for inspection upon receipt to assure conformance to all contractual requirements, including QPL items? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 2. Are inspection/test instructions available and utilized? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 3. Are records of receiving inspection activities available which indicate the nature and number of observations made, acceptance and/or rejection status, number and types of deficiencies found and corrective action taken, when applicable? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 4. Are certifications of materials received and available to provide objective evidence that raw materials conform to applicable chemical and physical requirements and is laboratory testing performed, when necessary, to validate compliance? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 5. Are materials awaiting inspection and/or test, identified and segregated from those which have been accepted or rejected? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 6. Are procedures in effect, and followed, for identification, storage and control of age controlled/shelf life limited materials, including environmental controls where applicable? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 7. Is rejected material identified, segregated and controlled in accordance with established procedures? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 8. Is accepted material identified to provide indication of inspection status? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |

Date: _____

Supplier Audit and Evaluation

| SECTION E: IN PROCESS CONTROLS | | |
|--|------------------------------|-----------------------------|
| 1. Are inspection measurements and test performed on product during in-process operations, as applicable, to assure conformance? | YES | <input type="checkbox"/> NO |
| 2. Are inspection/test instructions available and utilized? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 3. Is criteria provided for approval or rejection of the product for all inspection and monitoring activities? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 4. Is process monitoring performed and is objective evidence maintained to verify process monitoring, when required by contract? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 5. Are records of in-process inspections and/or tests maintained and available? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 6. Is rejected material identified, segregated and controlled in accordance with established procedures? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 7. Is accepted material identified to provide indication of inspection status? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 8. When special processes are used during the manufacture and processing of items, does the contractors' system assure maintenance of process controls, certification, authorization or other unique requirements, necessary for equipment, materials and/or personel for the process? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| SECTION F: COMPLETED ITEM INSPECTION AND TEST | | |
| 1. Does the suppliers system provide for final inspection, and test as applicable, of completed products? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 2. Are inspection/test instructions available and utilized? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 3. Do inspection/test instructions provide accept/reject criteria? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 4. When modifications, repairs, or replacements are performed after final inspection or testing, is reinspection or retest of all characteristics affected accomplished? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 5. Are records of completed item inspection and/or test maintained and available? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 6. Is rejected material identified, segregated, and controlled in accordance with established procedures? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 7. Is accepted material identified to provide indication of inspection status? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| SECTION G: HANDLING, STORAGE, AND DELIVERY | | |
| 1. Are controls established which assure segregation of and prevents the use of non-certified materials from being used where certified materials are required? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 2. Is material identified/maintained until such time as it is obliterated by further processing? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 3. When age control or critical environments apply, does the suppliers' system assure there are monitored or maintained? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |

Date: _____

Supplier Audit and Evaluation

| SECTION H: STATISTICAL QUALITY CONTROL | | |
|---|------------------------------|-----------------------------|
| 1. Does the supplier perform sampling inspection? (If yes, complete the remaining questions in this section). | YES | <input type="checkbox"/> NO |
| 2. Is the sampling plan in accordance with existing military/government standards or customer approved sampling plans? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 3. Indicate specification upon which the sampling inspection plan/program is based: | | |
| 4. Are instructions for the sampling plans being used available to the inspection personnel and are then being complied with? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 5. Do inspection records provide lot identity and size, sample sizes, AQL's and accept/reject information? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 6. Are defective sample units rejected and segregated from the acceptable portion of the sample lot? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 7. Do sampling inspection instruction have provisions for adjustment of the sampling plans when warranted by inspection results, e.g. MIL-STD-105, Section 9, switching procedures? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 8. The following questions are for information only: | | |
| a) Does the supplier employ statistical quality control methods? (If so, complete the next three items) | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| b) Are control charts maintained and used to indicate product/process performance? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| c) Are process averages maintained? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| d) Are results used to adjust inspection activities? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| SECTION I: NONCONFORMING MATERIAL CONTROL | | |
| 1. Is nonconforming material identified and segregated from other material to prevent inadvertent use or delivery? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 2. Are methods of identification, segregation, control and disposition of nonconforming material documented and followed? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 3. Is material dispositioned as scrap positively identified and controlled (i.e. painted, mutilated, permanently marked, etc)? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 4. Do supplier's procedures and practices comply with specific requirements for submittal of non-conformances for customer material review board consideration? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| SECTION J: CORRECTIVE ACTION | | |
| 1. Does the supplier have a corrective action system which provides for prompt detection and correction of assignable conditions adverse to quality? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 2. Does the corrective action program extend to all areas of activity within the suppliers organization such as design, purchasing, manufacturing, etc? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 3. Is a method of tracking corrective action requests, (internally, to supplier and from customers), for timeliness of response in effect? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 4. Does the corrective action program address and provide response to customer/user complaints, data or returns? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 5. Are corrective action requests formally documented? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |

Date: _____

Supplier Audit and Evaluation

| SECTION K: RECORDS | | |
|--|------------------------------|-----------------------------|
| 1. Are adequate records of inspections and tests maintained? | YES | <input type="checkbox"/> NO |
| 2. Do inspection and testing records, as a minimum, contain the following: | | |
| a) Nature of the observation? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| b) Number of observations made? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| c) Number of discrepancies? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| d) Type of discrepancies? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| e) Quantity accepted? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| f) Quantity rejected? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| g) Corrective action taken as appropriate? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 3. Is record retention in accordance with specific contract requirements? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| SECTION L - GOVERNMENT/CUSTOMER FURNISHED MATERIAL | | |
| 1. Are procedures in effect and followed for the control of government/customer furnished materials which include the following: | | |
| a) Examination upon receipt to detect transit damage? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| b) Inspection for completeness and proper type? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| c) Periodic inspection for storage, handling and deterioration? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| d) Testing, as required by contract, to determine satisfactory operation? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| e) Identification and protection from improper use or disposition? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| f) Verification of quantity? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| g) Formal notification to the government/customer when damaged or unsuitable material is detected? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| SECTION M: MEASURING AND TEST EQUIPMENT | | |
| 1. Does the supplier have a written description of the calibration system? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 2. Is the calibration system coordinated with the quality program/inspection system? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 3. Are calibration intervals established and maintained to assure acceptable accuracy and reliability? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 4. Does the system provide for the mandatory recall of all items, and are items returned for calibration as scheduled? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| 5. Is calibration performed utilizing standards whose accuracy is certified as traceable to U.S. or International standards? | <input type="checkbox"/> YES | <input type="checkbox"/> NO |

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| <p>DID QA-4 Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u> First Piece Inspection</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID QA-004</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u> To define the required manufacturing qualification and certification</p> | <p>4. <u>APPLICABLE REFERENCES:</u> SOW G.5.3.1</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u> **</p> | <p>6. <u>APPROVAL LIMITATION:</u> A/15</p> |
| <p>7. <u>INITIAL DELIVERY:</u> Initial Delivery Date due 14 days prior to first shipment of production material.</p> | <p>8. <u>REVISIONS/FREQUENCY:</u> Any changes to the Technical Data Package, tooling and/or FPI information during the length of the subcontract require a minimum of 7-days notification to ** in advance of execution.</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u> Documents to be submitted are listed below:</p> | |
| <p>9.1 ** Handbook is available at the following internet address: ** Quality Instructions, Quality Instructions, Procurement Quality Assurance Handbook for exact FPI requirements.</p> | |
| <p>9.2 Product samples and complete supporting data are reviewed at Contractor's manufacturing location.</p> | |
| <p>9.3 The Quality Assurance requirements of this subcontract will be managed by ** Supplier Quality Assurance based in **.</p> | |

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| <p style="text-align: center;">DID QA-5 Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u> First Article Test Plan.</p> <p>3. <u>DESCRIPTION/PURPOSE:</u> To provide a formal test plan for each First Article verification requirement.</p> <p>5. <u>TO BE SUBMITTED TO:</u> **</p> <p>7. <u>INITIAL DELIVERY:</u> 30 days prior to First Article production.</p> <p>9. <u>PREPARATION INSTRUCTIONS:</u> 9.1 A documented plan must be developed describing how the contractor will complete each First Article verification requirement detailed in the System Specification. The plan must completely address all the specific details of each qualification requirement. The plan must include verification dates and locations. ** shall review and determine plan approval. The Subcontractor shall not proceed with execution of the plan until ** approval has been given.</p> <p>9.2 The Subcontractor shall provide two final hardcopies, and one final electronic copy (in MicrosoftOffice compatible file formats).</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID QA-005</p> <p>4. <u>APPLICABLE REFERENCES:</u> SOW G.5.4.1</p> <p>6. <u>APPROVAL LIMITATION:</u> A/30</p> <p>8. <u>REVISIONS/FREQUENCY:</u> As Required.</p> |
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DID QA-6
Data Item Descriptions

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| 1. <u>TITLE:</u> Acceptance Test Plan | 2. <u>IDENTIFICATION NO.:</u> DID QA-006 |
| 3. <u>DESCRIPTION/PURPOSE:</u> To provide a formal test plan | 4. <u>APPLICABLE REFERENCES:</u> SOW G.5.8.1 |
| 5. <u>TO BE SUBMITTED TO:</u> ** | 6. <u>APPROVAL LIMITATION:</u> A/7 |
| 7. <u>INITIAL DELIVERY:</u> 14 days prior to delivery. | 8. <u>REVISIONS/FREQUENCY:</u> As Required. |
| 9. <u>PREPARATION INSTRUCTIONS:</u> | |
| 9.1. The Subcontractor shall develop and submit an Acceptance Test Plan (ATP) in Subcontractor format. | |
| 9.2. The ATP shall test all critical characteristics of material function to the production released technical data package. | |
| 9.3. The Subcontractor will submit each unit to the ATP they have developed and submit the results with each shipment for ** review. | |

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| <p>DID QA-7 Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u> Acceptance Test Report</p> | <p>2. IDENTIFICATION NO.: DID QA-007</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u> To provide a formal report detailing the results of First Article verification.</p> | <p>4. APPLICABLE REFERENCES: SOW G.5.8.1</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u> **</p> | <p>6. APPROVAL LIMITATION: A/30</p> |
| <p>7. <u>INITIAL DELIVERY:</u> 1 week prior to Final Acceptance of First Article</p> | <p>8. REVISIONS/FREQUENCY: N/A</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS:</u></p> | |
| <p>9.1 A formal report shall be submitted that fully details the results of the verification of the Acceptance requirements detailed in ATP. The report shall sufficiently detail compliance in accordance with the approved Acceptance Test Plan (DID QA-006). ** shall review and determine approval prior to Final Acceptance of the product.</p> | |
| <p>9.2 The Subcontractor shall provide one electronic copy (in Microsoft Office compatible file formats).</p> | |

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DID QA-008
Data Item Descriptions

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| 1. <u>TITLE:</u> | 2. <u>IDENTIFICATION NO.:</u> |
| First Article Test Report | DID QA-008 |
| 3. <u>DESCRIPTION/PURPOSE:</u> | 4. <u>APPLICABLE REFERENCES:</u> |
| To provide a formal report detailing the results of First Article verification. | SOW G.5.4.2 |
| 5. <u>TO BE SUBMITTED TO:</u> | 6. <u>APPROVAL LIMITATION:</u> |
| ** | A/30 |
| 7. <u>INITIAL DELIVERY:</u> | 8. <u>REVISIONS/FREQUENCY:</u> |
| 1 week prior to Final Acceptance of First Article | N/A |
| 9. <u>PREPARATION INSTRUCTIONS:</u> | |
| 9.1 A formal report shall be submitted that fully details the results of the verification of the First Article requirements detailed in the Subcontract Specification. The report shall sufficiently detail compliance in accordance with the approved First Article Test Plan (DID QA-004). ** shall review and determine approval prior to Final Acceptance of the product. The subcontractor shall not proceed with product shipment until ** approval has been given. | |
| 9.2 The Subcontractor shall provide one electronic copy (in Microsoft Office compatible file formats). | |

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DID LE-001
Data Item Descriptions

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| <p>1. <u>TITLE:</u></p> <p>Supportability Technical Data Request</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID LE-001</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>Provides necessary data for ** to perform trade-off analysis against other potential suppliers</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>SDRL LE-001 SOW G.7.1</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A/5</p> |
| <p>7. <u>INITIAL DELIVERY</u></p> <p>Provide response to following survey with RFP submittal</p> | <p>8. <u>REVISIONS/FREQUENCY</u></p> <p>One/R</p> |

9. **INSTRUCTIONS**

If you are a supplier that intends to supply Commercial off the Shelf (COTS) and/or Modified

Commercial off the Shelf (MCOTS) items, please fill out the following form.

Complete and return this form with your proposal. Applicable portions will be expanded upon, and form part of the contract requirements if your product is selected.

The following information shall be submitted with your proposal to allow ** to compare your product with others being evaluated on the basis of Total Life Cost. A Total Life Cost is developed using the data requested below in addition to the initial production cost data. The Total Life Cost will be a consideration in the design trade-off study in the selection process.

The items requested are not to be developed in support of this proposal. It is assumed that the majority of these items are available in support of the existing product. Failure to provide responses to this survey and/or the requested data, may result in your proposal being deemed non-compliant.

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| Id# | Requirement/Question | Y/N | Supporting Detail |
|-----|---|-----|---|
| 1 | Is your product repairable? | | If No – Please explain why the item is not repairable. |
| 2 | If Yes to 1, is it repairable by a facility other than your own company | | If No – Please explain why the item is not repairable by ** or the end user. |
| 3 | Do you currently have an indented Bill of Material for the item? | | If Yes – Please provide the BOM. Also identify which down components can be purchased (spares) to support the repair policy with their price and estimated lead time. |
| 4 | Do you have Failure Rate / Reliability Predictions for the item? | | If Yes – Please provide the system/item level failure rate/reliability prediction. Please identify the source of your failure rate/reliability prediction (i.e. engineering estimate, testing, data from fielded units, warranty claims, etc). |
| 5 | Do you have Life Cycle Cost estimates for the item? | | If Yes - Please provide LCC analysis estimates, as well as the assumed conditions under which the LCC prediction is based upon (for example assumptions related to Level of Repair, task frequency, failure rates, etc). |
| 6 | Do you have technical manuals/publications for the item? | | If Yes – Please identify if the manuals are military specification or commercial manuals. Also list the manuals that you have available (i.e. operation, maintenance, overhaul, troubleshooting, illustrated parts list, etc). If No – If you were awarded this subcontract, how many months after award of contract would manuals be available? |
| 7 | If Yes to 6, can you provide a copy of your technical manuals for ** to determine if they are suitable for use by the end user? | | |
| 8 | Do you have 2D or 3D illustrations that are available to assist ** in the creation of military standard publications? | | If Yes - Please provide details as to the format of the files (2D vs. 3D, Unigraphics, Pro-E, Adobe Illustrator, EPS, CGM, etc). If No – Do you have hardcopy illustrations that you can provide for ** reference/use when developing technical manuals? |
| 9 | Does your product require special tools to install/remove, repair, or test? | | If Yes – If available, please provide a list of special tools, lifting devices, fixtures, diagnostic equipment, etc. required to maintain the product. If available, prices would be preferred for the tools. |
| 10 | Do you offer training with respect to the operation and maintenance of the product? | | If Yes – Please provide details as to the min/max class size, duration, location, and any pre-requisites required for the training. |

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DID LE-002
Data Item Descriptions

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|--|---|
| <p>1. <u>TITLE:</u></p> <p>Indented Engineering Bill of Materials</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID LE-002</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>The indented EBOM allows the Logistics Engineering to structure the supportability data consistent with the engineering documentation and allows early maintenance planning.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>SDRL LE-002 SOW G.7.2</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>Approval Required – 5 Da ys</p> |
| <p>7. <u>INITIAL DELIVERY</u></p> <p>10 Days prior to PDR</p> | <p>8. <u>REVISIONS/FREQUENCY</u></p> <p>Final 10 Days prior to CDR, and PCA. 30 days after ECP approval.</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS</u></p> | |

9.1 The Indented Bill of Material shall be in electronic medium and prepared in a format acceptable to **. The data shall be prepared in Microsoft Excel spreadsheet format, with the following columns for each item listed and each item in a separate row:

- a. Indenture code (numeric or alphabetic);
- b. Find Number of the part
- c. Part number
- d. Part description
- e. Quantity per assembly
- f. Nato Stock Number (NSN) if available

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DID LE-003
Data Item Descriptions

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| <p>1. <u>TITLE:</u></p> <p>Technical Data Package</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID LE-003</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>The TDP allows the Logistics Engineering to structure the supportability data consistent with the engineering documentation.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>SDRL LE-003</p> <p>SOW G.7.3</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A/5</p> |
| <p>7. <u>INITIAL DELIVERY</u></p> <p>10 Days prior PDR for existing TDP and SPTD</p> | <p>8. <u>REVISIONS/FREQUENCY</u></p> <p>30 Days post CDR</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS</u></p> | |

The Technical Data Package shall not only consist of the engineering drawings developed to support production and assembly of the product, but also the Supplemental Provisioning Technical Data (SPTD) that is required to for support the customer required depth of maintenance.

TDP shall be provided in electronic format and adhere to industry ANSI drawing quality standards.

SPTD shall be provided as following:

1. Provide SPTD down to the Lowest Repairable Unit (LRU) / Shop Replaceable Unit (SRA). SPTD also encompasses consumables, bulk items, special tools and test equipment, as well as all applicable kits.
2. The SPTD shall provide the following:
 - a. Technical identification of items for maintenance support considerations.
 - b. Alternate sources of supply, if available.
3. The SPTD is required in the following order of preference:
 - a. Government or recognized industry specifications or standards.
 - b. Engineering Drawings.

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- c. Commercial catalogues or catalogue descriptions.
 - d. Sketches or photographs with brief descriptions of dimensional, material, mechanical, electrical or other descriptive characteristics. When sketches or photographs are provided for an assembly, a parts list shall be provided.
4. All drawings shall be provided to ** electronically on a CD in a commercially available electronic Adobe Acrobat PDF file. Each drawing shall be submitted as a separate file using the part number as the file name. Text on all documentation shall be in the English language.

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DID LE-4
Data Item Descriptions

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| <p>1. <u>TITLE:</u> List of Spare Parts</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID LE-004</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u> Defines the List of Spare Parts required to support the product.</p> | <p>4. <u>APPLICABLE REFERENCES:</u> SDRL LE-004 SOW G.7.4</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u> **</p> | <p>6. <u>APPROVAL LIMITATION:</u> A/30</p> |
| <p>7. <u>INITIAL DELIVERY</u> 10 Days prior to PDR</p> | <p>8. <u>REVISIONS/FREQUENCY</u> 30 Days post CDR</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS</u></p> <p>9.1 The Indented List of Spare Parts shall be prepared in contractor format and provided in electronic format. The data shall be prepared in Microsoft Excel spreadsheet format, with the following columns for each item listed and each item in a separate row:</p> <ul style="list-style-type: none"> a. Part Number b. Description c. Type of Part – Identify whether hardware, consumable or repair part d.Price e. Lead Time f. NSN if available | |

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| <p>DID LE-5 Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u> Technical Publications</p> | <p>2. <u>IDENTIFICATION NO.:</u> DID LE-005</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u> To provide technical data for the ** to support technical publications.</p> | <p>4. <u>APPLICABLE REFERENCES:</u> SDRL LE-005 SOW G.7.5</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u> **</p> | <p>6. <u>APPROVAL LIMITATION:</u> A/5</p> |
| <p>7. <u>INITIAL DELIVERY</u> 10 Days prior to PDR</p> | <p>8. <u>REVISIONS/FREQUENCY</u> 30 Days post CDR</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS</u></p> <p>9.1 The Technical Publications shall be provided in contractor format if not military standard. One electronic copy and one hardcopy shall be provided. The data shall be in MS Word or SGML/XML format as available. The material shall meet the following requirements:</p> <ul style="list-style-type: none"> a. Written in the English language. b. Existing commercial or military standard. c. The Manuals shall cover the depth of maintenance supported by the procurable parts. d. Include a written copyright release for ** to use the data in the development of technical manuals for the end user. | |

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| <p style="text-align: center;">DID LE-6 Data Item Descriptions</p> |
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| <p>1. <u>TITLE:</u> Technical Illustrations</p> <p>3. <u>DESCRIPTION/PURPOSE:</u> To provide technical data for the ** to support technical illustrations.</p> <p>5. <u>TO BE SUBMITTED TO:</u> **</p> <p>7. <u>INITIAL DELIVERY</u> 30 Days post CDR</p> <p>9. <u>PREPARATION INSTRUCTIONS</u></p> <p>9.1 The parts illustrations shall be provided in electronic medium and be delivered in one of the following formats listed in the order of preferred submission:</p> <ul style="list-style-type: none">a. Files provided in Unigraphics (UG) in part file format or Pro-E in Step file formatb. Files provided in Adobe Illustrator format, .eps (isometric view orientation)c. Files provided as .cgm (Computer Graphics Metafile), (isometric view orientation)d. Files provided in AutoTrol in .ps (postscript) format (isometric vieworientation)e. Illustration developed using CAD applications shall be provide in .dxf format(isometric view orientation). | <p>2. <u>IDENTIFICATION NO.:</u> DID LE-006</p> <p>4. <u>APPLICABLE REFERENCES:</u> SDRL LE-006 SOW G.7.6</p> <p>6. <u>APPROVAL LIMITATION:</u> A/10</p> <p>8. <u>REVISIONS/FREQUENCY</u> One/R</p> |
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DID LE-7
Data Item Descriptions

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| 1. <u>TITLE:</u> Support Equipment List | 2. <u>IDENTIFICATION NO.:</u> DID LE-007 |
| 3. <u>DESCRIPTION/PURPOSE:</u> Provides necessary data in order to write maintenance tasks and communicate with customer on maintenance concept. | 4. <u>APPLICABLE REFERENCES:</u> SDRL LE-007 SOW G.7.7 |
| 5. <u>TO BE SUBMITTED TO:</u> ** | 6. <u>APPROVAL LIMITATION:</u> A/5 |
| 7. <u>INITIAL DELIVERY</u> 10 days prior PDR | 8. <u>REVISIONS/FREQUENCY</u> 10 days post CDR |
| 9. <u>PREPARATION INSTRUCTIONS</u> | |

Provide a list of common and Special Tools and Test Equipment List (STTE) that shall identify all tools and test equipment required for the maintenance and calibration associated with the end equipment. The Support Equipment List shall be produced in subcontractor format and shall contain, as a minimum, the following:

1. Part Number and CAGE Code
2. Nomenclature / Description
3. NSN (if available)
4. Shelf Life (If applicable)
5. Unit of Measure
6. Unit of Issue
7. Price
8. Suggested Quantity (if applicable)
9. Drawings if available

If special tools require engineering development, submission shall include the development estimate.

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| DID LE-008 Data Item Descriptions |
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| 1. <u>TITLE:</u> Reliability and Maintainability Support Data | 2. <u>IDENTIFICATION NO.:</u> DID LE-008 |
| 3. <u>DESCRIPTION/PURPOSE:</u> To provide technical data for the ** to conduct LCC/LORA analysis for equipment supportability evaluation and maintenance plan development. | 4. <u>APPLICABLE REFERENCES:</u> SDRL LE-008 SOW G.7.10 |
| 5. <u>TO BE SUBMITTED TO:</u> ** | 6. <u>APPROVAL LIMITATION:</u> A/5 |
| 7. <u>INITIAL DELIVERY</u> 10 Days prior to PDR | 8. <u>REVISIONS/FREQUENCY</u> 10 Days prior to CDR |
| 9. <u>PREPARATION INSTRUCTIONS</u> | |

The Support Data shall be prepared in a format acceptable to ** and provided in electronic format.

1. Support Data File: The data shall be prepared in Microsoft Excel 2003 (.xls) format, with the following columns and each item listed in a separate row.
 - Item cage code
 - Item part number
 - Item name
 - Quantity per next higher assembly
 - Item indenture code (top assy = 1, sub assy = 2, etc.)
 - Failure rate (Mean time between failures in hours)
 - Mission critical failure rate (Mean time between mission failures in hours)
 - Duty cycle (percentage of time item is in use relative to top assembly)
 - Condemnation rate (percentage of time that item failure results in discard of the item)
 - Scheduled maintenance hours per year
 - Training hours per year for scheduled and unscheduled maintenance
 - Weight (lb)
 - Volume: Height (in.), Length (in.), Width (in.)

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- Shelf life (N if no, if yes, provide duration in months)
 - Procurement lead time (duration in months)
 - Currency (indicate the currency the costs are provided in)
 - Cost (budgetary pricing, not a firm fixed price)
 - Lot size (applicable for each cost provided)
 - Repair material cost (average cost of repair parts if DoD was to repair the item)
 - Contractor repair cost (average cost for contractor repair of the item)
 - Support & test equipment costs (cost of all common and peculiar equipment)
 - Diagnostic software costs (costs to develop software used on support and test equipment)
2. Reliability Prediction - The subcontractor shall also provide an upper level reliability prediction for the system/assembly in question. ** must use this number to determine performance to allocation and to determine vehicle level reliability.
 3. Preventative Maintenance – If available, the subcontractor shall provide their preventative maintenance procedures and schedule for the system.
 4. Dangers, Warnings, Cautions – The subcontractor shall provide a document summarizing all the applicable dangers, warnings, and cautions that an operator and/or maintainer would need to know before using or performing maintenance on the system/assembly in question. Particular attention shall be given to any mode of failure or type of maintenance that could cause severe injury and/or loss of life.

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DID LE-009
Data Item Descriptions

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| <p>1. <u>TITLE:</u></p> <p>Diagnostic Support Data</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID LE-009</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>To provide technical data for the ** to develop efficient and accurate troubleshooting procedures.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>SDRL LE-009 SOW G.7.11</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A/10</p> |
| <p>7. <u>INITIAL DELIVERY</u></p> <p>10 Days prior to CDR</p> | <p>8. <u>REVISIONS/FREQUENCY</u></p> <p>30 days post CDR</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS</u></p> | |

The Support Data shall be prepared in a format acceptable to ** and provided in electronic format. Some or all of this DID may be satisfied by accompanying DIDs. If so please indicate in the supporting detail.

9.a Provide a list of malfunctions or symptoms. For each symptom provide a troubleshooting procedure for fault isolation to a single Line Replaceable Unit or Shop Replaceable Unit. Supporting material may be in the form of technical manuals, written procedures or flow chart procedures.

9.b When the system supports diagnostic messaging provide the following:

- Fault indication method.
 - o Indicator light, hard wired line to OEM indicator
 - o Text display, flash codes, network broadcast.
- List of all messages. For each message provide:
 - o Method of indication to user of existence.
 - o Name of message
 - o Type of message
 - § Text message
 - § Fault or diagnostic code

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- o Method of detection
 - § Power On Built In Test
 - § Initiated Built In Test
 - § Continuous Built In Test
 - § Other method of detection.
 - o Troubleshooting procedure for fault isolation to a single Line Replaceable Unit or Shop Replaceable Unit. Supporting material may be in the form of technical manuals, written procedures or flow chart procedures.
 - o When applicable list which network message is broadcast on.
 - When system supports network broadcast of messages indicate applicable standards and exceptions to standards.
- 9.c When special tools are required for reading diagnostic codes provide the following:
- Part number, CAGE code, Nomenclature / description, NSN if available, Price, Technical manual ordering information.
- 9.d Provide schematic and/or functional block diagram of systems suitable for troubleshooting the system.
- 9.e Technical Support
- On going technical support shall be required via phone or email to support ** development of the troubleshooting procedures.

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DID OM-001
Data Item Descriptions

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|---|---|
| 1. <u>TITLE:</u> | 2. <u>IDENTIFICATION NO.:</u> |
| Obsolescence Management Plan | DID OM-001 |
| 3. <u>DESCRIPTION/PURPOSE:</u> | 4. <u>APPLICABLE REFERENCES:</u> |
| The Obsolescence Management Plan shall provide details on how the Subcontractor plans to manage obsolescence issues over the next ten (10) years. | SDRL OM-001 SOW G.8.2 |
| 5. <u>TO BE SUBMITTED TO:</u> | 6. <u>APPROVAL LIMITATION:</u> |
| ** | I |
| 7. <u>INITIAL DELIVERY</u> | 8. <u>REVISIONS/FREQUENCY</u> |
| With Proposal | 1 MAC, As Required |
| 9. <u>PREPARATION INSTRUCTIONS</u> | |
| The Obsolescence Plan shall be submitted in Subcontractor format. | |

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DID OM-002
Data Item Descriptions

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|--|---|
| <p>1. <u>TITLE:</u></p> <p> Obsolescence Management Candidates List</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p> DID OM-002</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p> The Obsolescence Management Candidates List shall specify the Equipment components that are considered to be critical to the availability or serviceability of the Equipment.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p> SDRL OM-002 SOW G.8.3</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p> **</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p> A/15</p> |
| <p>7. <u>INITIAL DELIVERY</u></p> <p> With Proposal</p> | <p>8. <u>REVISIONS/FREQUENCY</u></p> <p> Quarterly (with DID OM-0 03)</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS</u></p> <p>9.1 The Obsolescence Management Candidates List shall specify the Subcontractor Equipment components that are most at risk of becoming obsolete, are considered to be critical to the availability or serviceability of the vehicle, or if no longer available, would cause a mission failure.</p> <p>9.2 The Obsolescence Management Candidates List shall be prepared in Subcontractor’s format. As a minimum, the following information shall be provided for each part on the Obsolescence Management Candidates List:</p> <ul style="list-style-type: none"> a. NATO Stock Number; b. Subcontractor Part Number; c. ** Part Number, where available d. Nomenclature; e. Manufacturer; and f. Any other information that is deemed to be critical to the identification of the part. | |

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- 9.3 The OM Candidates List must be scaled by level of criticality. The method of scaling is in Subcontractor format, but must include the following categories:
1. The component is available from multiple manufacturing sources and is at no risk.
 2. There is only one active manufacturing source and the component is at high risk.
 3. The component has only one active manufacturer and this manufacturer intends on discontinuing the product within the next 12 months.
 4. The component is at the end of its life cycle and will not be manufactured now or in the near future.

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DID OM-003
Data Item Descriptions

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|---|---|
| <p>1. <u>TITLE:</u></p> <p>Obsolence Management Issues Report</p> | <p>2. <u>IDENTIFICATION NO.:</u></p> <p>DID OM-003</p> |
| <p>3. <u>DESCRIPTION/PURPOSE:</u></p> <p>The Obsolence Management Issues Report shall outline the specifics of a pending issue for those component parts that represent the most significant risk in terms of obsolescence.</p> | <p>4. <u>APPLICABLE REFERENCES:</u></p> <p>SDRL OM-003 SOW G.8.4</p> |
| <p>5. <u>TO BE SUBMITTED TO:</u></p> <p>**</p> | <p>6. <u>APPROVAL LIMITATION:</u></p> <p>A/15</p> |
| <p>7. <u>INITIAL DELIVERY</u></p> <p>With Proposal</p> | <p>8. <u>REVISIONS/FREQUENCY</u></p> <p>Quarterly (with DID OM-0 02)</p> |
| <p>9. <u>PREPARATION INSTRUCTIONS</u></p> <p>9.1 The OM Issues Report shall outline the specifics of a pending issue for all high-risk LRUs or component parts. A component shall be considered to be high risk if it is on the Obsolence Management Candidates List and/or it will become obsolete within one year or less. The OM Issues Report shall be prepared in Subcontractor’s format and shall be delivered to ** in accordance with the Issue Date given in Section 4 above and will provide supporting data and recommendations as follows:</p> <ul style="list-style-type: none"> a. A detailed description of the industry development leading to the obsolescence and the impact this will have on Equipment supportability and/or availability. b. In most cases, a minimum of three (3) options outlined below and their analysis will be considered. When the Subcontractor considers that option i. or ii. Is the best option and that option iii. would require considerable effort to develop or would cause unnecessary delay in the submission of the OM Issues Report, the Subcontractor shall only submit options i. and ii. with the initial OM Issues Report. Option iii. will be implemented and fully explored only as and when required by **. The analysis shall include, as appropriate, for each option the impact on all ILS elements as referenced in ** Form 4525 B (Supportability Requirements Form), including the impact on support equipment and the impact to spares and R&O (if applicable), and an estimated cost of each option. The three (3) options for the analysis are: | |

** *Proprietary Information*
See Restriction on First Page

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- i. A life-time buy or a buy for a specified duration of support;
 - ii. A new source for the item; and
 - iii. Redesign or replace the obsolete item with a similar or enhanced item.
- c. The impact of the obsolescence on enhancements to the system under study;
- d. The time by which the decision is imperative; and
- e. The Subcontractor's recommendation.
-

**** *Proprietary Information***
See Restriction on First Page

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Section G, Annex G4 – Design and Production Review Checklist

**** *Proprietary Information***
See Restriction on First Page

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Date

**

SYSTEM FUNCTIONAL REVIEW CHECKPOINT (SFRcp)

PROJECT: <center project number - name>

| GREEN - G | | ARTIFACT MEETS EXPECTATION-PROCEED. | | | | | | | |
|------------|---------------------|--|---|---|---------------------|----------|-------------------|-----------|-----------------|
| YELLOW - Y | | ARTIFACT DOES NOT MEET EXPECTATION - PROCEED WITH ACCEPTABLE RISK. DOCUMENT AS AN ACTION ITEM AND SUBMIT AS A RISK IF APPLICABLE. | | | | | | | |
| RED - R | | ARTIFACT DOES NOT MEET EXPECTATION - DO NOT PROCEED, UNACCEPTABLE RISK. DOCUMENT AS AN ACTION ITEM AND SUBMIT AS A RISK IF APPLICABLE. | | | | | | | |
| BLACK - B | | NOT APPLICABLE. (MUST IDENTIFY RATIONALE) | | | | | | | |
| # | FUNCTIONAL GROUP US | FUNCTIONAL GROUP | CHECKLIST ITEM | Artifact Description / Expectations | STATUS (COLOR CODE) | ASSIGNEE | ARTIFACT LOCATION | ACTION ID | STATUS COMMENTS |
| 1 | PEM | PE/SE | Updated Integrated Master Schedule | Integrated Master Schedule / Project Schedule | | | | | |
| 2 | SE | PE/SE | Technical Performance Measures (TPM) Assessment | TPM Assessment and supporting analysis for each | | | | | |
| 3 | SE (REQT) | PE/SE | Updated System Level Requirements | List of modified or updated requirements post SRR System Performance Specification Requirements Workbook ** Requirements Bi-Directional Traceability matrix/report with system and subsystem Spec Tree with system and subsystem | | | | | |
| 4 | SE/SSE | PE/SE/DE | System Requirements Decomposed and Allocated to Subsystem Performance Specification(SSPS) | Subsystem Performance Specifications (SSPS) baselined including functions, performance, constraints, weight, power, thermal, reliability, affordability, maintainability, transportability, survivability, lethality, mobility, safety, and C4ISR allocations | | | | | |
| 5 | SE (REQT) | PE/SE | Requirements Compliance Matrix | System compliance matrix summary tables showing compliance with supporting analyses Corrective action plans for noncompliant requirements | | | | | |
| 6 | SE (REQT) | PE/SE | Verification Plan | Design Verification Plan and Report (DVP&R) at the System level. | | | | | |
| 7 | SE/SSE | PE/SE/DE | Structured Decisions of Alternative System Concepts | Trade study list Trade study /major decisions summary, showing options and outcome Subsystem concepts Structured decision records | | | | | |
| 8 | SE (PA) | DE | Physical Architecture Assembly Models (PA_ASM) -Space Claim allocations | System Concept defined and baselined (PA_ASM models representing subsystem space allocations excluding distributed systems and structural interfaces.) | | | | | |
| 9 | SE (PA) | DE | System level Interference analysis | System to subsystem interference analysis complete, documented with corrective action plans identified. | | | | | |
| 10 | SE (FA) | PE/SE/DE | Functional Analysis / Architecture | Function Flow Block Diagrams (FFBD) at Subsystem level State/Mode Diagrams Sequence Diagrams Use Cases | | | | | |
| 11 | SE/SSE | PE/SE | Electrical & Mechanical Power, and Signal Architecture | System Architecture Diagram Power list Signal list | | | | | |
| 12 | SE (SA) | PE/SE/DE | Interface Management | Subsystem Interface Control Documents (ICDs) | | | | | |
| 13 | SE (PA) | PE/SE/DE | Product Structure/ Engineering Bill of Materials (EBOM) | EBOM representing Product Structure, released, down to the installation level. | | | | | |
| 14 | SE | LE | Reliability Analysis | System/Subsystem boundary/block diagram | | | | | |
| 15 | SE | SE | Design Assessments | Safety Assessment Human Factors Engineering (HFE) Assessment | | | | | |
| 16 | SE | PE/SE | Design to Cost (DTC) Assessments | Average Unit Production Cost (AUPC) Initial Estimate | | | | | |
| 17 | LOG | LE | Logistics | Maintainability/Supportability Assessment | | | | | |
| 18 | SE | PE/SE/DE | Identified System/Subsystem Level Risks / Issues | Risk registers Risk mitigation plans | | | | | |
| 19 | SSE | SE | Software | Software Development Plan (SDP) | | | | | |
| 20 | SE | PE/SE/DE | Integrated Design Assessment | Completed Integrated Design Assessment | | | | | |

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Date

**

SYSTEM FUNCTIONAL REVIEW CHECKPOINT (SFRcp)

PROJECT: <enter project number - name>

| GREEN - G | ARTIFACT MEETS EXPECTATION-PROCEED. | | | | | | | | |
|--|---|------------------|----------------|-------------------------------------|---------------------|----------|-------------------|-----------|-----------------|
| YELLOW - Y | ARTIFACT DOES NOT MEET EXPECTATION - PROCEED WITH A ACCEPTABLE RISK. DOCUMENT AS AN ACTION ITEM AND SUBMIT AS A RISK IF APPLICABLE. | | | | | | | | |
| RED - R | ARTIFACT DOES NOT MEET EXPECTATION - DO NOT PROCEED, UNACCEPTABLE RISK. DOCUMENT AS AN ACTION ITEM AND SUBMIT AS A RISK IF APPLICABLE. | | | | | | | | |
| BLACK - B | NOT APPLICABLE. (MUST IDENTIFY RATIONALE) | | | | | | | | |
| # | FUNCTIONAL GROUP US | FUNCTIONAL GROUP | CHECKLIST ITEM | Artifact Description / Expectations | STATUS (COLOR CODE) | ASSIGNEE | ARTIFACT LOCATION | ACTION ID | STATUS COMMENTS |
| Approval of this Checkpoint Review documents the review team agreement that the design is self consistent, non- conflicting and mutually executable with issues and risks identified and quantified such that the team supports the gate decision. (sign/date) | | | | | | | | | |

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Date

**

PRELIMINARY DESIGN REVIEW CHECKPOINT (PDRcp)

PROJECT: <enter project number - name>

| GREEN - G | | ARTIFACT MEETS EXPECTATION-PROCEED. | | | | | | | |
|------------|---------------------|--|--|---|---------------------|----------|-------------------|-----------|-----------------|
| YELLOW - Y | | ARTIFACT DOES NOT MEET EXPECTATION - PROCEED WITH ACCEPTABLE RISK. DOCUMENT AS AN ACTION ITEM AND SUBMIT AS A RISK IF APPLICABLE. | | | | | | | |
| RED - R | | ARTIFACT DOES NOT MEET EXPECTATION - DO NOT PROCEED, UNACCEPTABLE RISK. DOCUMENT AS AN ACTION ITEM AND SUBMIT AS A RISK IF APPLICABLE. | | | | | | | |
| BLACK - B | | NOT APPLICABLE. (MUST IDENTIFY RATIONALE) | | | | | | | |
| # | FUNCTIONAL GROUP US | FUNCTIONAL GROUP | CHECKLIST ITEM | Artifact Description/ Expectations | STATUS (COLOR CODE) | ASSIGNEE | ARTIFACT LOCATION | ACTION ID | STATUS COMMENTS |
| 1 | PEM | PE/SE | Updated Integrated Master Schedule | Integrated Master Schedule / Project Schedule | | | | | |
| 2 | SE | PE/SE | Technical Performance Measures (TPM) Assessment | TPM Assessment and supporting analysis for each | | | | | |
| 3 | SE (REQT) | PE/SE | Updated System Level Requirements | List of modified or updated requirements post SFR System Performance Specification Requirements Workbook ** Requirements Bi-Directional Traceability matrix/report with system, subsystem, and component Spec Tree with system, subsystem, component | | | | | |
| 4 | SE (REQT) | PE/SE/DE | System Requirements Allocated to Subsystems | List of modified and updated requirements post SFR. Subsystem Development Specifications (Subsystem Requirements Workbook ** updated to include post SFR changes including weight, power, thermal, reliability, affordability, maintainability, transportability, survivability, lethality, mobility, safety, and C4ISR allocations | | | | | |
| 5 | SSE | DE | Subsystem Requirements Allocated to Components | Component Development Specifications (Subsystem Requirements Workbook ** including weight, power, thermal, reliability, affordability, maintainability, transportability, survivability, lethality, mobility, safety, and C4ISR allocations | | | | | |
| 6 | SE (REQT) | PE/SE | Requirements Compliance Matrix | System and Subsystem compliance matrix summary tables showing compliance with supporting analyses Corrective action plans for noncompliant requirements | | | | | |
| 7 | SSE | PE/SE | Verification Plan | Design Verification Plan and Report (DVP&R) at the Subsystem level. | | | | | |
| 8 | SE/SSE | PE/SE/DE | Functional Analysis / Architecture | Function Flow Block Diagrams (FFBD) Updated State/Mode Diagrams Updated Sequence Diagrams Updated Use Cases | | | | | |
| 9 | SE/SSE | PE/SE | Electrical & Mechanical Power and Signal Architecture | Updates since SFR to: System Architecture Diagram Power list Signal list | | | | | |
| 10 | SSE | PE/SE/DE | Interface Management | Updated Subsystem Interface Control Documents (ICDs) and initial component ICDs | | | | | |
| 11 | SE(PA) | DE | Physical Architecture Assembly Models (PA_ASM) | Physical Architecture system definition (space allocation in vehicle position and distributed system routings) updated and baselined (representing subsystems, including structural interfaces) | | | | | |
| 12 | SSE | DE | Installation models | Installation models, drawings ready for detailed design (show proof of lifecycle phase (e.g., initial, WIP, detailed, baseline released) | | | | | |
| 13 | SE (PA) | DE | System level Interference analysis | Subsystem to subsystem interference analysis complete , documented with with no interferences identified. | | | | | |
| 14 | SSE | DE | Subsystem Interference analysis | Intra-subsystem to subsystem interference analysis complete documented with corrective action plans identified. | | | | | |
| 15 | SE/SSE | PE/SE/DE | Structured Decisions of Alternative Subsystem Concepts | Trade study list Trade study /major decisions summary, showing options and outcome Structured decision records | | | | | |
| 16 | SE | LE | Reliability Analysis | Initial system/subsystem Design Failure Mode & Effects Analysis (DFMEA) | | | | | |

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Date

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PRELIMINARY DESIGN REVIEW CHECKPOINT (PDRcp)

PROJECT: <enter project number - name>

| GREEN - G | | ARTIFACT MEETS EXPECTATION-PROCEED. | | | | | | | |
|--|---------------------|--|--|---|---------------------|----------|-------------------|-----------|-----------------|
| YELLOW - Y | | ARTIFACT DOES NOT MEET EXPECTATION - PROCEED WITH ACCEPTABLE RISK. DOCUMENT AS AN ACTION ITEM AND SUBMIT AS A RISK IF APPLICABLE. | | | | | | | |
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| BLACK - B | | NOT APPLICABLE. (MUST IDENTIFY RATIONALE) | | | | | | | |
| # | FUNCTIONAL GROUP US | FUNCTIONAL GROUP | CHECKLIST ITEM | Artifact Description / Expectations | STATUS (COLOR CODE) | ASSIGNEE | ARTIFACT LOCATION | ACTION ID | STATUS COMMENTS |
| | | | | Analysis of failure modes exceeding Risk Priority Number (RPN) threshold (DARTS) Quantitative assessment (MTBSA, MTBSF, MTBSA/MTBHMf, Operational Availability - Ao) | | | | | |
| 17 | SE/SSE | SE/DE | Design Assessments | Survivability Assessment Lethality Assessment Mobility Assessment Transportability Assessment Radiation Assessment Electromagnetic Compatibility (EMI), Electromagnetic Interference (EMC), Electrostatic Discharge (ESD) Thermal analysis Structural Analysis Fluid Analysis Noise Vibration Harshness (NVH) Analysis Crash Analysis Mine blast Dimensional Management Safety Assessment Human Factors Engineering (HFE) Assessment Manufacturability/Assembly Assessment Obsolescence Assessment | | | | | |
| 18 | SSE | SE/DE | Design to Cost (DtC) Assessments | Updated Target Cost Achievement Plan | | | | | |
| 19 | SSE | SE/DE | Subsystem Design | System/Subsystem Design Description (SSDD) | | | | | |
| 20 | LOG | LE | Logistics | Maintainability/Supportability Assessment | | | | | |
| 21 | SE | PE/SE/DE | Identified System/Subsystem/Component Level Risks/Issues | Risk registers Risk mitigation plans Issue list / Corrective action plans | | | | | |
| 22 | PEM | SE/DE | Engineering Release | Release Schedule including Supplier SOWs, CIDS, ICDS, Models and/or Drawings, identified with established dates to support hardware first use | | | | | |
| 23 | SE | SE/DE | Engineering Bill of Materials (EBOM) | EBOM released, identifying all configuration items and released to the product structure. | | | | | |
| 24 | SE | PE/SE | Build Plan | Prototype Build Plan | | | | | |
| 25 | PROC | SCM | Major Suppliers | Major Suppliers Identified | | | | | |
| 26 | PROC | SCM | Long Lead Items | Long Lead Items Identified | | | | | |
| 27 | SSE | SE | Software | Updated Software Development Plan (SDP) Software Requirements | | | | | |
| 28 | SE | PE/SE/DE | Integrated Design Assessment | Completed Integrated Design Assessment | | | | | |
| Approval of this Checkpoint Review documents the review team agreement that the design is self consistent, non- conflicting and mutually executable with issues and risks identified and quantified such that the team supports the gate decision. (sign/date) | | | | | | | | | |

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Date

**

CRITICAL DESIGN REVIEW CHECKPOINT (CDRep)

PROJECT: <enter project number - name>

| GREEN - G | | ARTIFACT MEETS EXPECTATION-PROCEED. | | | | | | | |
|--------------------|---------------------|--|---|--|---------------------|----------|-------------------|-----------|-----------------|
| YELLOW - Y | | ARTIFACT DOES NOT MEET EXPECTATION - PROCEED WITH ACCEPTABLE RISK. DOCUMENT AS AN ACTION ITEM AND SUBMIT AS A RISK IF APPLICABLE. | | | | | | | |
| RED - R | | ARTIFACT DOES NOT MEET EXPECTATION - DO NOT PROCEED, UNACCEPTABLE RISK. DOCUMENT AS AN ACTION ITEM AND SUBMIT AS A RISK IF APPLICABLE. | | | | | | | |
| BLACK - B | | NOT APPLICABLE. (MUST IDENTIFY RATIONALE) | | | | | | | |
| FUNCTIONAL GROUP # | FUNCTIONAL GROUP US | FUNCTIONAL GROUP | CHECKLIST ITEM | Artifact Description / Expectations | STATUS (COLOR CODE) | ASSIGNEE | ARTIFACT LOCATION | ACTION ID | STATUS COMMENTS |
| 1 | PEM | PE/SE | Finalized Integrated Master Schedule | Integrated Master Schedule / Project Schedule | | | | | |
| 2 | SE | PE/SE | Technical Performance Measures (TPM) Assessment | Finalized TPM Assessment and supporting analysis for each | | | | | |
| 3 | SE (REQT) | PE/SE | Finalized System Level Requirements | List of modified or updated requirements post PDR System Performance Specification Requirements Workbook ** Requirements Bi-Directional Traceability matrix/report with system, subsystem, and component Spec Tree with system, subsystem, component | | | | | |
| 4 | SE (REQT) | PE/SE/DE | System Requirements Allocated to Subsystems | List of modified and updated requirements post PDR. Subsystem Development Specifications (Subsystem Requirements Workbook ** updated to include post PDR changes including weight, power, thermal, reliability, affordability, maintainability, transportability, survivability, lethality, mobility, safety, and C4ISR allocations | | | | | |
| 5 | SSE | DE | Subsystem Requirements Allocated to Components | List of modified and updated requirements post PDR. Component Development Specifications (Subsystem Requirements Workbook ** including weight, power, thermal, reliability, affordability, maintainability, transportability, survivability, lethality, mobility, safety, and C4ISR allocations | | | | | |
| 6 | SE (REQT) | PE/SE | Requirements Compliance Matrix | System, Subsystem, and Component compliance matrix summary tables showing compliance with supporting analyses Corrective action plans for noncompliant requirements | | | | | |
| 7 | SSE | PE/SE | Verification Plan | Design Verification Plan and Report (DVP&R) at the component level. | | | | | |
| 8 | SSE | PE/SE/DE | Interface Management | Finalized Subsystem Interface Control Documents (ICDs) and component ICDs | | | | | |
| 9 | SE | DE | Interface Control Models (ICM) | Interface Control Models (ICM) released. | | | | | |
| 10 | SE/SSE | DE | Interference analysis | No system/subsystem/component interferences. | | | | | |
| 11 | SE | LE | Reliability Analysis | Completed System/subsystem Design Failure Mode & Effects Analysis (DFMEA) Design Action Reporting and Tracking issues (DARTs) closed. Quantitative assessment (MTBSA, MTBSF, MTBSA/MTBHMF, Operational Availability - Ao) | | | | | |
| 12 | SE/SSE | SE/DE | Design Assessments | Survivability Assessment Lethality Assessment Mobility Assessment Transportability Assessment Radiation Assessment Electromagnetic Compatibility (EMI), Electromagnetic Interference (EMC), Electrostatic Discharge (ESD) Thermal analysis Structural Analysis Fluid Analysis Noise Vibration Harshness (NVH) Analysis Crash Analysis Mine blast Dimensional Management Safety Assessment Human Factors Engineering (HFE) Assessment | | | | | |

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CRITICAL DESIGN REVIEW CHECKPOINT (CDRep)

PROJECT: <enter project number - name>

| GREEN - G | | ARTIFACT MEETS EXPECTATION-PROCEED. | | | | | | | |
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| BLACK - B | | NOT APPLICABLE. (MUST IDENTIFY RATIONALE) | | | | | | | |
| FUNCTIONAL GROUP # | FUNCTIONAL GROUP US | FUNCTIONAL GROUP | CHECKLIST ITEM | Artifact Description / Expectations | STATUS (COLOR CODE) | ASSIGNEE | ARTIFACT LOCATION | ACTION ID | STATUS COMMENTS |
| | | | | Manufacturability/Assembly Assessment Obsolescence Assessment | | | | | |
| 13 | SSE | SE/DE | Design to Cost (DTC) Assessments | Updated Target Cost Achievement Plan | | | | | |
| 14 | SSE | SE/DE | Subsystem Design | System/Subsystem Design Description (SSDD) | | | | | |
| 15 | LOG | LE | Logistics | Maintainability/Supportability Assessment | | | | | |
| | | SS | | Training Products (Identified) | | | | | |
| | | SS | | Special tooling (Identified) | | | | | |
| | | SS | | Packaging, handling, transportation considerations | | | | | |
| 16 | SE | PE/SE | Identified System/Subsystem/Component Level Risks/Issues | Risk registers | | | | | |
| | | | | Risk mitigation plans | | | | | |
| | | | | Issue list / Corrective action plans | | | | | |
| 17 | SE/SSE | PE/SE/DE | Engineering Release | All CIDs complete and ready for release | | | | | |
| | | | | All Supplier SOWs complete and ready for release | | | | | |
| | | | | All ICDs complete and ready for release | | | | | |
| | | | | All Component Models and/or Drawings complete and ready for release. Drawings ready to enter checking ** | | | | | |
| | | | | | | | | | |
| 18 | SE | SE/DE | Engineering Bill of Materials (EBOM) | EBOM - complete (All parts released in EBOM to include fasteners ** items) | | | | | |
| 19 | SE | PE/SE | Build Plan | Prototype Build Plan Completed | | | | | |
| 20 | SSE | SE | Software | Updated Software Development Plan (SDP) Updated | | | | | |
| | | | | Software Requirements | | | | | |
| | | | | Software Design | | | | | |
| 21 | SE | PE/SE/DE | Integrated Design Assessment | Completed Integrated Design Assessment | | | | | |
| Approval of this Checkpoint Review documents the review team agreement that the design is self consistent, non- conflicting and mutually executable with issues and risks identified and quantified such that the team supports the gate decision. (sign/date) | | | | | | | | | |

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PRODUCTION READINESS REVIEW CHECKPOINT (PRRcp)

PROJECT: <enter project number - name>

| GREEN - G | | ARTIFACT MEETS EXPECTATION-PROCEED. | | | | | | | |
|--------------------------------|---------------------|--|-----------------------------|--|---------------------|----------|-------------------|-----------|-----------------|
| YELLOW - Y | | ARTIFACT DOES NOT MEET EXPECTATION - PROCEED WITH ACCEPTABLE RISK. DOCUMENT AS AN ACTION ITEM AND SUBMIT AS A RISK IF APPLICABLE. | | | | | | | |
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| BLACK - B | | NOT APPLICABLE. (MUST IDENTIFY RATIONALE) | | | | | | | |
| FUNCTIONAL GROUP # | FUNCTIONAL GROUP US | FUNCTIONAL GROUP | CHECKLIST ITEM | Artifact Description / Expectations | STATUS (COLOR CODE) | ASSIGNEE | ARTIFACT LOCATION | ACTION ID | STATUS COMMENTS |
| 1 | SE/SSE | PE/SE | System/Subsystem Validation | System Validation Complete Subsystem Validation Complete | | | | | |
| 2 | SE/SSE | PE/SE | Engineering Release | EBOM Released S/W Configuration Released CAD Model Released Drawing(s) Released Specification Released S/W Products Released | | | | | |
| | | SE | | | | | | | |
| | | DE | | | | | | | |
| | | DE | | | | | | | |
| | | PE/SE | | | | | | | |
| SE | | | | | | | | | |
| 3 | SSE | SE/DE | Hazardous Materials | Hazardous Materials Management Report Complete | | | | | |
| 4 | LOG | LE | Logistics | Parts Manuals Incremental Delivery(s) Completed Maintenance Manuals Incremental Delivery(s) Completed Operator Manuals Incremental Delivery(s) Completed | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| 5 | MFG | MFG | Manufacturing | Tooling Identified and Purchased / On Hand Facilities Plan Completed Personnel Plan Completed All TIR/UIR/CA Completed All MPR Resolved/Completed CR Improvements Cut-in Plans in Place PRRs conducted at the Major Suppliers Operating Sheet Instructions Completed Production Configuration Baseline Completed Producibility and Quality Requirements Documented Build Plan Completed MBOM Complete | | | | | |
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| | | | | | | | | | |
| Approval (sign/date) | | | | | | | | | |

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Date

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PRODUCTION READINESS REVIEW CHECKPOINT (PRRcp)

PROJECT: <center project number - name>

| GREEN - G | | ARTIFACT MEETS EXPECTATION - PROCEED. | | | | | | | |
|------------|---------------------|--|-----------------------------|---|---------------------|----------|-------------------|-----------|-----------------|
| YELLOW - Y | | ARTIFACT DOES NOT MEET EXPECTATION - PROCEED WITH ACCEPTABLE RISK. DOCUMENT AS AN ACTION ITEM AND SUBMIT AS A RISK IF APPLICABLE. | | | | | | | |
| RED - R | | ARTIFACT DOES NOT MEET EXPECTATION - DO NOT PROCEED, UNACCEPTABLE RISK. DOCUMENT AS AN ACTION ITEM AND SUBMIT AS A RISK IF APPLICABLE. | | | | | | | |
| BLACK - B | | NOT APPLICABLE. (MUST IDENTIFY RATIONALE) | | | | | | | |
| # | FUNCTIONAL GROUP US | FUNCTIONAL GROUP | CHECKLIST ITEM | Artifact Description / Expectations | STATUS (COLOR CODE) | ASSIGNEE | ARTIFACT LOCATION | ACTION ID | STATUS COMMENTS |
| 1 | SE/SSE | PE/SE | System/Subsystem Validation | System Validation Complete Subsystem Validation Complete | | | | | |
| 2 | SE/SSE | PE/SE | Engineering Release | EBOM Released S/W Configuration Released CAD Model Released Drawing(s) Released Specification Released S/W Products Released | | | | | |
| | | SE | | | | | | | |
| | | DE | | | | | | | |
| | | DE | | | | | | | |
| | | PE/SE | | | | | | | |
| SE | | | | | | | | | |
| 3 | SSE | SE/DE | Hazardous Materials | Hazardous Materials Management Report Complete | | | | | |
| 4 | LOG | LE | Logistics | Parts Manuals Incremental Delivery(s) Completed Maintenance Manuals Incremental Delivery(s) Completed Operator Manuals Incremental Delivery(s) Completed | | | | | |
| 5 | MFG | MFG | Manufacturing | Tooling Identified and Purchased / On Hand Facilities Plan Completed Personnel Plan Completed All TIR/UIR/CA Completed All MPR Resolved/Completed CR Improvements Cut-in Plans in Place PRRs conducted at the Major Suppliers Operating Sheet Instructions Completed Production Configuration Baseline Completed Producibility and Quality Requirements Documented Build Plan Completed MBOM Complete | | | | | |
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Approval
(sign/date)

EN-CK-1.21.1, Checkpoint Review Checklists, Issue 30: April 29, 2011

** CONFIDENTIAL TREATMENT REQUESTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION. OMITTED PORTIONS HAVE BEEN FILED SEPARATELY WITH THE COMMISSION.

Section H - Schedule

Table of Contents

| | |
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| H.1 | Introduction |
| H.2 | Master Project Management Schedule |
| H.3 | Delivery Terms & Schedule |

**** *Proprietary Information***
See Restriction on First Page

** CONFIDENTIAL TREATMENT REQUESTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION. OMITTED PORTIONS HAVE BEEN FILED SEPARATELY WITH THE COMMISSION.

**

H.1 Introduction

H.1.1 Purpose

H.1.1.1 The purpose of this document is to outline program and delivery schedules.

H.2 Master Project Management Schedule

H.2.1 MPMS

H.2.1.1 As identified in Section G, Para 2.4, the MPMS shall be provided by the Subcontractor in accordance with *SDRL PM-003*. The MPMS shall be included under Section H, Annex H1 upon Subcontract award and mutual agreement.

H.3 Delivery Terms & Schedule

H.3.1 Delivery Terms

H.3.1.1 The terms of delivery under this Subcontract shall be FCA Free Carrier (Subcontractor’s facility) in accordance with Incoterms 2000.

H.3.2 Deliveries

H.3.2.1 **Prototype.** The Subcontractor shall provide a Prototype in accordance with the requirements detailed in Section G, Para G.4.3 and in accordance with the schedule below:

| Item | Quantity | Location | Date |
|--------------|----------|----------|-----------|
| Prototype ** | 1 | ** | 29-Jul-11 |

H.3.2.2 **Updated Prototypes.** The Subcontractor shall provide two (2) updated ** in accordance with the requirements detailed in Section G, Para 4.3 and in accordance with the schedule below:

| Item | Quantity | Location | Date |
|----------------------|----------|----------|-------|
| Updated Prototype ** | 2 | ** | 3 WAC |

H.3.2.3 **Engineering Development Units (EDU).** The Subcontractor shall provide two (2) EDUs in accordance with the requirements detailed in Section G, Para 4.3 and in accordance with the schedule below:

**** Proprietary Information**
See Restriction on First Page

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**

| Item | Quantity | Location | Date |
|--------|----------|----------|-------|
| EDU ** | 2 | ** | 3 MAC |

H.3.2.4 **Production Representative Unit (PRU).** The Subcontractor shall provide one (1) PRU in accordance with the requirements detailed in Section G, Para 4.3 and in accordance with the schedule below:

| Item | Quantity | Location | Date |
|------|----------|----------|--------|
| PRU | 1 | ** | 17 WAC |

H.3.2.5 **Final Production Representative Unit (PRU).** The Subcontractor shall provide two (2) PRUs in accordance with the requirements detailed in Section G, Para 4.3 and in accordance with the schedule below:

| Item | Quantity | Location | Date |
|-----------|----------|----------|-------|
| Final PRU | 2 | ** | 8 MAC |

H.3.2.6 **Production Deliveries.** Based on a delivery quantity of 506, the Subcontractor shall produce ** as per the schedule below:

| Item | Quantity | Location | Date |
|------|--------------|----------|-----------------------|
| ** | 2 | TBA | 9 MAC |
| ** | 2 | TBA | 10 MAC |
| ** | 4 | TBA | 11 MAC |
| ** | 6 | TBA | 12 MAC |
| ** | 8 | TBA | 13 MAC |
| ** | 10 per month | TBA | 14 MAC through 19 MAC |
| ** | 7 per month | TBA | 20 MAC through 21 MAC |
| ** | 10 per month | TBA | 22 MAC through 24 MAC |
| ** | 7 | TBA | 25MAC |
| ** | 10 per month | TBA | 26 MAC through 31 MAC |
| ** | 6 per month | TBA | 32 MAC through 33 MAC |
| ** | 9 per month | TBA | 34 MAC through 36 MAC |
| ** | 6 | TBA | 37 MAC |
| ** | 9 per month | TBA | 38 MAC through 43 MAC |
| ** | 6 per month | TBA | 44 MAC through 45 MAC |
| ** | 9 per month | TBA | 46 MAC through 48 MAC |
| ** | 6 | TBA | 49 MAC |
| ** | 9 per month | TBA | 50 MAC through 55 MAC |
| ** | 6 per month | TBA | 56 MAC through 57 MAC |
| ** | 9 per month | TBA | 58 MAC through 60 MAC |
| ** | 6 | TBA | 61 MAC |
| ** | 9 per month | TBA | 62 MAC through 67 MAC |

**** Proprietary Information**
 See Restriction on First Page

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**

| Item | Quantity | Location | Date |
|-------------|-----------------|-----------------|-----------------------|
| ** | 6 per month | TBA | 68 MAC through 69 MAC |
| ** | 4 | TBA | 70 MAC |

H.3.3 Deliverables

H.3.3.1 The Subcontractor shall provide all deliverables identified under Section G, Statement of Work in accordance with the SDRL under Section G, Annex G2.

**** *Proprietary Information***
See Restriction on First Page

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CONFIDENTIAL TREATMENT REQUEST BY OPTEX SYSTEMS HOLDINGS, INC.

**

Model Subcontract
Section G, Annex G4
Rev NR

** CONFIDENTIAL TREATMENT REQUESTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION. OMITTED PORTIONS HAVE BEEN FILED SEPARATELY WITH THE COMMISSION.

CONFIDENTIAL TREATMENT REQUEST BY OPTEX SYSTEMS HOLDINGS, INC.

**

** CONFIDENTIAL TREATMENT REQUESTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION. OMITTED PORTIONS HAVE BEEN FILED SEPARATELY WITH THE COMMISSION.

Section I – Price and Payment

Table of Contents

- I.1 Introduction**
- I.2 Price**
- I.3 Payment Terms**

**** *Proprietary Information***
See Restriction on First Page

** CONFIDENTIAL TREATMENT REQUESTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION. OMITTED PORTIONS HAVE BEEN FILED SEPARATELY WITH THE COMMISSION.

**

I.1 Introduction

I.1.1 Purpose

I.1.1.1 The purpose of this Section is to identify the firm fixed prices for the deliverables, supplies and service under Subcontract. The Section shall also identify the specific invoicing procedures and requirements associated with this work.

I.2 Price

2.1 Prices

I.2.1.1 All prices for supplies and services under this subcontract shall be invoiced and paid in US dollars in accordance with the Subcontract Line Item Number (SLIN) structure detailed in this section.

I.2.2 Non-Recurring Engineering

I.2.2.1 The following Table identifies the SLIN Structure for Non-Recurring Engineering (NRE) activities in accordance with the Statement of Work (Section G), and its related Annexes and Appendices.

| SLIN | Description | Ref | Hrs | Price |
|--|------------------------|--|------|------------------|
| 001 | Engineering ** (Qty 2) | <i>Section G, Section 4.3</i> | | <i>\$100,000</i> |
| 002 | SDRLs | <i>Per SDRL as outlined in Section G, Annex G2</i> | 2330 | <i>\$195,595</i> |
| 003 | Other NRE Costs | <i>Attachment 3 – Pricing Template</i> | 800 | <i>\$198,100</i> |
| Table 1 – Non-Recurring Engineering Costs | | | | |

I.2.3 Recurring / Hardware Costs

I.2.3.1 The following Table identifies the SLIN Structure for Recurring activities identified in the Statement of Work (Section G), and its related Annexes and Appendices.

| SLIN | Description | Qty | Unit Price | Total price |
|---|-------------|-----|------------|--------------------|
| 004 | ** | ** | ** | <i>\$7,337,000</i> |
| Table 2–Recurring/Hardware Costs | | | | |

**** Proprietary Information**
See Restriction on First Page

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**

I.2.4 Spares and STTE Pricing

I.2.4.1 The Subcontractor shall supply spare and STTE parts pricing for all procurable items as per Section G, Statement of Work, Para 7.4 and 7.7.

I.2.4.2 The Subcontractor shall supply quantity price breaks for the ** and all procurable spare parts from quantity 1 through 200.

I.2.4.3 All spare and ST&TE parts pricing provided in support of the ** shall be provided each year from 2012 through 2019, and shall be valid for one calendar year.

I.2.4.4 The following Table shall be used as a template to submit price breaks for spare parts. Pricing shall be based on the date of order, not the date of delivery.

**

I.3 Payment Terms

I.3.1 Pricing Terms

I.3.1.1 The terms of this subcontract are Firm Fixed.

I.3.2 Invoicing

I.3.2.1 The Subcontractor shall submit a separate invoice for each SLIN identified in this Section. Invoices shall be submitted no later than 30-calendar days after delivery of each SLIN.

I.3.2.2 Payment shall be made in accordance with MNS2 (second day, second month).

**** *Proprietary Information***
See Restriction on First Page

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**

Subcontract PO 35334144

Section I, Annex II

Revision NR

Section I, Annex II - Payment Plan

| CLIN | Description | Amount | | | | |
|----------------------------|---------------------|------------------------|--------|-------------|------------|--------------|
| 001 | Engineering ** | \$ 100,000.00 | | | | |
| 002 | SDRLs | \$ 195,595.00 | | | | |
| 003 | Other NRE Costs | \$ 198,100.00 | | | | |
| 004* | ** Production Units | \$ 7,337,000.00 | 62.21% | \$ 9,021.00 | Unit Price | \$ 14,500.00 |
| Total Contract (US) | | \$ 7,830,695.00 | | | | |

*** 004 will be replaced with 005 when ** part number is issued for ****

**** Vendor will be required to submit a separate invoice for each SLIN**

**

** CONFIDENTIAL TREATMENT REQUESTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION. OMITTED PORTIONS HAVE BEEN FILED SEPARATELY WITH THE COMMISSION.

**

Subcontract PO 35334144

Section I, Annex I1

Revision NR

Section I, Annex I1 - Payment Plan

| CLIN | Description | Amount | | | | |
|----------------------------|---------------------|------------------------|--------|-------------|------------|--------------|
| 001 | Engineering ** | \$ 100,000.00 | | | | |
| 002 | SDRLs | \$ 195,595.00 | | | | |
| 003 | Other NRE Costs | \$ 198,100.00 | | | | |
| 004* | ** Production Units | \$ 7,337,000.00 | 62.21% | \$ 9,021.00 | Unit Price | \$ 14,500.00 |
| Total Contract (US) | | \$ 7,830,695.00 | | | | |

* **004 will be replaced with 005 when ** part number is issued for ****

** **Vendor will be required to submit a separate invoice for each SLIN**

**

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**

Subcontract PO 35334144

Section I, Annex II

Revision NR

Section I, Annex II - Payment Plan

| CLIN | Description | Amount | | | | |
|----------------------------|---------------------|------------------------|--------|-------------|------------|--------------|
| 001 | Engineering ** | \$ 100,000.00 | | | | |
| 002 | SDRLs | \$ 195,595.00 | | | | |
| 003 | Other NRE Costs | \$ 198,100.00 | | | | |
| 004* | ** Production Units | \$ 7,337,000.00 | 62.21% | \$ 9,021.00 | Unit Price | \$ 14,500.00 |
| Total Contract (US) | | \$ 7,830,695.00 | | | | |

*** 004 will be replaced with 005 when ** part number is issued for ****

**** Vendor will be required to submit a separate invoice for each SLIN**

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** CONFIDENTIAL TREATMENT REQUESTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION. OMITTED PORTIONS HAVE BEEN FILED SEPARATELY WITH THE COMMISSION.

**

24 October 2011

Letter No: HOB11-027

Subject: ** Subcontract 35334144 Award **

Attachment: (1) Subcontract 35334144
(2) Purchase Order 35334144
(3) Execution of Subcontract and Purchase Order 35334144

Mr. Danny Schoening,

** is pleased to advise that the ** proposed by Optex Systems Inc has been selected as the ** for the ** Program.

At this time, Optex Systems Inc is prohibited from announcing this selection outside of your Company. ** and ** will advise accordingly when this information can be released.

Subcontract 35334144 and the supplemental Purchase Order have been included, at Attachment 1 and 2. Please indicate your acceptance by execution, at Attachment 3, and return a scanned copy to the undersigned, no later than **COB 24 October 2011**. ** shall sign and return a copy for your records.

A Start of Work Meeting has been scheduled for 03 and 04 November 2011 at your facility. ** will be in touch to provide a list of attendees.

** looks forward to building a positive relationship with Optex Systems Inc in the execution of this Program. Should you have any further questions or concerns, please do not hesitate to contact the undersigned at **

Sincerely,

//S//

**

** Private Information

** CONFIDENTIAL TREATMENT REQUESTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION. OMITTED PORTIONS HAVE BEEN FILED SEPARATELY WITH THE COMMISSION.

**

Attachment 3

Execution of Subcontract 35334144

Please indicate your acceptance of Subcontract and Purchase Order 35334144 through execution below.

Danny Scheoning
General Manager / COO

**

Date of Acceptance

Date of Acceptance

**

** Private Information

** CONFIDENTIAL TREATMENT REQUESTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION. OMITTED PORTIONS HAVE BEEN FILED SEPARATELY WITH THE COMMISSION.

**AMENDMENT TO OPTEX SYSTEMS HOLDINGS, INC.
2009 STOCK OPTION PLAN**

This Amendment to Optex Systems Holdings, Inc. Stock Option Plan is dated as of December 9, 2012. Except for the amendment to Section 4.01 set forth below, the original terms of the 2009 Stock Option Plan remain in full force and effect.

Section 4.01 is hereby amended to increase the total number of shares available for issuance as follows:

4.01 Number of Shares Issuable. The total number of shares authorized to be issued under the Plan shall be 50,000,000 shares of Common Stock. The number of shares available for issuance under the Plan shall be further subject to adjustment in accordance with Section 7.06. The shares to be offered under the Plan shall be authorized and unissued Common Stock, or issued Common Stock which shall have been reacquired by the Company.

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**

I, Stanley A. Hirschman, certify that:

1. I have reviewed this Form 10-K of Optex Systems Holdings, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (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.

By: Stanley A. Hirschman
Stanley A. Hirschman
Principal Executive Officer

December 27, 2011

Exhibit 31.2

**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**

I, Karen Hawkins, certify that:

1. I have reviewed this Form 10-K of Optex Systems Holdings, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (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.

By: Karen Hawkins
Karen Hawkins
Principal Financial Officer and
Principal Accounting Officer

December 27, 2011

Exhibit 32.1

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

In connection with this Annual Report of Optex Systems Holdings, Inc. (the "Company") on this Form 10-K for the year ending October 2, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stanley A. Hirschman, Principal Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 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.

By: /s/ Stanley A. Hirschman
Stanley A. Hirschman
Principal Executive Officer

Dated: December 27, 2011

Exhibit 32.2

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

In connection with this Annual Report of Optex Systems Holdings, Inc. (the "Company") on this Form 10-K for the year ending October 2, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karen Hawkins, Principal Financial Officer and Principal Accounting Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 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.

By: */s/ Karen Hawkins*

Karen Hawkins
Principal Financial Officer and Principal Accounting Officer

Dated: December 27, 2011
