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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant
Filed by a Party other than the Registrant
Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material under §240.14a-12

Optex Systems Holdings, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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- (1) Title of each class of securities to which transaction applies:

- (2) Aggregate number of securities to which transaction applies:

- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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- (1) Amount Previously Paid:

- (2) Form, Schedule or Registration Statement No.:

- (3) Filing Party:

- (4) Date Filed:

Optex Systems Holdings, Inc.
1420 Presidential Drive
Richardson, TX 75081

January 21, 2021

To the Shareholders of Optex Systems Holdings, Inc.:

You are cordially invited to attend the 2021 Annual Meeting of Shareholders (the "Annual Meeting") of Optex Systems Holdings, Inc., a Delaware corporation (the "Company"), to be held at 10:00 AM local time on February 24, 2021 virtually to consider and vote upon the following proposals:

1. To elect four directors for a one-year term expiring in 2022.
2. The ratification of the appointment of Whitley Penn, LLP, as the Company's independent registered certified public accountant for the fiscal year ending October 3, 2021.
3. To transact such other business as may be properly brought before the 2021 Annual Meeting and any adjournments thereof.

We will hold our annual meeting virtually this year due to Covid-19 safety concerns. Because of this, we will not be able to check in attendees to verify that they are

shareholders, per our normal procedure. In order to address this, we will instead require pre-registration. In order to pre-register, please email IR@optexsys.com with your Name, Number of shares owned, e-mail contact and phone number, and preference as to how you would like to be contacted. Please register at least 7 days ahead of the meeting to attend. We will then, one day before the meeting, provide all pre-registered attendees instructions on how to virtually attend the meeting with credentials.

THE BOARD OF DIRECTORS OF THE COMPANY UNANIMOUSLY RECOMMENDS A VOTE “FOR” APPROVAL OF THE ABOVE EIGHT PROPOSALS.

Pursuant to the provisions of the Company’s bylaws, the board of directors of the Company (the “Board”) has fixed the close of business on January 21, 2021 as the record date for determining the shareholders of the Company entitled to notice of, and to vote at, the Annual Meeting or any adjournment thereof. Accordingly, only shareholders of record at the close of business on January 21, 2021 are entitled to notice of, and shall be entitled to vote at, the Annual Meeting or any postponement or adjournment thereof.

Please review in detail the attached notice and proxy statement for a more complete statement of matters to be considered at the Annual Meeting.

Your vote is very important to us regardless of the number of shares you own. Whether or not you are able to attend the Annual Meeting in person, please read the proxy statement and promptly vote your proxy via the internet, by telephone or, if you received a printed form of proxy in the mail, by completing, dating, signing and returning the enclosed proxy in order to assure representation of your shares at the Annual Meeting. Granting a proxy will not limit your right to vote in person if you wish to attend the Annual Meeting and vote in person.

By Order of the Board of Directors:

/s/ Danny Schoening
Danny Schoening,
Chairman of the Board of Directors

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The 2021 Annual Meeting of shareholders (the “Annual Meeting”) of Optex Systems Holdings, Inc. (the “Company”) will be held virtually beginning at 10:00 AM local time. At the Annual Meeting, the holders of the Company’s outstanding common stock will act on the following matters:

1. To elect four directors for a one-year term expiring in 2021.
2. The ratification of the appointment of Whitley Penn, LLP, as the Company’s independent registered certified public accountant for the fiscal year ending October 3, 2021.
3. To transact such other business as may be properly brought before the 2020 Annual Meeting and any adjournments thereof.

We will hold our annual meeting virtually this year due to Covid-19 safety concerns. Because of this, we will not be able to check in attendees to verify that they are shareholders, per our normal procedure. In order to address this, we will instead require pre-registration. In order to pre-register, please email IR@optexsys.com with your Name, Number of shares owned, e-mail contact and phone number, and preference as to how you would like to be contacted. Please register at least 7 days ahead of the meeting to attend. We will then, one day before the meeting, provide all pre-registered attendees instructions on how to virtually attend the meeting with credentials.

Shareholders of record at the close of business on January 21, 2021 are entitled to notice of and to vote at the 2020 Annual Meeting and any postponements or adjournments thereof.

It is hoped you will be able to attend the 2021 Annual Meeting, but in any event, please vote according to the instructions on the enclosed proxy as promptly as possible. If you are able to be present at the 2020 Annual Meeting, you may revoke your proxy and vote in person.

Dated: January 21, 2021

By Order of the Board of Directors:

/s/ Danny Schoening
Danny Schoening,
Chairman of the Board of Directors

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OPTEX SYSTEMS HOLDINGS, INC.
1420 Presidential Drive
Richardson, TX 75081

ANNUAL MEETING OF SHAREHOLDERS
To Be Held February 24, 2021

PROXY STATEMENT

The Board of Directors of Optex Systems Holdings, Inc. (the “Company”) is soliciting proxies from its shareholders to be used at the 2020 Annual Meeting of shareholders (the “Annual Meeting”) to be held virtually on February 24, 2021, beginning at 10:00 AM local time and at any postponements or adjournments thereof. This proxy statement contains information related to the Annual Meeting. This proxy statement and the accompanying form of proxy are first being sent to shareholders on or about January 25, 2021.

ABOUT THE ANNUAL MEETING

Why am I receiving this proxy statement?

You are receiving this proxy statement because you have been identified as a shareholder of the Company as of the record date which our Board has determined to be January 21, 2021, and thus you are entitled to vote at the Company’s 2021 Annual Meeting. This document serves as a proxy statement used to solicit proxies for the 2021 Annual Meeting. This document and the Appendixes hereto contain important information about the 2020 Annual Meeting and the Company and you should read it carefully.

Who is entitled to vote at the 2021 Annual Meeting?

Only shareholders of record as of the close of business on the record date will be entitled to vote at the 2021 Annual Meeting. On the record date, there were 8,914,261 shares of our common stock issued and outstanding and entitled to vote. Each common stock shareholder is entitled to one vote for each share of our common stock held by such shareholder on the record date on each of the proposals presented in this proxy statement.

May I vote in person?

If you are a shareholder of the Company and your shares are registered directly in your name with the Company’s transfer agent, Equity Stock Transfer, you are considered, with respect to those shares, the shareholder of record, and the proxy materials and proxy card, attached hereto as Appendix A, are being sent directly to you by the Company. If you are a shareholder of record, you may attend the 2021 Annual Meeting to be held on February 24, 2021, and vote your shares in person, rather than signing and returning your proxy.

If your shares of common stock are held by a bank, broker or other nominee, you are considered the beneficial owner of shares held in “street name,” and the proxy materials are being forwarded to you together with a voting instruction card by such bank, broker or other nominee. As the beneficial owner, you are also invited to attend the 2021 Annual Meeting. Since a beneficial owner is not the shareholder of record, you may not vote these shares in person at the 2021 Annual Meeting unless you obtain a proxy from your broker issued in your name giving you the right to vote the shares at the 2021 Annual Meeting.

We will hold our annual meeting virtually this year due to Covid-19 safety concerns. Because of this, we will not be able to check in attendees to verify that they are shareholders, per our normal procedure. In order to address this, we will instead require pre-registration. In order to pre-register, please email IR@optexsys.com with your Name, Number of shares owned, e-mail contact and phone number, and preference as to how you would like to be contacted. Please register at least 7 days ahead of the meeting to attend. We will then, one day before the meeting, provide all pre-registered attendees instructions on how to virtually attend the meeting with credentials.

Photo identification may be required (a valid driver’s license, state identification or passport). If a shareholder’s shares are registered in the name of a broker, trust, bank or other nominee, the shareholder must bring a proxy or a letter from that broker, trust, bank or other nominee or their most recent brokerage account statement that confirms that the shareholder was a beneficial owner of shares of stock of the Company as of the Record Date. Since seating is limited, admission to the meeting will be on a first-come, first-served basis.

Cameras (including cell phones with photographic capabilities), recording devices and other electronic devices will not be permitted at the meeting.

If my Company shares are held in “street name” by my broker, will my broker vote my shares for me?

Generally, if shares are held in street name, the beneficial owner of the shares is entitled to give voting instructions to the broker or nominee holding the shares. If the beneficial owner does not provide voting instructions, the broker or nominee can still vote the shares with respect to matters that are considered to be “***routine***,” but not with respect to “***non-routine***” matters, as discussed further below. Your broker will not be able to vote your shares of common stock without specific instructions from you for “non-routine” matters.

If your shares are held by your broker or other agent as your nominee, you will need to obtain a proxy form from the institution that holds your shares and follow the instructions included on that form regarding how to instruct your broker or other agent to vote your shares.

What are “broker non-votes”?

If you hold shares beneficially in street name and do not provide your broker with voting instructions, your shares may constitute “broker non-votes.” “Broker non-votes” occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions are not given. These matters are

referred to as “non-routine” matters. Since brokers are permitted to vote on “routine” matters without instructions from the beneficial owner, “broker non-votes” do not occur with respect to “routine” matters.

Proposal 1, to elect four directors and Proposal 3 to transact such other business as may be properly brought before the 2021 Annual Meeting and any adjournments thereof are “non-routine matters.”

Proposal 2 to ratify the appointment of Whitley Penn LLP, as the Company’s independent registered certified public accountant for the fiscal year ended September 27, 2021, is a “routine” matter.

The determination of “routine” and “non-routine” matters is determined by brokers and those firms responsible to tabulate votes cast by beneficial owners of shares held in street name and other nominees. Firms casting such votes have generally been guided by rules of the New York Stock Exchange when determining if proposals are considered “routine” or “non-routine”. When a matter to be voted on is the subject of a contested solicitation, banks, brokers and other nominees do not have discretion to vote your shares with respect to any proposal to be voted on.

How do I cast my vote if I am a shareholder of record?

If you are a shareholder with shares registered in your name with the Company’s transfer agent, Equity Stock Transfer, on the record date, you may vote in person at the 2021 Annual Meeting or vote by proxy by fax at 646-201-9006 or EMAIL: Email – proxy@equitystock.com or by mail, in the provided pre-paid envelope. Record holders can also vote online, by visiting proxyvote.equitystock.com.

Whether or not you plan to attend the 2021 Annual Meeting, please vote as soon as possible to ensure your vote is counted. You may still attend the 2021 Annual Meeting and vote in person even if you have already voted by proxy. For more detailed instructions on how to vote using one of these methods, please see the form of proxy card attached to this Schedule 14A and the information below.

- To vote in person. You may attend the 2021 Annual Meeting and the Company will give you a ballot upon email request pursuant to the instructions for virtual attendance.
- To vote by proxy by fax or internet. If you have fax or internet access, you may submit your proxy by following the instructions provided in this proxy statement, or by following the instructions provided with your proxy materials and on the enclosed proxy card or voting instruction card.
- To vote by proxy by mail. You may submit your proxy by mail by completing and signing the enclosed proxy card and mailing it in the enclosed envelope. Your shares will be voted as you have instructed.

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How do I cast my vote if I am a beneficial owner of shares registered in the name of any broker or bank?

If you are a beneficial owner of shares registered in the name of your broker, bank, dealer or other similar organization, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from the Company. Simply complete and mail the proxy card to ensure that your vote is counted. Alternatively, you may vote by telephone or over the internet as instructed by your broker or other agent. To vote in person at the 2021 Annual Meeting, you must obtain a valid proxy from your broker or other agent. Follow the instructions from your broker or other agent included with these proxy materials or contact your broker or bank to request a proxy form.

What constitutes a quorum for purposes of the 2010 Annual Meeting?

The presence at the meeting, in person or by proxy, of the holders of at least a majority of the issued and outstanding shares entitled to vote are present or represented by proxy at the Annual Meeting permitting the conduct of business at the meeting. On the record date, there were 8,914,261 shares of Common Stock and 0 shares of preferred stock issued and outstanding and entitled to vote. Accordingly, the holders of 4,457,131 shares eligible to vote must be present at the 2021 Annual Meeting to have a quorum. Proxies received but marked as abstentions or broker non-votes, if any, will be included in the calculation of the number of votes considered to be present at the meeting for purposes of a quorum. Your shares will be counted toward the quorum at the 2021 Annual Meeting only if you vote in person at the meeting, you submit a valid proxy or your broker, bank, dealer or similar organization submits a valid proxy.

Can I change my vote?

Yes. Any shareholder of record voting by proxy has the right to revoke their proxy at any time before the polls close at the 2021 Annual Meeting by sending a written notice stating that they would like to revoke his, her or its proxy to the Corporate Secretary of the Company; by providing a duly executed proxy card bearing a later date than the proxy being revoked; or by attending the 2021 Annual Meeting and voting in person. Attendance alone at the 2021 Annual Meeting will not revoke a proxy. If a shareholder of the Company has instructed a broker to vote its shares of common stock that are held in “street name,” the shareholder must follow directions received from its broker to change those instructions.

Who is soliciting this proxy – Who is paying for this proxy solicitation?

We are soliciting this proxy on behalf of our Board of Directors. The Company will bear the costs of and will pay all expenses associated with this solicitation, including the printing, mailing and filing of this proxy statement, the proxy card and any additional information furnished to shareholders. In addition to mailing these proxy materials, certain of our officers and other employees may, without compensation other than their regular compensation, solicit proxies through further mailing or personal conversations, or by telephone, facsimile or other electronic means. We will also, upon request, reimburse banks, brokers, nominees, custodians and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy materials to the beneficial owners of our stock and to obtain proxies.

What vote is required to approve each item?

The following votes are required to approve each proposal:

- **Proposal 1** - Election of the directors requires a plurality (the four nominees receiving the most “FOR” votes) of the votes cast at the 2021 Annual Meeting.
- **Proposal 2** - The ratification of the appointment of WHITLEY PENN LLP, as the Company’s independent registered certified public accountant for the fiscal year ended October 3, 2021. “FOR” votes from the holders of a majority of the shares of the Company’s common stock present in person or represented by proxy and entitled to vote on the matter at the 2021 Annual Meeting are required to approve this proposal.
- **Proposal 3** - To transact such other business as may be properly brought before the Annual Meeting and any adjournments thereof. “FOR” votes from the holders of a majority of the shares of the Company’s common stock present in person or represented by proxy and entitled to vote on the matter at the 2020 Annual Meeting are required to approve this proposal.

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Will My Shares Be Voted If I Do Not Return My Proxy Card?

If your shares are registered in your name or if you have stock certificates, they will not be voted if you do not return your proxy card by mail or vote at the Annual Meeting. If your broker cannot vote your shares on a particular matter because it has not received instructions from you and does not have discretionary voting authority on that matter, or because your broker chooses not to vote on a matter for which it does have discretionary voting authority, this is referred to as a “broker non-vote.” The New York Stock Exchange (“NYSE”) has rules that govern brokers who have record ownership of listed company stock held in brokerage accounts for their clients who beneficially own the shares. Under these rules, brokers who do not receive voting instructions from their clients have the discretion to vote uninstructed shares on certain matters (“routine matters”), but do not have the discretion to vote uninstructed shares as to certain other matters (“non-routine matters”). Under NYSE interpretations, Proposals 2 is a routine matter.

If your shares are held in street name and you do not provide voting instructions to the bank, broker or other nominee that holds your shares the bank, broker or other nominee has the authority, even if it does not receive instructions from you, to vote your unvoted shares for Proposal 3 but does not have authority to vote your unvoted shares on any of the other proposals submitted to shareholders for a vote at the Annual Meeting. We encourage you to provide voting instructions. This ensures your shares will be voted at the Annual Meeting in the manner you desire.

Can I access these proxy materials on the Internet?

Yes. The Notice of Annual Meeting, this proxy statement and the Appendixes hereto (including the Company’s Annual Report on Form 10-K for the year ended October 3, 2021, attached as Appendix B hereto) are available for viewing, printing, and downloading at www.optexsys.com. All materials will remain posted on www.optexsys.com at least until the conclusion of the meeting.

What should I do if I receive more than one set of voting materials?

You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a shareholder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please vote your shares applicable to each proxy card and voting instruction card that you receive.

How can I find out the results of the voting at the Annual Meeting?

Preliminary voting results will be announced at the Annual Meeting. Final voting results will be published in a Current Report on Form 8-K filed with the Securities and Exchange Commission within four business days of the 2021 Annual Meeting.

What interest do officers and directors have in matters to be acted upon?

No person who has been a director or executive officer of the Company at any time since the beginning of our fiscal year, and no associate of any of the foregoing persons, has any substantial interest, direct or indirect, in any matter to be acted upon, other than Proposal No. 1, the election of the nominees as directors set forth herein.

Who can provide me with additional information and help answer my questions?

If you would like additional copies, without charge, of this proxy statement or if you have questions about the proposals being considered at the 2021 Annual Meeting, including the procedures for voting your shares, you should contact Karen Hawkins, the Company’s Chief Financial Officer, by telephone at (972) 764-5700.

Householding of Annual Disclosure Documents

The SEC previously adopted a rule concerning the delivery of annual disclosure documents. The rule allows us or brokers holding our shares on your behalf to send a single set of our annual report and proxy statement to any household at which two or more of our shareholders reside, if either we or the brokers believe that the shareholders are members of the same family. This practice, referred to as “householding,” benefits both shareholders and us. It reduces the volume of duplicate information received by you and helps to reduce our expenses. The rule applies to our annual reports, proxy statements and information statements. Once shareholders receive notice from their brokers or from us that communications to their addresses will be “household,” the practice will continue until shareholders are otherwise notified or until they revoke their consent to the practice. Each shareholder will continue to receive a separate proxy card or voting instruction card.

Those shareholders who either (i) do not wish to participate in “householding” and would like to receive their own sets of our annual disclosure documents in future years or (ii) who share an address with another one of our shareholders and who would like to receive only a single set of our annual disclosure documents should follow the instructions described below:

- shareholders whose shares are registered in their own name should contact our transfer agent, Equity Stock Transfer, and inform them of their request by calling them at (212) 575-5757 or writing them at Equity Stock Transfer, 237 West 37th Street, Suite 602, New York, NY 10018.
- shareholders whose shares are held by a broker or other nominee should contact such broker or other nominee directly and inform them of their request, shareholders should be sure to include their name, the name of their brokerage firm and their account number.

MANAGEMENT

Directors and Executive Officers

The names, positions and ages of our directors and executive officers as of the date of this proxy statement are as follows: the following table sets forth information regarding the members of our board of directors and our executive officers and other significant employees.

The following table sets forth certain information with respect to our directors and executive officers:

Name	Age	Position
Danny Schoening ⁽⁴⁾	56	Chairman and Director, Chief Executive Officer, Chief Operating Officer
Karen L. Hawkins ⁽¹⁾	56	Chief Financial Officer (<i>resigned as Director on November 4, 2019</i>)
Larry Hagenbuch ⁽³⁾	54	Director, Audit Committee Chair (<i>appointed November 4, 2019</i>)
Dale Lehmann ⁽³⁾	62	Director (<i>appointed November 4, 2019</i>)
Rimmy Malhotra ⁽³⁾	45	Director, Compensation Committee Chair (<i>appointed November 4, 2019</i>)

- (1) Effective June 9, 2017, Karen Hawkins, Chief Financial Officer and was appointed as a Director. Ms. Hawkins stepped down from the board on November 4, 2019 to enable the appointment of new independent board members.
- (2) Billy Bates was appointed as a Director on June 9, 2017. Mr. Bates stepped down from the board on November 4, 2019 to enable the appointment of new independent board members.
- (3) Appointed to the board as a director effective as of November 4, 2019 as independent directors as such term is defined under NASDAQ Listing Rule 5605(b)(2) and Exchange Act Rule 10A-3.
- (4) Danny Schoening has served as COO since 2009 and CEO and Director since 2013 and was elected to Chairman of the board on June 9, 2017.

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 and was appointed Chief Executive Officer and as a Director in 2013. 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 ISO 9001:2000 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 Bachelor's of Science in Manufacturing Engineering Technology from the University of Nebraska, an MBA from Southern Methodist University, and holds three U.S. patents. The Board of Directors has determined that Mr. Schoening is suited to sit on our Board because of his industry experience and as he is the CEO.

Karen L. Hawkins. On November 19, 2014, Karen Hawkins was appointed as our Chief Financial Officer. Ms. Hawkins had previously served as our 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 has over 30 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 25 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 and became a Certified Public Accountant in 1992.

Larry Hagenbuch joins the Board and has accepted the role of Audit Committee Chair. Larry is currently a Managing Director at Huron Consulting Group. Prior to that, Larry was the Chief Operating Officer and Chief Financial Officer for J. Hilburn, Inc., a custom clothier for men from Dec 2009 to May 2019. He served on the board of directors of Remy International (REMY) from November 2008 until that company's sale to BorgWarner in November 2015, where he served on the audit and compensation committees. Larry also currently serves on the board of directors for both Arotech (ARTX) and HireQuest (HQI). Larry has served in senior management positions for SunTx Capital Partners, Alix Partners, GE / GE Capital, and American National Can Group, Inc. Larry began his professional career in the United States Navy.

Dale Lehmann joins the Board as an industry expert having over 30 years of management, strategy, product development, delivery and operational experience in the electro-optical industry. Dale was the Director of Business Development & Strategy for General Dynamics Global Imaging Technologies Group from 2014 through 2017. Prior to that, Dale was the Senior Vice President & General Manager of the Infrared Products Group for L-3 Communications/Cincinnati Electronics from 1995 through 2014. Dale currently sits on the Board of Directors for Adimec USA, a provider of application specific imaging solutions.

Rimmy Malhotra joins the Board and has accepted the role of Compensation Committee Chair. Rimmy currently manages The Nicoya Fund, an investment partnership whose partners include, high net worth individuals, entrepreneurs and family offices and has acted in that capacity since 2013. He currently serves as Vice-Chairman of HireQuest, a NASDAQ listed staffing operator. He holds an MBA from The Wharton School in Finance, MA in International Affairs from The University of Pennsylvania and a Bachelor of Science in Computer Science from Johns Hopkins University.

Bill Bates. Mr. Bates has thirty-five years of experience related to optical component and system manufacturing. He is currently the General Manager of the Applied Optics Center in Dallas, Texas where he oversees the Thin-film Coating and Optical Assembly Operations. He has held various positions throughout his thirty-five years of experience within Litton Industries, Northrop Grumman Corporation, and L-3 Communications. He previously served as Vice President and General Manager within the Warrior Systems Division of L-3 Communications. Mr. Bates received a Bachelor of Science of Business Administration from DeVry University and an MBA from the University of Texas at Dallas.

Family Relationships

There are no family relationships among the officers and directors.

Presiding Director

Our Chairman, Danny Schoening, is the presiding director at meetings. In the event that the Chairman is unavailable to serve at a particular meeting, responsibility for the presiding director function will rotate among the directors in attendance.

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 actively supports management's adoption and implementation of many "best practices" in the area of corporate governance, including annual review of internal control changes, compensation practices, executive management and auditor retention. In 2019 and 2018, all directors attended a minimum of 75% of the 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 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 one meeting (including special meetings) and took action by unanimous written consent one time during our fiscal year ended September 29, 2019.

Board Committees

As of November 4, 2019, Larry Hagenbuch was appointed to the board as an independent director and has accepted the role of Audit Committee Chair and Rimmy Malhotra was appointed to the board as an independent director and has accepted the role of Compensation Committee Chair. The board has determined that Mr. Hagenbuch qualifies as a financial expert for purposes of the Audit Committee as defined under SEC rules. Each committee has three independent board members. Board Charters are expected to be adopted in the next few months.

Mr. Kittay, resigned as of November 4, 2019 and previously served as our only independent director, and as chair of the Audit and Compensation Committee until November 3, 2019.

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 three of our directors would meet the independence requirements of the Nasdaq Capital Market, if such standards applied to the Company. 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 Independence

Our Board of Directors has reviewed the materiality of any relationship that each of our directors has with us, either directly or indirectly. Based on this review, our Board of Directors has determined that all directors except Danny Schoening are independent within the meaning of the NASDAQ Rules.

Section 16(a) Beneficial Ownership Reporting Compliance

We do not intend to report compliance thereunder in our proxy statement.

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, Danny Schoening 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 officers and directors 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 our 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	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$ (2))	Option Awards (\$ (1))	All Other Compensation (\$)	Total (\$)
Danny Schoening, CEO & Board Chairman	2020	\$ 284,645	\$ 74,719	\$ 110,670	\$ -	\$ -	\$ 470,034
	2019	279,504	76,216	73,740	-	-	429,460
	2018	262,417	152,432	93,000	4,273	-	512,122
Karen Hawkins CFO & Board Director	2020	\$ 205,425	\$ 53,924	\$ 36,890	\$ -	\$ -	\$ 296,239
	2019	201,537	55,691	24,580	-	-	281,808
	2018	188,055	55,691	31,000	2,137	-	276,883
Bill Bates AOC GM & Board Director	2020	\$ 150,834	\$ 22,236	\$ 35,805	\$ -	\$ -	\$ 208,875
	2019	148,269	28,561	15,675	\$ -	-	192,505
	2018	140,220	28,044	19,210	-	-	187,474
Stanley A. Hirschman, President, resigned ⁽³⁾	2018	\$ -	\$ -	\$ -	\$ 2,137	\$ -	\$ 2,137

(1)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 2014 through fiscal 2016, as required by FASB ASC 718, disregarding any estimates for forfeitures relating to service-based vesting conditions. For the assumptions relating to these valuations, see note 10 to our fiscal 2014 audited financial statements.

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(2)On June 15, 2016, the Company issued 150,000 RSUs to its Chief Executive Officer, Danny Schoening, and 50,000 RSUs to its Chief Financial Officer, Karen Hawkins. The RSUs issued to Mr. Schoening and Ms. Hawkins vest as follows: 34% on January 1, 2017, 33% on January 1, 2018 and 33% on January 1, 2019. The total market value of the restricted stock units based on the shares price of \$1.85 as of June 15, 2016 is \$372 thousand. The restricted stock units were fully vested on January 1, 2019. On June 15, 2017, the Company issued 50,000 RSUs to its General Manager (Applied Optical Products). The RSUs issued to Mr. Bates vest as follows: 34% on January 1, 2018, 33% on January 1, 2019 and 33% on January 1, 2020. The total market value of the restricted stock units granted to Mr. Bates based on the shares price of \$0.95 as of June 15, 2017 is \$47.5 thousand. On January 2, 2019, the Company issued 150,000 RSUs to its Chief Executive Officer, Danny Schoening, and 50,000 RSUs to its Chief Financial Officer, Karen Hawkins. The RSUs issued to Mr. Schoening and Ms. Hawkins vest as follows: 34% on January 1, 2020, 33% on January 1, 2021 and 33% on January 1, 2022. The total market value of the restricted stock units based on the shares price of \$1.32 as of January 2, 2019 is \$264 thousand. The cost of the shares is amortized on a straight line basis across the vesting periods. The amounts in the "Stock 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 the fiscal years, as required by FASB ASC 718 (prior authoritative literature SFAS 123(R), disregarding any estimates for forfeitures relating to service-based vesting conditions.

(3)Stanley Hirschman retired as our President as of July 20, 2017 and resigned as a director effective on November 4, 2015.

Option Grants in Last Fiscal Year

There were no Option Grants during the twelve months ended September 27, 2020 or September 29, 2019.

Employment Agreements - Danny Schoening

We 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 has automatically renewed through December 1, 2020. The term of the agreement shall be automatically extended for successive 18-month periods, unless we shall provide a written notice of termination at least ninety (90) days, or 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.

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 our 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.

The employment agreement events of termination consist of: (i) death of Mr. Schoening; (ii) termination by us 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 us and (iv) termination by Mr. Schoening for good reason (including breach by us 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 us or our successor changing ownership or a sale of all or substantially all of our assets, without the surviving entity assuming the obligations under the agreement). For a termination by us 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 us 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.

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We entered into an updated employment agreement with Danny Schoening dated October 15, 2020. The term of the agreement commenced as of October 15, 2020 and the current term ends on November 30, 2021. Mr. Schoening's base salary continues to be \$284,645 per annum. Mr. Schoening will be eligible for a performance bonus which is based upon a rolling three-year operating plan adopted by our Board of Directors. The bonus will be tied to operating metrics decided by our board against the three-year plan, and such metrics will be decided annually and tie to the three-year plan. The target bonus equates to 30% of Mr. Schoening's base salary. Our board will have discretion to alter the performance bonus upward or downward by 20% based on its good faith discretion.

The employment agreement events of termination consist of: (i) death or permanent disability of Mr. Schoening; (ii) termination by us 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 us and (iv) termination by Mr. Schoening for good reason (including breach by us 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 us or our successor changing ownership or a sale of all or substantially all of our assets, without the surviving entity assuming the obligations under the agreement). For a termination by us for cause or upon death or permanent disability of Mr. Schoening, Mr. Schoening shall be paid salary and for a termination due to his death or permanent disability, also any bonus earned through the date of termination. For a termination by us without cause or by

Mr. Schoening with good reason, Mr. Schoening shall also be paid six months' base salary in effect.

- On November 4, 2016, our Board of Directors Compensation Committee held a meeting and approved a bonus payment of \$48.9 thousand awarded to Danny Schoening for 2016 performance.
- On March 31, 2017, our Board of Directors Compensation Committee held a meeting and approved a base salary increase of 4% for Danny Schoening, CEO.
- On June 9, 2017, through Unanimous Written Consent, our Board of Directors approved an amendment to Danny Schoening's employment agreement to increase his annual bonus from a maximum of 30% to 60% of his base salary.
- On December 19, 2017, our Board of Directors approved a bonus payment of 60% of the base salary, or \$152.4 thousand for 2017 performance.
- On November 20, 2018, the Company's Board of Directors approved a 30% bonus payable in December 2018, an 8% salary increase as of January 1, 2019 and the issuance of 150,000 restricted stock units with a January 2, 2019 grant date, vesting as of January 1 each year subsequent to the grant date over a three year period at a rate of 34% in year one, and 33% each year thereafter. The base salary effective as of January 1, 2019 is \$284,645.
- On November 19, 2019, the Company's Board of Directors approved an executive bonus for Danny Schoening, CEO of \$75 thousand to be paid December 2019.
- On December 15, 2020, the Company's Board of Directors approved an executive bonus for Danny Schoening, CEO of \$48 thousand to be paid January 2021.

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Karen Hawkins

On August 4, 2016, our Board of Directors approved an employment agreement for Karen Hawkins, Chief Financial Officer, dated as of August 1, 2016. This agreement has the following salient terms:

- The term of the agreement commenced on August 1, 2016 and expires on January 31, 2018 and automatically renews for subsequent 18-month periods unless Ms. Hawkins or we give notice of termination at least 90 days before the end of the term then in effect. As of July 31, 2019, the contract automatically renewed to January 31, 2021.
- On each subsequent renewal date of the commencement of employment, Hawkins' 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 and Ms. Hawkins is entitled to annual bonuses of up to 30% of her base salary as approved by the Board.
- Ms. Hawkins is entitled to 15 days' vacation and all other benefits accorded to our other senior executives.
- The employment agreement events of termination consist of: (i) death of Ms. Hawkins; (ii) termination by us for cause (including conviction of a felony, commission of fraudulent acts, willful misconduct by Ms. Hawkins, continued failure to perform duties after written notice, violation of securities laws and breach of the employment agreement), (iii) termination without cause by us and (iv) termination by Ms. Hawkins for good reason (including breach by us of its obligations under the agreement, the requirement for Ms. Hawkins to move more than 100 miles away for her employment without consent, and merger or consolidation that results in more than 66% of the combined voting power of the then outstanding securities of us or our successor changing ownership or a sale of all or substantially all of our assets, without the surviving entity assuming the obligations under the agreement). For a termination by us for cause or upon death of Ms. Hawkins, Ms. Hawkins shall be paid salary and bonus earned through the date of termination. For a termination by us without cause or by Ms. Hawkins with good reason, Ms. Hawkins 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.
- On November 4, 2016, our Board of Directors Compensation Committee held a meeting and approved a bonus payment of \$35.7 thousand awarded to Karen Hawkins for 2016 performance.
- On March 31, 2017, our Board of Directors Compensation Committee held a meeting and approved a base salary increase of 4% for Karen Hawkins, CFO.
- On December 19, 2017, our Board of Directors approved a bonus payment of 30% of the base salary, or \$55.7 thousand for 2017 performance.
- On November 20, 2018 the Company's board of directors approved a 30% bonus payable in December 2018, or \$55.7 thousand, and an 8% salary increase as of January 1, 2019, and the issuance of 50,000 restricted stock units with a January 2, 2019 grant date, vesting as of January 1 each year subsequent to the grant date over a three year period at a rate of 34% in year one, and 33% each year thereafter. The base salary effective as of January 1, 2019 is \$205,425.
- On November 19, 2019, the Company's Board of Directors approved an executive bonus for Karen Hawkins, CFO of \$54 thousand to be paid in December 2019.
- On December 15, 2020, the Company's Board of Directors approved an executive bonus for Karen Hawkins, CFO of \$37 thousand to be paid in December 2020.

We do not have any other employment agreements with our executive officers and directors.

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Equity Compensation Plan Information

We currently have an option compensation plan covering the issuance of both incentive and non-statutory options, determined at the time of grant, for the purchase of up to 75,000 shares, which was increased from 50,000 shares on December 19, 2013. The purpose of the Plan is to assist us in attracting and retaining highly competent employees and to act as an incentive in motivating selected officers and other employees of us and our subsidiaries, and directors and consultants of us and our subsidiaries, to achieve long-term corporate objectives. On December 19, 2013, the Board of Directors authorized the grant of 20,000 options to three board members and a grant of 5,000 to an officer. There are 75,000 shares of common stock reserved for issuance under this Plan.

As of September 29, 2019, there were 25,000 fully vested stock options outstanding at an exercise price of \$10 per share and an expiration date of December 18, 2020. During the twelve months ended September 27, 2020, all 25,000 outstanding stock options were repurchased at \$0.01 per option for a total transaction of \$250. There were no new grants of stock options during the twelve months ended September 27, 2020. As of September 27, 2020, there are zero stock options outstanding.

Restricted Stock Units issued to Officers and Employees

On June 14, 2016, the Compensation Committee ("Committee") of the Board of Directors of Optex Systems Holdings, Inc. approved the Company's 2016 Restricted Stock Unit Plan (the "Plan"). The Plan provides for the issuance of stock units ("RSU") for up to 1,000,000 shares of the Company's common stock to Optex Systems Holdings officers and employees. Each RSU constitutes a right to receive one share of the Company's common stock, subject to vesting, which unless otherwise stated in an RSU

agreement, shall vest in equal amounts on the first, second and third anniversary of the grant date. Shares of the Company's common stock underlying the number of vested RSUs will be delivered as soon as practicable after vesting. During the period between grant and vesting, the RSUs may not be transferred, and the grantee has no rights as a shareholder until vesting has occurred. If the grantee's employment is terminated for any reason (other than following a change in control of the Company or a termination of an officer other than for cause), then any unvested RSUs under the award will automatically terminate and be forfeited. If an officer grantee's employment is terminated by the Company without cause or by the grantee for good reason, then, provided that the RSUs have not been previously forfeited, the remaining unvested portion of the RSUs will immediately vest as of the officer grantee's termination date. In the event of a change in control, the Company's obligations regarding outstanding RSUs shall, on such terms as may be approved by the Committee prior to such event, immediately vest, be assumed by the surviving or continuing company or cancelled in exchange for property (including cash).

On June 15, 2016, the Company issued 150,000 RSUs to its Chief Executive Officer, Danny Schoening, and 50,000 RSUs to its Chief Financial Officer, Karen Hawkins. The RSUs issued to Mr. Schoening and Ms. Hawkins vest as follows: 34% on January 1, 2017, 33% on January 1, 2018 and 33% on January 1, 2019. The total market value of the restricted stock units based on the shares price of \$1.85 as of June 15, 2016 is \$372 thousand. The cost of the shares is amortized on a straight line basis across the vesting periods.

On January 5, 2017, Optex Systems Holdings issued 45,799 common shares related to the vesting of the 68,000 restricted stock units on January 1, 2017. The shares issued were net of 22,201 common shares withheld for employee federal income tax requirements.

On June 15, 2017, the Company issued 50,000 RSUs to its Applied Optics Center General Manager and new board member, Bill Bates. Pursuant to the RSU agreements the RSUs issued to Mr. Bates will vest as follows: 34% on January 1, 2018, 33% on January 1, 2019 and 33% on January 1, 2020. The total market value of the restricted stock units based on the shares price of \$0.95 as of June 15, 2016 is \$47.5 thousand. The cost of the shares is amortized on a straight line basis across the vesting periods.

On January 2, 2018 the Company issued 55,902 common shares related to the vesting of 83,000 restricted stock units on January 1, 2018. The shares issued were net of 27,098 common shares withheld for employee federal income tax requirements.

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On November 20, 2018 the Company's board of directors approved the issuance of 150,000 and 50,000 restricted stock units to Danny Schoening and Karen Hawkins, respectively, with a January 2, 2019 grant date, vesting as of January 1 each year subsequent to the grant date over a three-year period at a rate of 34% in year one, and 33% each year thereafter. The total market value of the restricted stock units based on the shares price of \$1.32 as of January 2, 2019 is \$264 thousand.

On January 7, 2019, the Company issued 55,565 common shares to three directors and officers, net of tax withholding of \$37 thousand, in settlement of 82,500 restricted stock units which vested on January 1, 2019.

On January 7, 2020, the Company issued 59,447 common shares to one director and two officers, net of tax withholding of \$54 thousand, in settlement of 84,500 restricted stock units which vested on January 1, 2020.

On February 17, 2020, the Company granted 50,000 restricted stock units to Bill Bates, General Manager of the Applied Optics Center. The restricted stock units vest as of January 1 each year subsequent to the grant date over a three-year period at a rate of 34% in year one, and 33% each year thereafter. The stock price at grant date was \$2.13 per share. The Company will amortize the grant date fair market value of \$107 thousand to stock compensation expense on a straight-line basis across the three-year vesting period beginning on February 17, 2020.

As of September 27, 2020, there are 182,000 outstanding unvested restricted stock units remaining to vest, of which 83,000 will vest as of January 1, 2020 and the remaining 99,000 will vest on January 1, 2021 and January 1, 2022 and January 1, 2023.

Restricted Shares Issued to Independent Board Members

On April 30, 2020, the Optex Systems Holdings, Inc. Board of Directors held a meeting and voted to increase the annual board compensation for the three independent directors from \$22,000 to \$36,000 with an effective date of January 1, 2020, in addition to granting 100,000 restricted shares to each independent director which shall vest at a rate of 20% per year (20,000 shares) each January 1st, over the next five years, through January 1, 2025. The total market value for the 300,000 shares is \$525 thousand based on the stock price of \$1.75 as of April 30, 2020. The Company will amortize the fair market value to stock compensation expense on a straight-line basis across the five-year vesting period beginning on April 30, 2020. As of period ended September 27, 2020, none of the restricted shares had vested.

Consulting and Vendor Equity Compensation

There was no equity compensation to consultants or vendors during the years ended September 27, 2020 or September 29, 2019.

Nonqualified deferred compensation

We had no non-qualified deferred compensation plans during year ended September 27, 2020.

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 and Ms. Hawkins 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.

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Director Compensation

The following table provides information regarding compensation paid to directors for services rendered during the year ended September 27, 2020.

Name	Fees Earned or Paid in Cash (\$) ⁽¹⁾
Rimmy Malhotra	\$ 30,667
Larry Hagenbuch	30,667
Dale Lehmann	30,667
Danny Schoening	-

(1) Director fees paid quarterly from October 2019 through September 2020.

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 Danny Schoening, our directors are compensated separately for service as independent members of our board of directors.

On November 14, 2019, the Board of Directors reviewed the independent director compensation and concluded to leave the pay as is currently in place for former independent directors, currently set at \$5.5 thousand per quarter served. The board determined to revisit the independent board compensation during the first calendar quarter of 2020.

On April 30, 2020, the Optex Systems Holdings, Inc. Board of Directors held a meeting and voted to increase the annual board compensation for the three independent directors from \$22,000 to \$36,000 with an effective date of January 1, 2020, in addition to granting 100,000 restricted shares to each independent director which shall vest at a rate of 20% per year (20,000 shares) each January 1st, over the next five years, through January 1, 2025. The total market value for the 300,000 shares is \$525 thousand based on the stock price of \$1.75 as of April 30, 2020.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

On December 10, 2020, we had 8,519,728 shares of common stock outstanding, 4,125,200 warrants, and 182,000 granted and unvested restricted stock units. The following table sets forth certain information with respect to the beneficial ownership of our securities as of December 10, 2020, for (i) each of our directors and executive officers; (ii) all of our directors and executive officers as a group (not noting our three new directors who have not yet been issued any stock or options which have vested); 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 or convertible into shares of our common stock within 60 days of December 10, 2020 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 our corporate headquarters.

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Except as otherwise set forth below, the address of each of the persons listed below is our address.

<u>Title of Class</u>	<u>Name of Beneficial Owner</u>	<u>Number of Shares</u>	<u>Percentage of Outstanding Shares</u>
5% Holders	Gate City Capital Management LLC ⁽¹⁾	1,417,518	16.5%
	Ephraim Fields ⁽²⁾	1,179,174	13.7%
Directors and Officers:	Danny Schoening ⁽³⁾	854,006	9.9%
	Karen Hawkins ⁽⁴⁾	244,536	2.8%
	Bill Bates ⁽⁵⁾	51,171	0.6%
Directors and officers as a group (3 Individuals) ⁽⁶⁾		1,149,713	13.4%

1 Represents 1,320,609 common shares reported as held by Gate City Capital Management LLC, 70 West Madison Street, Suite 1400 Chicago, IL 60602 on SEC schedule 13G/A (filed on February 13, 2019).

2 Represents 1,179,174 common shares reported as held by Ephraim Fields (c/o Echo Lake Capital) located at 501 Madison Avenue, Floor 12A New York, NY 10022 on SEC schedule 13D (filed on October 3, 2019).

3 Includes common shares held of 796,206, restricted stock units of 49,500 expected to vest on January 1, 2021, and 8,300 warrants.

4 Represents common shares held of 228,036 and restricted stock units of 16,500 expected to vest on January 1, 2021.

5 Represents common shares held of 34,171 and restricted stock units of 17,000 expected to vest on January 1, 2021.

6 Represents common shares, options, and warrants held by Danny Schoening, Karen Hawkins, and Bill Bates.

Certain Relationships and Related Transactions, and Director Independence

None

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.

Director Independence

As of the date of filing of this Annual Report, the Company has three independent directors, as such term is defined under NASDAQ standards and one non independent director.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

None.

Compensation Committee Interlocks and Insider Participation

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. We are not providing disclosure on this point.

PROPOSAL NO. 1

THE ELECTION OF DIRECTORS

General

Four directors are to be elected at this Annual Meeting to serve until the 2021 annual meeting of shareholders or until for each a successor has been elected and qualified. Unless otherwise instructed, the persons named in the accompanying proxy intend to vote the shares represented by the proxy for the election of the nominees listed below. Although it is not contemplated that the nominees will decline or be unable to serve as directors, in such event, proxies will be voted by the proxy holder for such other persons as may be designated by the Board, Election of the directors requires a plurality of the votes cast at the Annual Meeting.

The following table sets forth the nominees for the Board of Directors. See “Management” for a description of the directors as of the Record Date.

Nominee for Director

Name	Age	Position
Danny Schoening	56	Chairman and Director, Chief Executive Officer, Chief Operating Officer
Larry Hagenbuch	54	Director, Audit Committee Chair (<i>appointed November 4, 2019</i>)
Dale Lehmann	62	Director (<i>appointed November 4, 2019</i>)
Rimmy Malhotra	45	Director, Compensation Committee Chair (<i>appointed November 4, 2019</i>)

Vote Required

The affirmative vote of a majority of votes cast for this proposal is required to approve the election of directors until the 2022 annual meeting of shareholders and until their respective successors have been duly elected and qualified, or until such director’s earlier resignation, removal or death.

Independence

The Board believes all directors except Mr. Schoening meet the definition of independence under SEC and Nasdaq rules.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” PROPOSAL NO. 1.

PROPOSAL NO. 2

THE RATIFICATION OF THE APPOINTMENT OF WHITLEY PENN LLP AS THE COMPANY’S INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2021

The Board of Directors has appointed Whitley Penn LLP (“Whitley Penn”) as our independent registered certified public accounting firm for the fiscal year 2021 and has further directed that the selection of Whitley Penn be submitted to a vote of shareholders at the Annual Meeting for ratification.

As described below, the shareholder vote is not binding on the Board. If the appointment of Whitley Penn is not ratified, the Board will evaluate the basis for the shareholders’ vote when determining whether to continue the firm’s engagement, but may ultimately determine to continue the engagement of the firm or another audit firm without re-submitting the matter to shareholders. Even if the appointment of Whitley Penn is ratified, the Board may in its sole discretion terminate the engagement of the firm and direct the appointment of another independent auditor at any time during the year if it determines that such an appointment would be in the best interests of our Company and our shareholders.

Representatives of Whitley Penn are expected to attend the Annual Meeting, where they will be available to respond to appropriate questions and, if they desire, to make a statement.

Vote Required

The affirmative vote of the majority of the votes cast at the Annual Meeting is required for the ratification of the appointment of Whitley Penn as the Company’s independent registered public accounting firm for the fiscal year ending October 3, 2021.

The following table sets forth the fees paid to date for audit services rendered during fiscal years ended September 27, 2020 and September 29, 2019, respectively.

Fee Category	2020	2019
Audit Fees ⁽¹⁾	\$ 89,802	\$ 75,650
Audit-Related Fees-registration statement consents ⁽²⁾	-	5,000
Tax Fees	7,613	7,300

(1) Audit Fees are fees for professional services performed 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 September 27, 2020 and September 29, 2019, 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.

Audit fees consist of fees related to professional services rendered in connection with the audit of our annual financial statements. All other fees relate to professional services rendered in connection with the review of the quarterly financial statements.

Our policy is to pre-approve all audit and permissible non-audit services performed by the independent accountants. These services may include audit services, audit-related services, tax services and other services. Under our audit committee's policy, pre-approval is generally provided for particular services or categories of services, including planned services, project based services and routine consultations. In addition, the audit committee may also pre-approve particular services on a case-by-case basis. Our audit committee approved all services that our independent accountants provided to us in the past two fiscal years.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" PROPOSAL NO. 2.

PROPOSAL NO. 3 - OTHER MATTERS

The Board knows of no matter to be brought before the Annual Meeting other than the matters identified in this proxy statement. However, if any other matter properly comes before the Annual Meeting or any adjournment of the meeting, it is the intention of the persons named in the proxy solicited by the Board to vote the shares represented by them in accordance with their best judgment.

SHAREHOLDER PROPOSALS FOR THE 2022 MEETING

Our bylaws provide that, for matters to be properly brought before an annual meeting, business must be either (i) specified in the notice of annual meeting (or any supplement or amendment thereto) given by or at the direction of the Board of Directors, (ii) otherwise brought before the annual meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the annual meeting by a shareholder.

Shareholder proposals intended for inclusion in our proxy statement relating to the next annual meeting in 2022 must be received by us no later than January 7, 2022. If the date of next year's annual meeting is moved by more than 30 days before or after the anniversary date of this year's Annual Meeting, then the deadline for inclusion of a shareholder proposal in our proxy materials is instead a reasonable time before we begin to print and send our proxy materials for that meeting. Any such proposal must comply with Rule 14a-8 of Regulation 14A of the proxy rules of the SEC.

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Notice to us of a shareholder proposal submitted otherwise than pursuant to Rule 14a-8 also will be considered untimely if received at our principal executive offices other than during the time period set forth below and will not be placed on the agenda for the meeting. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to our secretary. To be timely, a shareholder's notice must be delivered to the secretary at our principal executive offices not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than thirty (30) days before or more than seventy (70) days after such anniversary date, notice by the shareholder must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by us.

ANNUAL REPORT

Upon written request to Secretary, Optex Systems Holdings, Inc. at 1420 Presidential Drive, Richardson, TX 75081, we will provide without charge to each person requesting a copy of our 2019 Annual Report, including the financial statements filed therewith. We will furnish a requesting shareholder with any exhibit not contained therein upon specific request. In addition, this Proxy Statement, as well as our 2019 Annual Report, are available on our Internet website at www.optexsys.com

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Danny Schoening

Danny Schoening

Chairman of the Board of Directors

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APPENDIX A

PROXY CARD

A-1

OPTEX SYSTEMS HOLDINGS, INC

1420 PRESIDENTIAL DRIVE RICHARDSON TX 75081

VOTE BY INTERNET - proxyvote.equitystock.com

Use the Internet to vote by proxy up until 7:00 P.M. Eastern Time on February 24, 2021. Have your proxy card in hand when you access the website and then follow the instructions. Enter the 12 digit Control Number below and follow the instructions to vote your proxy.

VOTE BY MAIL

Mark, sign, and date this proxy card and promptly return it in the enclosed envelope to EQUITY STOCK TRANSFER, 237 W 37TH ST, Suite 602, New York, NY 10018, ATTN: Shareholder Services.

VOTE BY FAX or BY EMAIL

Mark, sign, and date this proxy card and promptly return it by fax: (646) 201-9006 ATTN: Shareholder Services or by email: proxy@equitystock.com ATTN: Shareholder Services.

CONTROL#

Optex Systems Holdings, Inc.

The undersigned hereby appoints Danny Schoening, the true and lawful proxy of the undersigned, with full power of substitution, to vote all shares of the common stock, of Optex Systems Holdings, Inc., which the undersigned is entitled to vote at the Annual Meeting (the "Meeting") of stockholders of Optex Systems Holdings, Inc., to be held at 10:00 AM Local time on February 24, 2021 virtually and any and all adjournments or postponements thereof on the proposals set forth below and any other matters properly brought before the Meeting.

CONTROL#

The Board of Directors recommends a vote "FOR" for each Proposal.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

1. To elect four directors for a one-year term expiring in 2022.

Nominees:

- 1a. Danny Schoening
- 1b. Larry Hagenbuch
- 1c. Dale Lehmann
- 1d. Rimmy Malhotra

For	Withhold
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

2. The ratification of the appointment of Whitley Penn, LLP, as the Company's independent registered certified public accountant for the fiscal year ending October 27, 2021.

For	Against	Abstain
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please sign exactly as your name appears hereon. When signing as attorney, executor, administrator, trustee, guardian, or corporate officer, please indicate full title as such. Joint owners should each sign personally. All holders must sign. If a corporation, please sign the full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

APPENDIX B

ANNUAL REPORT ON FORM 10-K

B-1

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

FORM 10-K

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

For the fiscal year ended September 27, 2020

For the transition period from ___ until ___

Commission File Number 000-54114

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) 764-5700**

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 [X]

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 [X]

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 [X] No []

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit post such files). Yes [X] 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. [X]

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 [] Accelerated filer []
Non-accelerated filer [X] Smaller reporting company [X]

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

[] Emerging growth company

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None.		

The aggregate market value of the 4,673,802 shares of voting stock held by non-affiliates of the registrant based on the closing price on the OTCQB on March 27, 2020 was \$7,805,249.

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 10, 2020
Common Stock	8,519,728

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 annual report. 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

Current Line of Business

We manufacture optical sighting systems and assemblies, primarily for Department of Defense applications. Our 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. We also manufacture and deliver numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Our 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 us.

We continue to field new product opportunities from both domestic and international customers. Given continuing unrest in multiple global hot spots, the need for precision optics continues to increase. Most of these requirements are for observation and situational awareness applications; however, we continue to see requests for higher magnification and custom reticles in various product modifications. The basic need to protect the soldier while providing information about the mission environment continues to be the primary driver for these requirements.

Recent Events

New Employment Agreement for Danny Schoening

We entered into an updated employment agreement with Danny Schoening dated October 15, 2020. The term of the agreement commenced as of October 15, 2020 and the current term ends on November 30, 2021. Mr. Schoening's base salary continues to be \$284,645 per annum. Mr. Schoening will be eligible for a performance bonus which is based upon a rolling three-year operating plan adopted by our Board of Directors. The bonus will be tied to operating metrics decided by our board against the three-year plan, and such metrics will be decided annually and tie to the three-year plan. The target bonus equates to 30% of Mr. Schoening's base salary. Our board will have discretion to alter the performance bonus upward or downward by 20% based on its good faith discretion.

The employment agreement events of termination consist of: (i) death or permanent disability of Mr. Schoening; (ii) termination by us 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 us and (iv) termination by Mr. Schoening for good reason (including breach by us 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 us or our successor changing ownership or a sale of all or substantially all of our assets, without the surviving entity assuming the obligations under the agreement). For a termination by us for cause or upon death or permanent disability of Mr. Schoening, Mr. Schoening shall be paid salary and for a termination due to his death or permanent disability, also any bonus earned through the date of termination. For a termination by us without cause or by Mr. Schoening with good reason, Mr. Schoening shall also be paid six months' base salary in effect.

On December 15, 2020, the Company's Board of Directors approved executive bonuses for Danny Schoening, CEO, of \$48 thousand to be paid in January, 2021, and Karen Hawkins, CFO, of \$37 thousand to be paid in December 2020.

Board Changes

On April 30, 2020, the Optex Systems Holdings, Inc. Board of Directors held a meeting and voted to increase the annual board compensation for the three independent directors from \$22,000 to \$36,000 with an effective date of January 1, 2020, in addition to granting 100,000 restricted shares to each independent director which shall vest at a rate of 20% per year (20,000 shares) each January 1st, over the next five years, through January 1, 2025. The total market value for the 300,000 shares is \$525 thousand based on the stock price of \$1.75 as of April 30, 2020.

Stock & Warrant Repurchases

On June 8, 2020 the Company announced authorization for a \$1 million stock repurchase program. The shares authorized to be repurchased under the new repurchase program may be purchased from time to time at prevailing market prices, through open market or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC. During the year ended September 27, 2020, there were 105,733 common shares repurchased through the program at a cost of \$200 thousand. The shares have been returned to the Treasury.

On June 26, 2019, we repurchased 88,081 of the outstanding warrants from private investors at a warrant price of \$0.85 per warrant, for a total purchase price of \$75 thousand. Upon repurchase, the warrants were cancelled.

Recent Orders

- On November 19, 2018, the Company announced a follow on \$0.9 million order from an international customer for its patented Digital Day Digital Night (DDAN) Weapon System with deliveries through 2021.
- On November 26, 2018, the Company announced a \$1.9 million order from Defense Logistics Agency Land and Maritime for Laser Protected Periscopes for delivery in 2019 and 2020.

-
- On January 29, 2019, the Company announced a \$1.0 million order associated with a multi-year agreement to supply a variety of optical components in support of the M1 Abrams Tank program. The products will be manufactured at the Applied Optics Center (AOC).
 - On February 12, 2019, the Company announced a \$1.9 Million order from Defense Logistics Agency Troop Support, Philadelphia. The products will be manufactured at the Applied Optics Center (AOC) Division of Optex Systems, Inc.
 - On March 4, 2019, the Company announced a multi-year Indefinite Delivery Indefinite Quantity (IDIQ) award from Defense Logistics Agency Land and Maritime for periscopes for up to \$1.3 Million over a three to five year period and a Firm Fixed Price award for \$0.7 Million for 2019 and 2020 delivery.
 - On June 10, 2019, the Company announced it has been awarded a \$1.3 Million order as part of a multi-year strategic supplier agreement with a domestic manufacturer of premium optical devices.
 - On November 12, 2019, the Company announced a multi-year Indefinite Delivery Indefinite Quantity (IDIQ) award from Defense Logistics Agency Land and Maritime for periscopes for up to \$2.3 Million over a five-year period.
 - On December 3, 2019 the Company announced a shared award for a maximum of \$35 Million for Improved Commander Weapon System (ICWS) periscopes under a three-year Indefinite Delivery - Indefinite Quantity (IDIQ) contract with two additional optional years. Optex and another recipient have been awarded this shared award from Defense Logistics Agency, Land and Maritime. Each company's portion of the award will depend on price and performance over the ordering periods.
 - On January 22, 2020, the Company announced it has been awarded a \$1.1 Million order as part of a multi-year strategic supplier agreement with a domestic manufacturer of premium optical devices. The products will be manufactured at the Applied Optics Center (AOC) Division of Optex Systems, Inc.
 - On January 27, 2020, the Company announced a multi-year Indefinite Delivery Indefinite Quantity (IDIQ) award from Defense Logistics Agency Land and Maritime for periscopes for up to \$3.6 million over a five-year period.
 - On February 18, 2020, the Company announced a multi-year Indefinite Delivery Indefinite Quantity (IDIQ) award from Defense Logistics Agency Land and Maritime for periscopes for up to \$9.2 million over a five-year period.
 - On August 3, 2020, the Company announced a \$2.0 Million order from a U. S. prime contractor for optical subassemblies for shipments starting in 2021.

Products

Our products are installed on various types of U.S. military land vehicles, such as the Abrams and Bradley, and Stryker families of fighting vehicles, as well as light armored and armored security vehicles. We also manufacture and deliver numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. We deliver our products both directly to the federal government and to prime contractors.

On August 31, 2020, the Company announced it is now offering mil-spec quality High Efficiency Anti-Reflective Coatings for Infrared applications in both the military and commercial markets. These coatings will be manufactured at the Applied Optics Center (AOC) Division of Optex Systems, Inc. in Dallas, Texas.

We deliver high volume products, under multi-year contracts, to large defense contractors and government customers. Increased emphasis in the past two years has been on new opportunities to promote and deliver our products in foreign military sales, where U.S.-manufactured, combat and wheeled vehicles, are supplied (and upgraded) in cooperation with the U.S. Department of Defense. 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.

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Specific product categories are grouped by product line and include:

<u>Product Line</u>	<u>Product Category</u>
Periscopes	Laser & Non-Laser Protected Plastic & Glass Periscopes, Electronic M17 Day/Thermal Periscopes, Vision Blocks
Sighting Systems	Back Up Sights, Digital Day and Night Sighting Systems (DDAN), M36 Thermal Periscope, Unity Mirrors
Howitzers	M137 Telescope, M187 Mount, M119 Aiming Device
Other	Muzzle Reference Systems (MRS), Binoculars, Collimators, Optical Lenses & Elements, Windows
Applied Optics Center	Laser Filter Interface, Optical Assemblies, ACOG Laser filter, Day Windows, Binoculars

Location and Facility

We are headquartered in Richardson, TX and lease approximately 93,967 combined square feet of facilities between Richardson, Texas and Dallas, Texas. As of December 10, 2020, we had 98 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 renewed the lease on our 49,100 square foot, Richardson, Texas facility, effective as of December 10, 2013, with a lease expiration of March 31, 2021. As of December 10, 2020, the Richardson facility operated with 62 full time equivalent employees in a single shift operation.

In November 2014, we acquired the Applied Optics Center (formerly a business unit of L-3 Communications, Inc.), which is located in Dallas, Texas with leased premises consisting of approximately 44,867 square feet of space. As of December 10, 2020, the Applied Optics Center operated with 36 full time equivalent employees in a single shift operation.

Contracts

Some of our contracts may 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 any contracts allow for progress payments and the respective contracts would result in significant preproduction cash requirements for design, process development, tooling, material or other resources which could exceed our current working capital or line of credit availability, we intend to utilize this benefit to minimize any potential negative impact on working capital prior to receipt of payment for the associated contract deliveries.

Our contracts allow for Federal Acquisition Regulation 52.243-1 which entitles the contractor to an "equitable adjustment" for contract or statement of work changes effecting cost 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 U.S. 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 U.S. 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.

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Each contract with our customers has specific quantities of material that need to be purchased, assembled, and then shipped. Prior to bidding a contract, we contact potential sources of material and receive qualified quotations for each 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 we would attempt to find an acceptable alternate supplier, and if successful, we would then renegotiate contractual deliverables (e.g., specifications, delivery or price). As of December 6, 2020, approximately 4% of our material requirements are single-sourced across 12 suppliers representing approximately 31% of our active supplier order values. 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 (FAR)

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. This 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 (ITAR) 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 (TINA)

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 of \$2 million for contracts entered into after June, 30, 2018. The law 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. A contracting officer may still request cost or price data, if necessary, without certification, to determine whether the proposed cost or price is fair and reasonable for contracts which are below the threshold.

We are responsible for full compliance with the Federal Acquisition Regulation (FAR). Upon award, the contract may identify certain regulations that we need to meet. For example, a contract may allow progress billing pursuant to specific FAR clauses incorporated into the contract. Other contracts may call for specific first article acceptance and testing requirements. The FAR will identify the specific regulations that we must follow based on the type of contract awarded and 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 which could be comprehensive and time consuming. The dimensions and material specifications of each piece of the assembly must be verified, and some products may have in excess of 100 assembled 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.

We are 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 (ITAR). 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. We currently have 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 we currently use are the Department of State licenses: DSP-5 (permanent export), DSP-6 (license revisions) and DSP-73 (temporary export) and Department of Commerce: BIS-711 (export).

The aforementioned licenses are valid for 48 months from date that each license is issued. A summary of our active ITAR licenses is presented below (updated as of December 10, 2020):

Active ITAR Licenses	Fiscal Year of Expiration	Number of Licenses	Total Contract Value of Licenses
DSP-5			
Issued in 2017	2021	6	\$ 1,686,003
Issued 2018	2022	8	2,742,658
Issued 2019	2023	3	20,921,961
Issued 2020	2024	4	64,294
Total DSP-5 Licenses		21	\$ 25,414,916
DSP-6 (no active licenses)	N/A	—	\$ —
DSP-73			
Issued in 2019	2023	1	\$ 4,000
Total DSP-73 Licenses		1	\$ 4,000
BIS-711			
Issued in 2017	2021	8	1,708,894
Issued in 2018	2022	4	\$ 113,907
Issued in 2019	2023	4	3,416
Issued in 2020	2024	5	92,554
Total BIS-711 Licenses		21	\$ 1,918,771
Total All Licenses		43	\$ 27,337,687

These licenses are subject to termination if a licensee is found to be in violation of the Arms Export Control Act or the ITAR 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.

Our contracts may also be governed by the Truth in Negotiation Act (TINA) requirements where certain of our contracts or proposals exceed the TINA threshold (\$2 million for awards after June 30, 2018), and/or are deemed as sole source, or non-competitive awards, covered under this act. For these contracts, we 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, we could be subjected to a defective pricing claim adjustment with accrued interest. We have no history of defective pricing claim adjustments and have no

outstanding defective pricing claims pending. Additionally, as a result of this requirement, contract price negotiations may span from two to six months and can result in undefinitized or not to exceed ceiling priced contracts subject to future downward negotiations and price adjustments. Currently, we do 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 noncompliance.

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The terms of our material contracts as of September 27, 2020, are as follows:

Customer	Customer PO/Contract	Contract Type ⁽¹⁾	Total Award Value ⁽²⁾ (millions)	Remaining Value ⁽³⁾ (millions)	Delivery Period
GDLS - Canada ⁽⁴⁾ Periscopes	Subcontract PO 35506523	FFPQ	\$ 1.6	\$ 0.3	Dec 2017- Feb 2022
DLA Land at Aberdeen ⁽⁵⁾ Laser Filter Assemblies (AOC)	Prime SPRBL1-17-D-0008	IDIQ	\$ 4.4	\$ 0.0	No Open Task Orders
GDLS - Canada ⁽⁶⁾ Sighting Systems	Subcontract PO 35515590	FFPQ	\$ 2.5	\$ 1.1	Oct 2017- Feb 2023
DLA Land and Maritime ⁽⁷⁾ Periscopes	Prime SPE7LX-17-D-0053	IDIQ	\$ 2.2	\$ 0.0	No Open Task Orders
DLA Land and Maritime ⁽⁸⁾ Periscopes	Prime SPE7MX-18-D-0061	IDIQ	\$ 3.4	\$ 0.0	No Open Task Orders
DLA Land and Maritime ⁽⁹⁾ Periscopes	Prime SPE7LX-18-D-0108	IDIQ	\$ 0.5	\$ 0.0	No Open Task Orders
U.S. Army Contracting Command- Warren ⁽¹⁰⁾ Periscopes	Prime SPRDL1-16-D-0062/ W56HZV-19-F-0544	IDIQ LTC	\$ 2.5	\$ 0.0	No Open Task Orders
General Dynamics-Canada ⁽¹¹⁾ Sighting Systems	Subcontract PO 35558221	FFPQ	\$ 0.9	\$ 0.3	Jul 2020- Dec 2020
DLA Land and Maritime ⁽¹²⁾ Glass Periscopes	Prime SPE7M8-19-C-0003	FFPQ	\$ 2.0	\$ 0.3	Oct 2019- Nov 2020
General Dynamics ⁽¹³⁾ Day Windows (AOC)	Subcontract PO 40269398	FFPQ	\$ 2.6	\$ 1.3	Aug 2017- Mar 2022
DLA Land and Maritime ⁽¹⁴⁾ Periscopes	Prime SPE7LX-19-D-0089	IDIQ	\$ -	\$ -	No task awards have been released
DLA Land and Maritime ⁽¹⁵⁾ Glass Periscopes	Prime SPE7LX-20-D-0020	IDIQ	\$ -	\$ -	No task awards have been released
DLA Land and Maritime ⁽¹⁶⁾	Prime/Shared	IDIQ	\$ -	\$ -	No task awards have been released

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Customer	Customer PO/Contract	Contract Type ⁽¹⁾	Total Award Value ⁽²⁾ (millions)	Remaining Value ⁽³⁾ (millions)	Delivery Period
Glass Periscopes	SPE7MX-20-D-0012				
DLA Land and Maritime ⁽¹⁷⁾ Periscopes	Prime SPE7MX-20-D-0028	IDIQ	\$ -	\$ -	No task awards as of current date
DLA Land and Maritime ⁽¹⁸⁾ Periscopes	Prime SPE7MX-20-D-0032	IDIQ	\$ -	\$ -	No task awards as of current date
U.S. Prime Contractor ⁽¹⁹⁾ XM10 Aiming Circles	Subcontract PO 63659	FFPQ	\$ 2.3	\$ 2.3	Mar 2021- Oct 2023

(1) FFPQ – Firm fixed price and quantity, IDIQ – Indefinite delivery indefinite quantity, LTC – Long term contract, PP – Progress Billable. Payment terms on shipments are net 30 or net-45 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 us. The total award value represents already awarded delivery order contracts. Based on our 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 30, 2017. Only these undelivered values of the contracts may be subject to the contract termination clause. It has been our experience that these clauses are rarely invoked.
- (4) Contract quantity awarded on December 2, 2016 for laser protected periscopes installed on Light Armored Vehicles in the Middle East.
- (5) Five-year IDIQ contract for Light Interference Filter Assemblies awarded on July 3, 2017. The contract calls for five one-year ordering periods running consecutively commencing on July 5, 2017 with a maximum contract value established at \$12.4 million over the five-year period. As of September 27, 2020, three task orders against the contract have been released for a total value of \$4.4 million to date.
- (6) The original three-year contract was awarded on September 11, 2017 to provide LAV 6.0 optimized weapon system support for Optex's Commander Sighting System. The contract includes option years to extend the period of performance through 2035 if awarded. The current contract option extends the in-service support through March 2023 for their existing fleet of Light Armored Vehicles.
- (7) Three-year IDIQ contract for periscopes awarded on September 18, 2017. The contract includes three base years and two option years. The base contract expired September 11, 2020. As of September 27, 2020, total task orders awarded against the contract were \$2.2 million. On September 12, 2020 the customer exercised their right to extend the contract through September 11, 2021 for the first option year.
- (8) Contract awarded February 22, 2018. This is a long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years. As of September 27, 2020, there was \$3.4 million in task orders released against the contract which have all shipped complete.
- (9) Contract awarded September 5, 2018. This is a long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years. As of September 27, 2020, there was \$0.5 million task orders released against the base contract award which have all shipped complete.
- (10) Contract awarded July 20, 2016. This is an Indefinite Delivery Indefinite Quantity (IDIQ) Long Term Contract with firm fixed pricing for the duration of a base period of five (5) years. As of September 27, 2020, there was \$2.5 million task orders released against the contract award through ordering period 5 which ends on July 21, 2021.
- (11) Contract awarded July 20, 2016 for delivery of DDAN sighting system spare units.
- (12) Contract awarded November 19, 2018. This is a Firm Fixed Price order for Laser Protected Periscopes for delivery in 2019 and 2020.
- (13) Contract awarded February 6, 2017 with an additional quantity executed on January 24, 2019. This is a Firm Fixed Price order for Day Windows manufactured at the Applied Optics Center for delivery through March 2022.

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- (14) Contract awarded March 4, 2019. This is a long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years. As of September 27, 2020, there have been no task orders released against the base contract award.
- (15) Contract awarded on November 12, 2019. This is a long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years for periscopes valued up to \$2.3 million. As of September 27, 2020, there have been no task orders released against the base contract award.
- (16) Contract awarded on December 5, 2019. This is a shared long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years and a maximum of value \$35 million for Improved Commander Weapon System (ICWS) periscopes. As of September 27, 2020, there have been no task orders released against the base contract award.
- (17) Contract awarded on January 24, 2020. This is a long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years for periscopes valued up to \$3.6 million. As of September 27, 2020, there have been no task orders released against the base contract award.
- (18) Contract awarded on February 12, 2020. This is a long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years for periscopes valued up to \$9.2 million. As of September 27, 2020, there have been no task orders released against the base contract award.
- (19) Purchase Order by a U.S. prime contractor in support of government contract W15QKN-16-D-0055 for Aiming Circle optical subassemblies. The purchase order was awarded on July 30, 2020 for \$2 million and amended to \$2.3 million on 9/14/2020 and includes non-recurring engineering and first article testing during fiscal year 2021, with production deliveries from November 2021 through October 2023.

Market Opportunity — U.S. Military

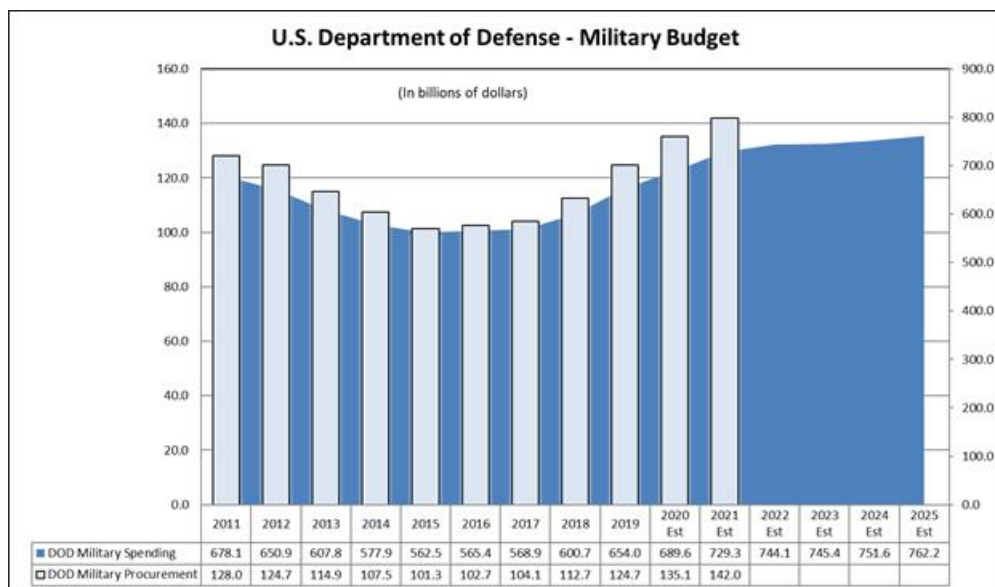
During the twelve months ended September 27, 2020, approximately 89% of our business was in support of U.S. military products. The chart below was derived from public government spending sources and depicts total U.S. military spending from 2011 through 2020 and estimated spending through 2025. The purpose of including this chart is to provide the reader with historical trend data and projected U.S. military defense and procurement spending over time. For fiscal year 2020, the total projected military spending is \$689.6 billion, an overall increase of 5.4% over 2019 spending. However, the military spending in the chart below depicts increased spending through 2025 of 10.5% from the current projected fiscal year 2020 level. The largest projected increases of 5.8% and 2.0% to occur in the 2021 and 2022 fiscal years, respectively.

Military spending was negatively impacted by the Budget Control Act of 2011 (BCA 2011), which was passed in August 2011. The BCA 2011 mandated a \$917.0 billion reduction in discretionary spending over the next decade, and \$1.2 trillion in automatic spending cuts over a nine-year period to be split between defense and non-defense programs beginning in January 2013. During the years 2015-2019 Congress enacted additional legislative budget measures which eased the strict spending caps set forth in sequestration of the BCA 2011 through the 2021 fiscal budget year.

On February 9, 2018, Congress enacted the Bipartisan Budget Act of 2018 (BBA 2018), a budget stop gap resolution which lifted the sequestration limits on military spending by \$165 billion through fiscal year 2019. On August 2, 2019, the Bipartisan Budget Act of 2019 (BBA 2019) was signed into law. The BBA 2019 raises the budget caps for both defense and nondefense for FY 2020 and FY 2021, the final two years of the BCA 2011 discretionary cap period. The 2019 bill increases the defense base budget by \$171 billion over the BCA 2011 and sets limits on the Overseas Contingency Operations (OCO) Emergency Funding of \$141 billion over the two-year period. Under the current law, there are no caps on defense and nondefense discretionary spending for FY 2022 and beyond.

The 2021 NDAA authorizes \$740.5 billion for the fiscal year 2021 funding levels. The current bill includes \$636 million for base military spending, \$69 million for military Overseas Contingency Operations (OCO), and an additional \$35 million for national security within the Department of Energy, the \$705 million earmarked for Department of Defense military spending is below the 2021 budgeted amount of \$729.3 in the chart below. As of the filing date, the 2021 NDAA has passed through Congress but not has yet been signed by the president.

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Source: Government Publishing Office, U.S. Budget Historical Tables, FY 2021, Table 3.2 Outlays by function and sub function, 1962-2025.

The table below depicts the U.S. Department of Defense budget request for fiscal year 2021 for major ground system programs. The total fiscal year 2021 budget request for major ground system programs is decreased by 16.5% from the fiscal year 2020 levels and by 17.1% from the fiscal year 2019 levels. Although it is difficult to directly tie the budget request to specific components provided by Optex Systems, we provide periscopes, collimator assemblies, vision blocks and laser interface filters to the U.S. armed forces on almost all of the ground system platforms categorized below.

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Major Weapon System Summary (\$ in Millions)		FY 2019	FY 2020	FY 2021		
				Base Budget	OCO Budget	Total Request
Ground Systems - Joint Service						
JLTV	Joint Light Tactical Vehicle	\$ 1,901.8	\$ 1,621.2	\$ 1,364.0	\$ 8.0	\$ 1,372.0
Ground Systems - USA						
M-1	Abrams Tank Modification/Upgrades	2,646.0	2,218.9	1,508.8	—	1,508.8
AMPV	Armored Multi-Purpose Vehicle	787.8	528.6	289.6	—	289.6
PIM	Paladin Integrated Management	561.6	752.7	863.1	—	863.1
FMTV	Family of Medium Tactical Vehicles	127.2	140.3	122.1	—	122.1
FHTV	Family Of Heavy Tactical Vehicles	324.1	386.3	184.1	21.7	205.8
GMV	Ground Mobility Vehicle	44.0	40.0	37.9	—	37.9
Stryker	Stryker	661.5	1,189.1	1,116.1	—	1,116.1
Ground Systems - USMC						
ACV	Amphibious Combat Vehicle	230.8	351.0	520.7	—	520.7
Total Ground System Vehicles		\$ 7,284.8	\$ 7,228.1	\$ 6,006.4	\$ 29.7	\$ 6,036.1

Source: Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, "Program Acquisition Cost by Weapon System, United States Department of Defense, Fiscal Year 2021 Budget Request", February 2020.

The 2021 Department of Defense (DoD) Budget indicates an overall decrease in ground system vehicle program spending in the 2021 appropriation budget year. There is typically a twelve to twenty-four-month delay between U.S. defense budget requests and program delivery orders related to our products from government agencies and our prime defense customers. In addition, DoD budget requests are often changed throughout the congressional NDAA Budgeting and Budget appropriations process. The DoD budget requests exclude any foreign military sales as they are funded separately from the annual NDAA budgets. We are carefully watching the projected trends in both DoD military spending and FMS as defense allocation priorities change, as well as challenges which are presented from the current pandemic, global recession, and changes in political climate to ascertain any potential impact to the company's future revenue.

Market Opportunity — Foreign Military

Our products directly support FMS combat vehicles globally, including Canada, the Kingdom of Saudi Arabia, Kuwait, Morocco, Egypt, South America, and Israel. We have increased efforts to promote our proven military products, as well as newly improved product solutions directly to foreign military representatives and domestic defense contractors supporting the FMS initiatives.

In addition, we recently partnered with G&H for the supply of acrylic-based sighting system technology to meet European Customer requirements for a total package single-technology source supply. Some foreign customers desire the reduced weight and cost savings provided by acrylic based periscopes when compared directly to glass-based periscopes. Our partnership will allow us to deliver this technology through ITAR licenses directly to them or their customers. G&H designs and manufactures periscopes and sighting systems for armored fighting vehicles under the Kent Periscopes brand. With a strong footprint in Europe and Asia, G&H supplies glass-based products for both periscope external viewing and system sensor-based imaging by commanders, drivers, and gunners.

We are currently under contract with the Israeli Ministry of Defense (IMOD) to refurbish a small quantity of their Night Vision Rifle Scopes. If this initial quantity meets their requirements, we expect substantial follow on orders to refurbish a major portion of their current inventory.

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We are also exploring possibilities to adapt some of our products for commercial use in those markets that demonstrate potential for solid revenue growth, both domestically and internationally.

Market Opportunity — Commercial

Our 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 four product areas.

- **Big Eye Binoculars** — While the military application we produce is based on mature military designs, we own all castings, tooling and glass technology. These large fixed mount binoculars could be sold to cruise ships, personal yachts and cities/municipalities. The binoculars are also applicable to fixed, land-based outposts for private commercial security as well as border patrols and regional law enforcement.
- **Thin Film Coatings** — The acquisition of the Applied Optics Center (AOC) also creates a new sector of opportunity for commercial products for us. Globally, commercial optical products use thin film coatings to create product differentiation. These coatings can be used for redirecting light (mirrors), blocking light (laser protection), absorbing select light (desired wavelengths), and many other combinations. They are used in telescopes, rifle scopes, binoculars, microscopes, range finders, protective eyewear, photography, etc. Given this broad potential, the commercial applications are a key opportunity going forward.
- **Optical Assemblies** — Through the Applied Optics Center, we are utilizing our experience in military sighting systems to pursue commercial opportunities associated with products that incorporate multi-lens optical cell assemblies, bonded optical elements and mechanical assemblies. There are a wide variety of products in the medical, machine vision, automotive and outdoor recreation fields that can benefit from our capabilities. Support to domestic customers for these type products has driven significant increases in overall sales during the last five years.

Customer Base

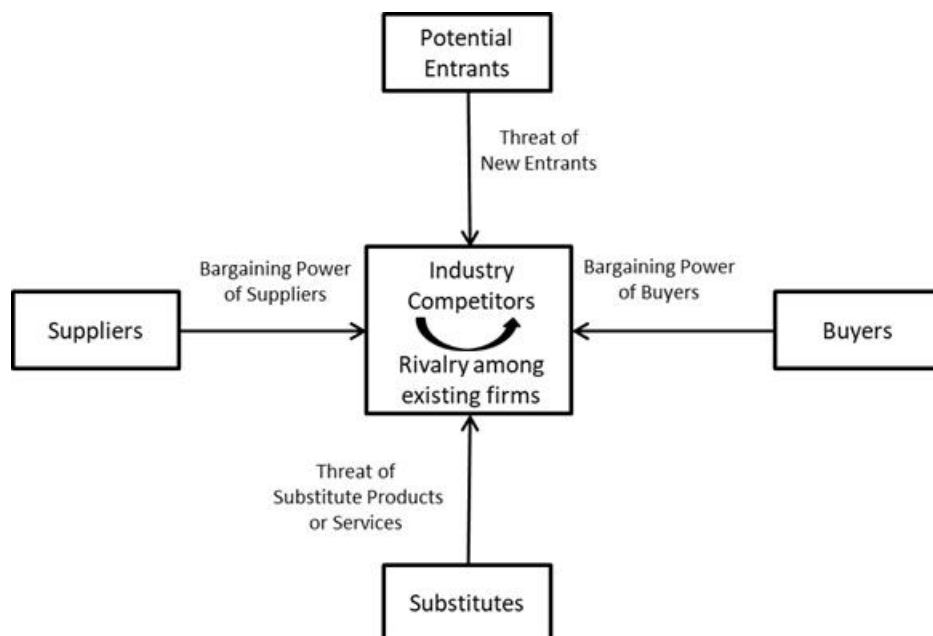
We serve customers in four primary categories: as prime defense contractor (Defense Logistics Agency (DLA) Land and Maritime, DLA Warren, DLA Aviation, U.S. Army, Navy and Marine Corps), as defense subcontractor (General Dynamics, L-3 Communications, Harris Corporations, BAE, and ADS Inc.), as a military supplier to foreign governments (Israel, Australia, South America and Canada) and also as a commercial optical assembly supplier (Nightforce Optics, Cabela's, Amazon). During the twelve months ended September 27, 2020, we derived approximately 89% of our gross business revenue from five major customers: U.S. government agencies (50%), three major defense contractors, (19%, 6% and 5%), and one commercial customer (9%). We have approximately 84 discrete contracts for items that are utilized in vehicles, optical product lines and as spare parts. Due to the high percentage of prime and subcontracted U.S. defense revenues, large customer size and 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

We believe we are well positioned to service both U.S. and foreign military needs by our focus on delivering products that satisfy the following factors important to the U.S. military:

- Product reliability — failure can cost lives
- Speed to delivery and adherence to delivery schedule
- System life cycle extension
- Low cost/best value
- Visual aids for successful execution of mission objectives
- Mission critical products specifically related to soldier safety.

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Potential Entrants — Low Risk to us. 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. Given the expense of development and qualification testing, the barrier to entry is high for new competitors.

Buyers — Medium Risk to us. 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 us. We have both new vehicle contracts and replacement part contracts for the exact same product. Three combat vehicles have a long history of service in the Army. The first M-1 Abrams Tank entered service with the Army in 1980; the M-2/M-3 Bradley Fighting Vehicle in 1981; and the Stryker Combat Vehicle in 2001. Under current Army modernization plans, the Army envisions all three vehicles in service with Active and National Guard forces beyond FY2028. Optex Systems provides periscopes and optical sighting systems in support of all three vehicle platforms. Since the early 2010's, the U.S. Army has been upgrading its outdated Bradley design with the Operation Desert Storm-Situational Awareness model and since 2012, upgrading the underbelly armor to improve mine and improvised explosive device resistance. Since it was first fielded in 1980, the Abrams tank has undergone near-continuous upgrades and improvements. The Abrams is the principal battle tank of the United States Army and Marine Corps, and the armies of Egypt, Kuwait, Saudi Arabia, Iraq, and since 2007, Australia. On average, there has been a new improvement package every seven years. The Army is currently upgrading the Abrams with a System Enhancement Package Version 3 (SEPV3), with additional upgrades in development. Additionally, the US Army has announced contracts to produce 742 Stryker DVH vehicles, redesigned (dual v-hulled vehicles) to be more resistant to land mines, as retrofits and as new production vehicles. The Abrams, Bradley and Striker vehicles are the only production tanks currently in production by the government. This, in conjunction with the 30-year life span, supports their continued use through 2040.

Suppliers — Low to Medium Risk to Optex Systems Holdings. 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.

Consistent with our marketing plan and business model, the AOC acquisition strengthened our overall position by decreasing the bargaining power of their suppliers through the backwards integration of a key supplier and created additional barriers of entry of potential competitors. Overall, the customer base and the competition have seen the acquisition as creating a stronger company.

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

	<u>Existing Customers</u>	<u>New Customers</u>
New Products	<u>USACC Binoculars</u> <u>GDLS DDAN</u> <u>Commercial Optical Lens</u>	<u>Chile M17 Day/Thermal</u> <u>Brazil M17 Day/Thermal</u> <u>Israel M17 Day/Thermal</u> <u>Commercial: Optical Lens, Spotting Scopes, Monocular Lens</u>
Existing Products	<u>USACC Periscopes, Back Up Sights,</u> <u>Binoculars, Vision Blocks,</u> <u>ACOG Filter Units</u> <u>GDLS Periscopes, Collimators</u> <u>BAE Periscopes</u> <u>L3- Laser Interface Filters</u> <u>DLA Optical Elements</u>	<u>Marines Sighting Systems</u> <u>Commercial: Optical Lens, Spotting Scopes, Monocular Lens</u>

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.

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 ISO 9001:2008 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 93,967 square feet of manufacturing space (see “Location and Facility”). Our current facilities are 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. Consistent with the space planning, we will drive economies of scale to reduce support costs on a percentage of sales basis. These cost reductions can then be either passed through directly to the bottom line or used for business investment.

Our manufacturing 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, we use many tools including 5S programs, six sigma processes, and define, measure, analyze, improve, control (DMAIC) problem solving techniques to identify bottlenecks within the process flow, reduce cost and improve product yields. Successful results can then be replicated across the production floor and drive operational improvements.

Economies of Scale

Plant efficiencies 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 percentage of revenue as we are able to obtain better material pricing, and scrap, start up and support labor (fixed) costs and they 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 (e.g., periscopes) do not experience as significant of an impact on labor costs as production volumes change, as the associated workforce is generally less skilled and can be ramped quickly as headcounts shift. Our more complex thin laser filter coatings, Howitzer and thermal day/night programs are more significantly impacted by volume changes as they require a more highly-skilled workforce and ramp time is longer as the training is more complex. We continually monitor customer demand over a rolling twelve-month window and in order to anticipate any changes in necessary manpower and material which allows us to capitalize on any benefits associated with increased volume and minimize any negative impact associated with potential declines in product quantities.

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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 possess three utility patents and two design 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.

On June 18, 2019 we were issued U.S. Patent No. 10,324,298 titled “Offset Image Wedge with Dual Capability and Alignment Technique”. The invention relates to an offset image wedge for use on a bore-sighted rifle mounted directly onto the scope via a clamp mounting device. The wedge allows for a dual image which can be aligned in the field and provides the user with a choice of either a bore-sighted image or an offset image without removing the wedge.

On July 11, 2017, we were issued U.S. Patent No. D791,852 S, for our Red Tail Digital Spotting Scope. We have a retail sales relationship with Cabela’s Inc. and Amazon, to distribute these scopes. They are currently the only digital spotting scope offered by Cabela’s. Our Red Tail Digital Spotting Scopes also received a favorable review from Trigger Magazine in 2017.

In May 2015, we announced the issuance to us of U.S. Patent No. 13,792,297 titled “ICWS Periscope”. This invention improves previously accepted levels of periscope performance that, in turn, improve soldier’s safety.

In December 2013, Optex Systems, Inc. was issued U.S. Patent No. 23,357,802 titled “Multiple Spectral Single Image Sighting System Using Single Objective Lens Set.” The technology platform, designed for our DDAN program, is applicable to all ground combat vehicles used by the US and foreign militaries. This invention presents a single image to both day and night sensors using precision optics, which in turn allows the user to individually observe day, night, or day and night simultaneously. In addition, it has proven to be especially useful in light transition points experienced at dusk and dawn. We are in production and currently delivering sighting systems with this advanced technology, a significant upgrade in the goal of supporting our customers as they modernize the worldwide inventory of aging armored vehicles. This technology is applicable to many sighting systems, and it has already been designed for implementation on the Light Armored Vehicles, the Armored Security Vehicle, the Amphibious Assault Vehicle, and the M60 Main Battle Tank. Digital Day and Night technology has advanced the capabilities of these installed weapon systems and is the first in a series of patents we have applied for to protect our Intellectual Property portfolio in support of the warfighters who use these systems.

In May 2012, we purchased a perpetual, non-exclusive license, with a single up-front license fee of \$200,000 to use Patent 7,880,792 “Optical and Infrared Periscope with Display Monitor” owned by Synergy International Optronics, LLC. We believe the purchase of the license agreement may allow us to extend and expand our market potential for the M113APC vehicle type which has the highest number of commonly used armored vehicles in the world. The current estimated active M113 APC worldwide inventory is over 80,000 units. This licensing of this patent allows us to develop additional products for this vehicle type, including the M17 Day/Thermal and M17 Day/Night periscopes. We are actively marketing the new periscopes internationally and completed our first international shipment utilizing this technology in March 2014. We continue to prototype these products and demonstrate them to potential customers.

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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 for the Optex, Richardson site to be Kent Periscopes and Synergy International Optronics, LLC. The Applied Optics Center thin film and laser coatings products compete primarily with Materion-Barr, Artemis and Alluxa.

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 and Human Capital

We had 102 full time equivalent employees as of September 27, 2020 and 98 employees as of December 10, 2020, which include a small temporary work force to handle peak loads as needed. We are in compliance with local prevailing wage, contractor licensing and insurance regulations, and have good relations with our employees, who are not currently unionized. We use outside consultants for various services. We have not experienced any work stoppages and are not a party to a collective bargaining agreement. Management considers labor relations to be good.

We are dedicated to preserving operational excellence and remaining an employer of choice. We provide and maintain a work environment that is designed to attract, develop and retain top talent through offering our employees an engaging work experience that contributes to their career development. We recognize that our success is based on the collective talents and dedication of those we employ, and we are highly invested in their success. We value our employees and believe that employee loyalty and enthusiasm are key elements of our operating performance.

Leases

We are headquartered in Richardson, TX and lease 93,967 combined square feet of facilities between Richardson, Texas and Dallas, Texas. 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 renewed the lease on our 49,100 square foot, Richardson, Texas facility, effective as of December 10, 2013, with a lease expiration of March 31, 2021. Our Applied Optics Center, is located in Dallas, Texas with leased premises consisting of approximately 44,867 square feet of space. The Applied Optics Center lease effective as of October 1, 2016, expires on October 31, 2021. There are two renewal options available to the tenant, and each renewal term is five years in duration.

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.

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Risks Related to our Business

We expect that we may need to raise additional capital in the future beyond any cash flow from our existing business; 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.

Changes in current economic conditions may adversely affect our ability to continue operations.

Changes in current economic conditions may cause a decline in business, consumer and defense spending and capital market performance, which could adversely affect our business and financial performance. Our ability to raise funds, which could be required for business continuity or expansion of 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. 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 September 27, 2020, there was zero in accrued loss provisions for loss contracts or cost overruns.

Approximately 86% of our contracts contain 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 minimize the adverse impact from the slower pace of U.S. military orders on our results of operations by seeking to obtain foreign military orders as well as new commercial business. We do not expect these markets to completely mitigate the negative impact of lower U.S. defense spending.

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 and 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.

Low unemployment and tight labor markets may adversely affect our labor costs and our ability to hire and retain a sufficient workforce required to meet the current backlog and increased customer demands. If we are not able to maintain a sufficient workforce and attract additional personnel as required, we may not be able to implement our business plan and our results of operations could be materially and adversely affected.

Current increases in defense spending have resulted in significant increases in customer orders and production volumes over the next twelve months during a period of record low unemployment rates and other business industry expansions within our local labor market. We compete with several other large defense contractors as well as homebuilding, industrial manufacturing and warehousing industries within our immediate regional area for both lower and higher skill level manufacturing employees. The limited market of available of full-time workers for hire, including reductions in temporary service employees, combined with increasing competition among other local industries may result in increased production costs associated with higher wages, employee bonuses, overtime premiums and enhanced employee benefits in addition to costs increases associated with employee recruitment, employee turnover, training and labor efficiency reductions. We may be unable to fill the labor positions required to meet our growing customer demands in a timely or cost effective manner which would impede our ability to meet current and increasing production levels in line with our customer expectations and adversely affect our ability to grow revenue or maintain our current margin levels.

We do not have employment agreements with our key personnel, other than our Chief Executive and Financial Officers, and our management has very minimal unencumbered equity ownership in us. 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 two employment agreements, with our Chief Executive Officer which renews on an annual basis and currently expires on December 1, 2021, and our Chief Financial Officer which expires on January 31, 2021, with renewable terms each 18 months thereafter. We do not presently maintain "key man" insurance on any other key employees. Our management also has minimal unencumbered ownership interest in us, thus limiting their direct stake in our outcome. 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.

We have 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 may have disruptions in deliveries due to production, quality, or other issues, we 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 reputation with our customers, 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 shipped. Prior to bidding a contract, we contact potential sources of material and receive 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 we 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 6, 2020, approximately 4% of our material requirements are single-sourced across 12 suppliers representing approximately 31% of our active supplier order value. 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 minimally increased costs. We do not believe these single sourced materials to pose any significant risk to us 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 us 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 6, 2020.

Product Line	Supply Item	Risk	Purchase Orders
Sighting Systems M36 DDAN	Digital camera system	Alternative source would take in excess of six months to qualify	This supplier is the designated replacement for Raytheon for the video system boards. One P.O. is currently in place to drive the transfer from Raytheon.
Periscopes	Die-cast housings	All die cast tooling is consolidated at this supplier. It would take approximately six months to move tooling and re-qualify a new supplier.	Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule.
Periscopes	Steel castings	Alternative supplier source would take six months to qualify.	Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements.
Periscopes	MIL Spec welded housings for vision blocks	Would take approximately 4-6 months to re-qualify a new supplier source.	Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule.

Product Line	Supply Item	Risk	Purchase Orders
Other Big Eye	Sand castings for big eye binocular parts	Would take approximately 4-6 months to re-qualify a new supplier source.	Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements.
Applied Optics Center M22/M24 Binocular	Spare Components	Only approved source due to proprietary rights. Alternate source cannot be developed.	Current firm fixed price and quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule.
Applied Optics Center Other – Laser Filter Unit and Anti-reflection Device (ARD)	ARD Component	Only approved source due to patent. Alternate source cannot be developed.	Current firm fixed price and 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. We warrant the quality of our products to meet customer requirements and be free of defects for twelve months subsequent to delivery. We establish reserves for warranty claims based on our historical rate 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 rely on the proper function, availability and security of information technology systems to operate our business and a cyber-attack or other breach of these systems could have a material adverse effect on our business, financial condition or results of operations.

We rely on information technology systems to process, transmit, and store electronic information in our day-to-day operations. Similar to other companies, the size and complexity of our information technology systems makes them vulnerable to a cyber-attack, malicious intrusion, breakdown, destruction, loss of data privacy, or other significant disruption. Our information systems require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards. Any failure by us to maintain or protect our information technology systems and data integrity, including from cyber-attacks, intrusions or other breaches, could result in the unauthorized access to personally identifiable information, theft of intellectual property or other misappropriation of assets, or otherwise compromise our confidential or proprietary information and disrupt our operations. Any of these events may cause us to have difficulty preventing, detecting, and controlling fraud, be subject to legal claims and liability, have regulatory sanctions or penalties imposed, have increases in operating expenses, incur expenses or lose revenues as a result of a data privacy breach or theft of intellectual property, or suffer other adverse consequences, any of which could have a material adverse effect on our business, financial condition or results of operations.

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

For the year ended September 27, 2020, the Company's consolidated revenues are derived from the U.S. government, 50%, three major defense contractors, 30% (19%, 6% and 5%), one commercial customer, 9%, and all other customers, 11%. Approximately 92% of the total company revenue is generated from domestic customers and 8% is derived from Canada. Procuring new customers and contracts may partially mitigate this risk. In particular, a decision by one of our major defense contract customers, U.S. government agencies, or major commercial customers to cease issuing contracts to us could have a significant material impact on our business and results of operations given that they represent over 89% 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 84 discrete contracts with major defense contractors and the U.S. Government (primarily Defense Logistics Agencies (DLA)), and other prime U.S. defense contractors. If they choose to terminate these contracts, we are entitled to fully recover all contractual costs and reasonable profits incurred up to or as a result of the terminated contract.

We only possess five patents and rely primarily 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 non-disclosure 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 than us, 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 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.

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 for 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.

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

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

We may face risks as a result of the ongoing COVID-19 pandemic.

We may be at risk as a result of the current COVID-19 pandemic. Risks that could affect our business include the duration and scope of the COVID-19 pandemic and the impact on the demand for our products; actions by governments, businesses and individuals taken in response to the pandemic; the length of time of the COVID-19 pandemic and the possibility of its reoccurrence; the timing required to develop effective treatments and a vaccine in the event of future outbreaks; the eventual impact of the pandemic and actions taken in response to the pandemic on global and regional economies; and the pace of recovery when the COVID-19 pandemic subsides.

Optex Systems Holdings, Inc. is defined as essential critical infrastructure as a defense contractor under the guidance of the federal, state and local authorities for both our Optex Systems (Richardson, TX), and Applied Optics Center (Dallas, TX) operating segments. As such, the Company continues to remain open during the COVID-19 shelter in place orders and closures. To date, we have experienced minimal production disruption as a result of the pandemic.

During the fiscal year 2020, we have experienced significant reductions in new orders and ending customer backlog that we attribute to a Covid-19 slow-down of contract awards for both U.S. military sales and foreign military sales (FMS). The cycle time from contract bid proposal requests to final contract award has increased by three to six months. We believe many of the delays are process driven as government agencies adapt to new remote work environments, combined with constraints created by travel restrictions, impeding product testing, inspection and overall program management coordination. In addition, the pandemic has caused several program delays throughout the defense supply chain as a result of plant shutdowns, employee illnesses, travel restrictions, remote work arrangements and similar supplier issues. Due to the significant level of uncertainty surrounding the pandemic and its impact to our customers and the defense supply chain, we are unable to ascertain the impact further delays in contract awards and customer orders may have on our total fiscal year 2021 revenues. We are currently anticipating a reduction of 20-25% in revenue volume during the first six months of fiscal year 2021, as compared to the first six months of fiscal year 2020. Continued delays in customer orders over the next three to six months could negatively impact our total fiscal year 2021 revenue and profitability. We are currently reviewing cost reduction strategies for implementation during the next sixty days to minimize the impact of a sustained delay in customer orders to program revenues beyond the first quarter of fiscal year 2021. We believe we are in a strong position to withstand any significant adverse financial

impacts after the recent fiscal year ended September 27, 2020.

Risks Related to Our Stock

We have issued a large number of warrants and options, which if converted or exercised would substantially increase the number of common shares outstanding.

On December 10, 2020, we had 8,519,728 shares of common stock outstanding, and (a) we have 4,125,200 warrants outstanding at an exercise price of \$1.50 per share and (b) we have 182,000 granted unvested restricted stock units outstanding. Future sales of our common stock, warrants, options and restricted stock units may also adversely affect our stock price and our ability to raise funds in new offerings.

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As a key component of our growth strategy, we have provided and intend to continue offering compensation packages to our management and employees that emphasize equity-based compensation and would thus cause further dilution.

Our stock price is speculative, and there is a risk of litigation.

The trading price of our common stock has in the past and may in the future be subject to wide fluctuations in response to factors such as the following:

- revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;
- speculation in the press or investment community;
- wide fluctuations in stock prices, particularly with respect to the stock prices for other defense industry companies;
- announcements of technological innovations by us or our competitors;
- new products or the acquisition of significant customers by us or our competitors;
- changes in investors' beliefs as to the appropriate price-earnings ratios for us and our competitors;
- changes in management;
- sales of common stock by directors and executive officers;
- rumors or dissemination of false or misleading information, particularly through Internet chat rooms, instant messaging, and other rapid-dissemination methods;
- conditions and trends in the defense industry generally;
- the announcement of acquisitions or other significant transactions by us or our competitors;
- adoption of new accounting standards affecting our industry;
- general market conditions;
- domestic or international terrorism and other factors; and
- other factors as described in this section.

Fluctuations in the price of our common stock may expose us to the risk of securities class action lawsuits. Although no such lawsuits are currently pending against us and we are not aware that any such lawsuit is threatened to be filed in the future, there is no assurance that we will not be sued based on fluctuations in the price of our common stock. Defending against such suits could result in substantial cost and divert management's attention and resources. In addition, any settlement or adverse determination of such lawsuits could subject us to significant liability.

The Financial Industry Regulatory Authority, or FINRA, has adopted sales practice requirements which may also limit a shareholder's ability to buy and sell our stock.

FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

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Future sales of our common stock could depress our stock price.

Sales of a large number of shares of our common stock, or the availability of a large number for sale, could materially adversely affect the per share market price of our common stock and could impair our ability to raise funds in addition offering of our debt or equity securities. In the event that we propose to register shares of common stock under the Securities Act for our own account, certain shareholders are entitled to include their shares in the registration, subject to limitations described in the agreements granting these rights.

Cautionary Note Regarding Forward-Looking Information

This prospectus, in particular the "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing herein, contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended ("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 electrical storage device industry, all of which are subject to various risks and uncertainties.

When used in this prospectus as well as in reports, statements, and information we have filed with the Securities and Exchange Commission, 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 prospectus 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.

Item 2 Properties

We are headquartered in Richardson, TX and lease 93,967 combined square feet of facilities including Richardson, Texas and Dallas, Texas. As of December 10, 2020, we had 98 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.

Item 3 Legal Proceedings

From time to time, we are involved in lawsuits, claims, investigations and proceedings, including pending opposition proceedings involving patents that arise in the ordinary course of business. There are no matters pending that we expect to have a material adverse impact on our business, results of operations, financial condition or cash flows.

Item 4 Mine Safety Disclosures

None.

PART II

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

Market information

Our common stock is currently quoted on the OTCQB Marketplace under the symbol “OPXS” and warrants under the symbol “OPXSW”. Trading in our common stock has historically lacked consistent volume, and the market price has been volatile.

On December 16, 2020, the closing price for our common stock as reported on the OTCQB was \$2.00 per share.

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Securities outstanding and holders of record

On December 10, 2020, there were approximately 81 shareholders of record for our common stock and 8,795,869 shares of our common stock issued and 8,519,728 common shares outstanding.

Dividends

We have in the past paid dividends but we have no plans to do so in the foreseeable future.

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 to 50,000 and authorized the grant of 10,000 options to two board members and a total of 36,070 to Optex Systems Holdings employees including 20,000 options to executive officers. On December 19, 2013, 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 50,000 to 75,000 and authorized the grant of 20,000 options to three board members and a grant of 5,000 to an Optex Systems Holdings officer. The options granted in 2011 and 2013 were at exercise prices of \$10.00 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. As of September 29, 2019, there were 25,000 outstanding options which were fully vested. The 25,000 outstanding options were repurchased by the Company in 2020 and cancelled. As of September 27, 2020, there were no outstanding options.

2016 Restricted Stock Unit Plan

On June 14, 2016, our Compensation Committee approved our 2016 Restricted Stock Unit Plan. This plan provides for issuance of stock units (“RSUs”) for up to 1,000,000 shares of our common stock. Each RSU constitutes a right to receive one share of our common stock, subject to vesting, which unless otherwise stated in an RSU agreement, shall vest in equal amounts on the first, second and third anniversary of the grant date. Shares of our common stock underlying the number of vested RSUs will be delivered as soon as practicable after vesting. During the period between grant and vesting, the RSUs may not be transferred, and the grantee has no rights as a shareholder until vesting has occurred. If the grantee’s employment is terminated for any reason (other than following a change in control of us or a termination of an officer other than for cause), then any unvested RSUs under the award will automatically terminate and be forfeited. If an officer grantee’s employment is terminated by us without cause or by the grantee for good reason, then, provided that the RSUs have not been previously forfeited, the remaining unvested portion of the RSUs will immediately vest as of the officer grantee’s termination date. In the event of a change in control, our obligations regarding outstanding RSUs shall, on such terms as may be approved by the Committee prior to such event, immediately vest, be assumed by the surviving or continuing company or cancelled in exchange for property (including cash).

On June 15, 2016, the Company granted 150,000 RSUs to our Chief Executive Officer, Danny Schoening, and 50,000 RSUs to our Chief Financial Officer, Karen Hawkins. The RSUs granted to Mr. Schoening and Ms. Hawkins vest as follows: 34% on January 1, 2017, 33% on January 1, 2018 and 33% on January 1, 2019.

On June 15, 2017, the Company issued 50,000 RSUs to its Applied Optics Center General Manager and new board member, Bill Bates. The RSUs issued to Mr. Bates will vest as follows: 34% on January 1, 2018, 33% on January 1, 2019 and 33% on January 1, 2020.

On November 20, 2018 the board of directors approved the issuance of additional grants of 150,000 and 50,000 RSUs with a January 2, 2019 grant date, to Danny Schoening and Karen Hawkins, respectively, and vesting as of January 1 each year subsequent to the grant date over a three-year period at a rate of 34% in year one, and 33% each year thereafter.

On February 17, 2020, the Company granted 50,000 restricted stock units to Bill Bates, General Manager of the Applied Optics Center. The restricted stock units vest as of January 1 each year subsequent to the grant date over a three-year period at a rate of 34% in year one, and 33% each year thereafter.

On January 5, 2017, the Company issued 45,799 common shares to officers and directors in settlement of 68,000 restricted stock units vested on January 1, 2017. On January 2, 2018, the Company issued 55,902 common shares to officers and directors in settlement of 83,000 restricted stock units vested on January 1, 2018. On January 2, 2019, the Company issued 55,565 common shares to officers and directors in settlement of 82,500 restricted stock units vested on January 1, 2019. On January 7, 2020, the Company issued 59,447 common shares to one director and two officers, in settlement of 84,500 restricted stock units which vested on January 1, 2020. For each vesting period the vested common shares were issued net of shares withheld for employee federal income tax requirements.

As of September 27, 2020, there are 182,000 outstanding unvested restricted stock units remaining to vest of which 83,000 will vest on January 1, 2021, and 500,000 authorized restricted stock units from the 2016 Restricted Stock Unit Plan remaining to be granted at a future date.

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, September 29, 2019, 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 September 29, 2019, prepared in accordance with U.S. generally accepted accounting principles (GAAP). You are encouraged to read our financial statements in conjunction with your reading 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

Optex Systems, Inc. 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).

We are both a prime and sub-prime contractor to the Department of Defense. Sub-prime contracts are typically issued through major defense contractors such as General Dynamics Land Systems, Raytheon Corp., BAE, ADS Inc. and others. We are also a military supplier to foreign governments such as Israel, Australia and NAMSA and South American countries and as a subcontractor for several large U.S. defense companies serving foreign governments.

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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.

Many 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.

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, some 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.

Reference Part I, Item 1 "Recent Events" of this report for updated information on new orders, board changes, executive and board compensation and stock and warrant repurchases.

Results of Operations

Segment Information

We have presented the operating results by segment to provide investors with an additional tool to evaluate our operating results and to have a better understanding of the overall performance of each business segment and its ability to perform in subsequent periods. Management of Optex Systems Holdings uses the selected financial measures by segment internally to evaluate its ongoing segment operations and to allocate resources within the organization accordingly. Segments are determined based on differences in products, location, internal reporting and how operational decisions are made. Management has determined that the Optex Systems, Richardson plant, and the Applied Optics Center, Dallas plant, which was acquired on November 3, 2014, are separately managed, organized, and internally reported as separate business segments. The table below provides a summary of selective statement of operations data by operating segment for the years ended September 27, 2020 and September 29, 2019 reconciled to the Audited Consolidated Results of Operations as presented in Item 8, "Financial Statements and Supplementary Data".

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Results of Operations Selected Financial Info by Segment
(Thousands)

	Twelve months ended							
	September 27, 2020				September 29, 2019			
	Optex Richardson	Applied Optics Center Dallas	Other (non-allocated costs and eliminations)	Consolidated	Optex Richardson	Applied Optics Center Dallas	Other (non-allocated costs and eliminations)	Consolidated
Revenue from External Customers	\$ 17,233	\$ 8,657	\$ -	\$ 25,890	\$ 16,219	\$ 8,311	\$ -	\$ 24,530
Intersegment Revenues	-	1,689	(1,689)	-	-	1,712	(1,712)	-
Total Segment Revenue	17,233	10,346	(1,689)	25,890	16,219	10,023	(1,712)	24,530
Total Cost of Sales	13,517	7,974	(1,689)	19,802	12,499	7,490	(1,712)	18,277
Gross Margin	3,716	2,372	-	6,088	3,720	2,533	-	6,253
Gross Margin %	21.6%	22.9%	-	23.5%	22.9%	25.3%	-	25.5%
General and Administrative Expense	2,439	569	197	3,205	2,385	558	113	3,056
Segment Allocated G&A Expense	(673)	673	-	-	(684)	684	-	-
Net General & Administrative Expense	1,766	1,242	197	3,205	1,701	1,242	113	3,056
Operating Income	1,950	1,130	(197)	2,883	2,019	1,291	(113)	3,197
Operating Income %	11.3%	10.9%	-	11.1%	12.4%	12.9%	-	13.0%
(Loss) Gain on Change in Fair Value of Warrants	-	-	(508)	(508)	-	-	1,344	1,344
Interest Expense	-	-	(19)	(19)	-	-	(23)	(23)
Income before taxes	\$ 1,950	\$ 1,130	\$ (724)	\$ 2,356	\$ 2,019	\$ 1,291	\$ 1,208	\$ 4,518
Income before taxes %	11.3%	10.9%	-	9.1%	12.4%	12.9%	-	18.4%

Our total external sales revenues increased by \$1.4 million in 2020 over the 2019 revenue levels. The Optex Systems Richardson segment realized a \$1.0 million increase and the Applied Optics Center segment realized an increase of \$0.4 million in external revenue over the prior year period. Intersegment revenues remained consistent between the 2020 and 2019 years at \$1.7 million. Intersegment revenues relate primarily to coated filters provided by the Applied Optics Center to Optex Systems in support of the Optex Systems periscope line.

Gross margin decreased \$0.2 million and the gross margin percentage decreased by 2.0 points from 25.5% in 2019 to 23.5% in 2020. The Optex Systems gross margin remained flat at \$1.7 million for the 2020 and 2019 twelve-month period on increased revenue and the gross margin percentage decreased to 21.6% in 2020 as compared to a gross margin percentage of 22.9% in 2019. The erosion in the gross margin percentage between years is primarily driven by higher manufacturing expenses combined with changes in product mix between the years. The Applied Optics Center gross margin decreased by \$0.2 million and the gross margin percent decreased by 2.4 points from 25.3% in 2019 to 22.9% in 2020. The erosion in the gross margin percentage between years is primarily driven by higher manufacturing expenses combined with changes in product mix between the years.

During the years ended 2020 and 2019, the Applied Optics Center absorbed (\$0.7) million of fixed general and administrative costs incurred by Optex Systems for support services. These expenses cover accounting, executive, human resources, information technology, board fees and other corporate expenses paid by Optex Systems and shared across both operating segments.

Operating income decreased by \$0.3 million, in 2020 to \$2.9 million, as compared to the prior year operating income of \$3.2 million. The decrease in operating income is primarily attributable to lower gross margins of \$0.2 million at the Applied Optics Center segment, combined with higher general and administrative costs of \$0.1 million at the Optex Systems segment in 2020 as compared to 2019.

Income before taxes decreased from the prior year by \$2.1 million, to \$2.4 million in 2020 from a prior year income before taxes of \$4.5 million. The decrease in income before taxes year over year is primarily due to decreased operating income of \$0.3 million from the prior year, combined with a decrease in income for non-cash related changes to the fair value of warrants of \$1.8 million to a loss of (\$0.5) million in 2020 from a prior year gain of \$1.3 million in 2019.

Backlog

Backlog as of September 27, 2020 was \$16.3 million as compared to a backlog of \$24.6 million as of September 29, 2019, representing a decrease of 33.7%. The following table depicts the current expected delivery by quarter of all contracts awarded as of September 27, 2020.

Product Line	(Millions)									
	Q1 2021	Q2 2021	Q3 2021	Q4 2021	2021 Delivery	2022+ Delivery	Total Backlog 9/27/2020	Total Backlog 9/29/2019	Variance	% Chg
Periscopes	\$ 1.8	\$ 0.9	\$ 1.1	\$ 0.7	\$ 4.5	\$ 0.8	\$ 5.3	\$ 10.3	\$ (5.0)	(48.5)%
Sighting Systems	0.8	0.7	0.6	0.1	2.2	0.7	2.9	4.1	(1.2)	(29.3)%
Other	0.1	1.1	0.6	0.5	2.4	2.6	5.0	3.9	1.1	28.2%
Optex Systems - Richardson	2.7	2.7	2.3	1.3	9.1	4.1	13.2	18.3	(5.1)	(27.9)%
Applied Optics Center - Dallas	1.5	0.7	0.1	0.3	2.6	0.5	3.1	6.3	(3.2)	(50.8)%
Total Backlog	\$ 4.2	\$ 3.4	\$ 2.4	\$ 1.6	\$ 11.7	\$ 4.6	\$ 16.3	\$ 24.6	\$ (8.3)	(33.7)%

During fiscal year 2020, Optex Systems Holdings received new orders totaling \$17.6 million, a (31.8%) decrease, as compared to new orders of \$25.8 million during the prior year. The 2020 orders consist of \$6.2 million in support of our periscope product line, \$5.4 million attributable to the Applied Optics Center and \$1.0 million attributable to sighting systems and support, and \$5.0 million in other products which includes new business of \$2.3 million for optical contract assemblies for Howitzer Aiming Circles. Approximately 20.8% or \$3.7 million of the orders received in fiscal year 2020 were delivered within the 2020 fiscal year, with \$13.9 million of backlog deliverable in 2021 and beyond.

During the fiscal year 2020, we have experienced significant reductions in new orders and ending customer backlog across all but one of our product lines. We attribute the lower orders to a combination of factors including a Covid-19 driven slow-down of contract awards for both U.S. military sales and foreign military sales (FMS), combined with some shifting in defense spending budget allocations in US military sales and FMS away from Army ground system vehicles toward other military agency applications. Due to the pandemic, we have experienced a significant slowdown in the U.S. government procurement process increasing the cycle time from contract bid proposal requests to final contract award by three to six months. We believe many of the delays are process driven as government agencies adapt to new remote work environments, combined with constraints created by travel restrictions, impeding product testing, inspection and overall program management coordination. In addition, the pandemic has caused several program delays throughout the defense supply chain as a result of plant shutdowns, employee illnesses, travel restrictions, remote work arrangements and similar supplier issues. Due to the significant level of uncertainty surrounding the pandemic and its impact to our customers and the defense supply chain, we are unable to ascertain the impact further delays in contract awards and customer orders may have on our total fiscal year 2021 revenues. We are currently anticipating a reduction of 20-25% in revenue volume during the first six months of fiscal year 2021, as compared to the first six months of fiscal year 2020. Continued delays in customer orders over the next three to six months could negatively impact our total fiscal year 2021 revenue and profitability. We are currently reviewing cost reduction strategies for implementation during the next sixty days to minimize the impact of a sustained delay in customer orders to program revenues beyond the first quarter of fiscal year 2021.

Optex Systems - Richardson:

Backlog for our periscope product line has decreased 48.5% or \$5 million to \$5.3 million, from our 2019 fiscal year end level of \$10.3 million. Our total periscope contract awards for fiscal 2020 totaled \$6.2 million as compared to \$10.4 million in the fiscal year 2019, a decrease of \$4.2, or 40.4% million from the prior year. Periscope orders declined by 82.9% during the second half of fiscal year 2020, subsequent to the onset of the pandemic, as compared to orders booked during the first half of fiscal year 2020 through the fiscal period ending in March 2020. Fiscal year 2020 second half orders are below orders received during the same period in fiscal year 2019 by 80.7%. We attribute the reduction in orders and backlog primarily due to contracting award and program delay issues created by the pandemic.

Sighting Systems backlog decreased by \$1.2 million or 29.3% in the last twelve months from \$4.1 million in 2019 to \$2.9 million as of the end of 2020. The decrease in backlog is primarily attributable shipments against existing sighting system contracts awarded during the prior years. During 2020, we booked \$1.0 million in new orders, a decrease of \$1.7 million from the prior year orders of \$2.7 million.

Our backlog in other product groups increased by \$1.1 million or 28.2% from \$3.9 million in 2019 to \$5.0 million in 2020. During 2020, we booked new orders of \$5.4 million as compared to the prior year orders of \$3.1 million. New orders booked in 2020 include new customer business for a \$2.0 Million order from a U. S. prime contractor for optical subassemblies for shipments starting in 2021.

The Optex Systems Richardson segment, currently has nine open US Government IDIQ type military contracts with substantial unspent funding which covers government base year and option year requirement periods through October 2025, in addition to several outstanding significant pricing proposals pending award over the next ninety days.

Applied Optics Center – Dallas

The Applied Optics Center backlog decreased by \$3.2 million, or 50.8%, for the year ended September 27, 2020 from \$6.3 million in 2019 to \$3.1 million in 2020. New orders for the Applied Optics Center during the 2020 year were \$5.4 million as compared to the 2019 orders of \$8.1 million, a decline of \$2.7 million or 33.3%. We attribute the reduction in orders and backlog primarily due to contracting award and program delay issues created by the pandemic.

The Applied Optics segment, currently has three open US Government IDIQ type military contracts with substantial unspent funding which covers government base year and option year requirement periods through February 2023.

Optex Systems Holdings continues to pursue new international and commercial opportunities in addition to maintaining its current footprint with U.S. military vehicle manufactures, with existing as well as new product lines. We are also reviewing potential products, outside our traditional product lines, which could be manufactured using our current production facilities in order to capitalize on our existing capacity. Further, we continue to look for strategic businesses to acquire that will strengthen our existing product line, expand our operations, and enter new markets.

Twelve month period ended September 27, 2020 compared to the twelve month period ended September 29, 2019

Revenues:

The table below details the revenue changes by segment and product line for the year ended September 27, 2020 as compared to the year ended September 29, 2019.

Product Line	Twelve months ended (Millions)			
	September 27, 2020		September 29, 2019	
Periscopes	\$ 11.3	\$ 9.9	\$ 1.4	14.1
Sighting Systems	2.2	1.3	0.9	69.2
Other	3.7	5.0	(1.3)	(26.0)
Optical Systems – Richardson	17.2	16.2	1.0	6.2
Applied Optics Center – Dallas	8.7	8.3	0.4	4.8
Total Revenue	\$ 25.9	\$ 24.5	\$ 1.4	5.7

Our total revenues increased by \$1.4 million, or 5.7%, in 2020 over the 2019 revenue levels. The Optex Systems Richardson segment realized a \$1.0 million, or 6.2%, increase in revenue and the Applied Optics Center segment realized an increase of \$0.4 million, or 4.8%, in revenue over the prior year period.

Revenues increased by 1.4 million or 14.1% on our periscope line during the twelve months ended September 27, 2020 as compared to the twelve months ended September 29, 2019 based on increased customer demand between the respective periods. The higher revenue was primarily driven by deliveries of Improved Commander Weapon Sights (ICWS) for orders received in 2019.

Revenues on sighting systems increased by \$0.9 million, or 69.2% from the prior year period due to shipments of Commander Weapon Sighting Systems against existing prior year contracts. Based on our existing backlog, we anticipate revenue for sighting systems in the next twelve months to approximate the 2020 levels.

Revenue on other product lines decreased by \$1.3 million, or 26.0%, compared to revenues in the prior year due to lower customer demand for mirror, cell, beam splitter and other spare assemblies over the prior year levels.

The Applied Optics Center external revenue increased by \$0.4 million, or 4.8%, during the 2020 fiscal year as compared to the prior year period. The revenue increase is primarily due to increased demand for laser filter unit anti reflective devices (ARD), day windows and commercial optical assemblies, offset by lower customer demand on laser interface filters.

Due to the significant level of uncertainty surrounding the pandemic and its impact to our customers and the defense supply chain, we are unable to ascertain the impact further delays in contract awards and customer orders may have on our total fiscal year 2021 consolidated revenues across reporting segments. Due to delays in customer orders, we are currently anticipating a reduction of 20-25% in revenue volume during the first six months of fiscal year 2021, as compared to the first six months of fiscal year 2020. Continued delays in contract awards over the next three to six months could negatively impact our total fiscal year 2021 revenue and profitability. We are currently reviewing cost reduction strategies for implementation during the next sixty days to minimize the impact of a sustained delay in customer orders to program revenues beyond the first quarter of fiscal year 2021.

Gross Margin. The gross margin during the period ended September 27, 2020 was 23.5% of revenue as compared to a gross margin of 25.5% of revenue for the period ended September 29, 2019. Cost of sales increased by \$1.5 million to \$19.8 million for the fiscal year ended 2020 compared to \$18.3 million for the fiscal year ended 2019 on higher revenue. The gross margin decreased by \$0.2 million to \$6.1 million in 2020 as compared to \$6.3 million in 2019. We attribute the erosion in gross margin to changes in product mix and increased manufacturing spending between the respective years.

G&A Expenses. During the fiscal years ended September 27, 2020 and September 29, 2019, we recorded operating expenses of \$3.2 million and \$3.1 million. General and administrative cost increases of \$0.1 million during the current fiscal year are primarily attributable to increased board fees and stock compensation during the period.

Operating Income. During the period ended September 27, 2020, we recorded operating income of \$2.9 million as compared to operating income of \$3.2 million during the period ended September 29, 2019. The \$0.3 million decrease in operating income in the current year over the prior year is primarily due to the decreased gross margin of \$0.2 million combined with increased general and administrative spending of \$0.1 million in 2020 as compared to 2019.

Net income applicable to common shareholders. During the year ended September 27, 2020, we recorded net income applicable to common shareholders of \$1.2 million as compared to net income applicable to common shareholders of \$3.8 million during the year ended September 29, 2019. The decrease net income of \$2.6 million is primarily attributable to a decreased operating income of \$0.3 million and changes in the fair value of warrants of \$1.9 million, a change in income taxes of \$1.7 million, offset by changes in dividends distributed and deemed dividends of (\$1.3) million as compared to the year ended 2019.

Non GAAP Adjusted EBITDA

We use adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) as an additional measure for evaluating the performance of our business as “net income” includes the significant impact of noncash valuation gains and losses on warrant liabilities, noncash compensation expenses related to equity stock issues, as well as depreciation, amortization, interest expenses and federal income taxes. We believe that Adjusted EBITDA is a meaningful indicator of our operating performance because it permits period-over-period comparisons of our ongoing core operations before the excluded items. Adjusted EBITDA is a financial measure not required by, or presented in accordance with, U.S. generally accepted accounting principles (“GAAP”).

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Adjusted EBITDA has limitations and should not be considered in isolation or a substitute for performance measures calculated under GAAP. This non-GAAP measure excludes certain cash expenses that we are obligated to make. In addition, other companies in our industry may calculate Adjusted EBITDA differently than we do or may not calculate it at all, which limits the usefulness of Adjusted EBITDA as a comparative measure.

The table below summarizes our twelve-month operating results for periods ended September 27, 2020 and September 29, 2019, in terms of both the GAAP net income measure and the non-GAAP Adjusted EBITDA measure. We believe that including both measures allows the reader to have a “complete picture” of our overall performance.

	(Thousands)	
	Twelve months ended	
	September 27, 2020	September 29, 2019
Net Income — GAAP	\$ 1,825	\$ 5,668
<i>Add:</i>		
Loss (Gain) on Change in Fair Value of Warrants	508	(1,344)
Federal Income Tax Expense (Benefit)	531	(1,150)
Depreciation	248	340
Stock Compensation	197	113
Royalty License Amortization	-	30
Interest Expense	19	23
Adjusted EBITDA - Non GAAP	\$ 3,328	\$ 3,680

Our adjusted EBITDA decreased by \$0.4 million to \$3.3 million during the twelve months ended September 27, 2020 as compared \$3.7 million during the twelve months ended September 29, 2019. The decrease in EBITDA is primarily driven by a decrease in operating profit of \$0.3 million and changes in interest, depreciation and amortization of \$0.1 million. Operating segment performance is discussed in greater detail throughout the previous sections.

During the year ended September 29, 2019, The Company released \$1.8 million against the deferred tax asset valuation allowance which resulted in recognition of a net tax benefit of \$1.3 million, as compared to a net tax expense of \$0.5 million during the 2020 year. During the year ended September 27, 2020, we recognized a loss on the change in fair value of warrants of \$0.5 million as compared to a gain of \$1.3 million in the prior year ended September 29, 2019. As this is a non-cash gain driven by the current fair market value of our outstanding warrants and unrelated to our core business operating performance, the gain has been excluded from our adjusted EBITDA calculations presented above. Further discussion regarding the gain on changes in fair value of the warrants and the related warrant liability can be found in Item 1, “Consolidated Financial Statements, Note 12 - Warrant Liabilities”.

Liquidity and Capital Resources

As of September 27, 2020, Optex Systems Holdings had working capital of \$14.3 million, as compared to \$11.7 million as of September 29, 2019. During the year ended September 27, 2020, the Company generated a net income of \$1.8 million as compared to a net income of \$5.7 million, and an increase in revenues of \$1.4 million, or 5.5%, up

to \$25.9 million, from \$24.5 million, as compared to the prior year ended September 29, 2019.

Backlog as of September 27, 2020 was \$16.3 million as compared to a backlog of \$24.6 million as of September 29, 2019, representing a decrease of 33.7%. During fiscal year 2020, Optex Systems Holdings received new orders totaling \$17.6 million, a (31.8%) decrease, as compared to new orders of \$25.8 million during the prior year. During the fiscal year 2020, we have experienced significant reductions in new orders and ending customer backlog that we attribute to a Covid-19 slow-down of contract awards for both U.S. military sales and foreign military sales (FMS). The cycle time from contract bid proposal requests to final contract award has increased by three to six months. We believe many of the delays are process driven as government agencies adapt to new remote work environments, combined with constraints created by travel restrictions, impeding product testing, inspection and overall program management coordination. In addition, the pandemic has caused several program delays throughout the defense supply chain as a result of plant shutdowns, employee illnesses, travel restrictions, remote work arrangements and similar supplier issues. Due to the significant level of uncertainty surrounding the pandemic and its impact to our customers and the defense supply chain, we are unable to ascertain the impact further delays in contract awards and customer orders may have on our total fiscal year 2021 revenues. We are currently anticipating a reduction of 20-25% in revenue volume during the first six months of fiscal year 2021, as compared to the first six months of fiscal year 2020. Continued delays in customer orders over the next three to six months could negatively impact our total fiscal year 2021 revenue and profitability. We are currently reviewing cost reduction strategies for implementation during the next sixty days to minimize the impact of a sustained delay in customer orders to program revenues beyond the first quarter of fiscal year 2021. We believe we are in a strong position to withstand any significant adverse financial impacts after the recent fiscal year ended September 27, 2020.

The Company has historically funded its operations through operations, convertible notes, common and preferred stock offerings and bank debt. The Company's ability to generate positive cash flows depends on a variety of factors, including the continued development and successful marketing of the Company's products. At September 27, 2020, the Company had approximately \$4.7 million in cash and an outstanding payable balance of \$0.4 million against our working line of credit. The line of credit allows for borrowing up to a maximum of \$2.0 million. As of September 27, 2020, our outstanding accounts receivable was \$3.0 million. We expect the accounts to be collected during the first quarter of fiscal 2020. The Company expects to generate net income and positive cash flow from operating activities over the next twelve months. Successful transition to attaining and maintaining profitable operations is dependent upon maintaining a level of revenue adequate to support the Company's cost structure. Management intends to manage operations commensurate with its level of working capital and facilities line of credit during the next twelve months; however, uneven revenue levels driven by changes in customer delivery demands, first article inspection requirements or other program delays associated with the pandemic could create a working capital shortfall. In the event the Company does not successfully implement its ultimate business plan, certain assets may not be recoverable.

On June 8, 2020 the Company announced authorization for a \$1 million stock repurchase program. The shares authorized to be repurchased under the new repurchase program may be purchased from time to time at prevailing market prices, through open market or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC. During the twelve months ended September 27, 2020, there were 105,733 common shares repurchased through the program at a cost of \$200 thousand. The shares have been returned to the Treasury.

During the twelve months ended September 27, 2020 the Company declared and paid no dividends. As of September 27, 2020, there are no outstanding declared and unpaid dividends.

Period from September 30, 2019 through September 27, 2020

Cash and Cash Equivalents. As of September 27, 2020, and September 29, 2019, we had cash and cash equivalents of \$4.7 and \$1.1 million.

Net Cash Provided by Operating Activities. Net cash provided by operating activities during the period beginning September 29, 2019 and ended September 27, 2020 was \$3.9 million. The primary source of cash provided by operations was driven by net income of \$1.8, decreases in inventory of \$1.7 million, deferred tax assets \$0.2 million, warrant liabilities of \$0.5 million, and other changes in working capital of (\$0.3) million.

Net Cash Used by Investing Activities. In the twelve months ended September 27, 2020, cash used in investing activities was \$0.2 million for new asset purchases used in support of production.

Net Cash Used by Financing Activities. Net cash used in financing activities was \$0.1 million during the twelve months ended September 27, 2020 due to the repurchase of common stock of \$0.2 million, offset by borrowings against the line of credit of (\$0.1) million. As of September 27, 2020, the outstanding line of credit balance was \$0.4 million as compared to \$0.3 million as of September 29, 2019.

Critical Accounting Policies

Revenue Recognition: The Company has adopted FASB ASC 606—Revenue from Contracts with Customers which requires revenue recognition based on a five-step model that includes: identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price and recognizing the revenue. The standard results in the recognition of revenue depicting the transfer of promised goods or services to customers in an amount reflecting the expected consideration to be received from the customer for such goods and services, based on the satisfaction of performance obligations, occurring when the control of the goods or services transfer to the customer. The majority of the Company's contracts and customer orders originate with fixed determinable unit prices for each deliverable quantity of goods defined by the customer order line item (performance obligation) and include the specific due date for the transfer of control and title of each of those deliverables to the customer at pre-established payment terms, which are generally within thirty to sixty days from the transfer of title and control. We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods. In addition, the Company has one ongoing service contract which relates to optimized weapon system support (OWSS) and includes ongoing program maintenance, repairs and spare inventory support for the customer's existing fleet units in service during the duration of the contract. Revenue recognition for this program has been recorded by the Company, and compensated by the customer, at fixed monthly increments over time, consistent with the defined contract maintenance period. The total revenue recognized over time related to the contract is \$451 thousand for the twelve months ended September 27, 2020 and the twelve months ended September 29, 2019.

The Company has on occasion, outside of the presented periods, received selective contract awards and modifications which included substantive milestone performance obligations, contract modifications, negotiated settlements and financing arrangements which could fall within the scope of FASB ASC 606 revenue recognition guidance on reoccurrence, and as such, the Company has expanded their contract review process to ensure any new contract awards, changes, modifications, financing arrangements or potential negotiated settlements are recorded in compliance to the new standard guidance.

During the twelve months ended September 27, 2020, there was \$3 thousand of revenue recognized during the period from customer deposit liabilities (deferred contract revenue). During the twelve months ended September 29, 2019 there was \$289 thousand of revenue recognized during the period from customer deposit liabilities (deferred contract revenue), and \$19 thousand of customer deposits refunded to the customer on order cancellation. As of September 27, 2020 there is \$1 thousand in customer deposit liabilities. As of the twelve months ended September 27, 2020, there are no significant deferred contract costs such as sales commissions.

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.

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 Optex Systems Holdings will not realize tax assets through future operations. When assessing the recoverability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies and results of recent operations. Based on those estimates, management has determined that a portion of the deferred tax assets may not be realized and has established a valuation allowance against the deferred tax asset balance. We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

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As of September 27, 2020, Optex Systems Inc. has a net carrying value of \$1.2 million in deferred tax assets represented by deferred tax assets of \$2.2 million and a deferred tax asset valuation allowance of (\$1.0) million against those assets. The valuation allowance has been established due to historical losses resulting in a Net Operating Loss Carryforward for each of the fiscal years 2010 through 2016 which may not be fully recognized due to an IRS Section 382 limitation related to a change in control occurring in fiscal year 2018. Due to historical losses, our valuation allowance reserve was set at 100% of the deferred tax asset for the years 2014 through 2018 for a net carrying value of zero. As of September 27, 2020, and September 29, 2019, we reviewed the deferred tax assets and determined it was more likely than not that we would be able to utilize a substantial portion of the deferred tax asset balance against future earnings. Our assumptions were based on the previous three years earnings trend as well as anticipated future earnings expected with the increases in U.S defense and Foreign Military market spending. In the twelve months ended September 29, 2019, The Company released \$1.8 million against the valuation allowance which resulted in the recognition of a tax benefit. During the twelve months ended September 27, 2020, we recognized an additional \$0.2 million in tax benefits from the deferred tax assets. We will continue to review the deferred tax assets and related valuation reserves in accordance with ASC 740 on an annual basis.

Leases: In February 2016, FASB issued ASU 2016-02—*Leases (Topic 842)*. The update is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As such, Optex Systems Holdings adopted these provisions as of the fiscal year beginning on September 30, 2019. Optex Systems Holdings has two significant operating facilities leases and one equipment lease which extends beyond twelve months and fall under the guidance of ASC Topic 842. Adoption of ASC Topic 842 resulted in the balance sheet recognition of a right-of-use asset of \$1.8 million and corresponding operating lease liabilities of approximately \$1.9 million as of September 30, 2019, representing the present value of future lease payments as of the beginning of the year, for the term of the equipment lease and both segment facility leases and which assumes the exercise of a five year renewal option at the Applied Optics Center as of November 1, 2021. As of year ended September 27, 2020, The Company has recognized a \$1.4 million in right-of-use-asset and corresponding operating lease liabilities of \$1.5 million.

Recent Accounting Pronouncements

Recent Accounting Pronouncements are detailed under Note 3 of Item 8 “Financial Statements and Supplementary Data” of this report.

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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 annual report. In this annual report 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.

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Item 8 Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Optex Systems Holdings, Inc. and subsidiaries (the “Company”), as of September 27, 2020 and September 29, 2019, and the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 27, 2020 and September 29, 2019, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Whitley Penn LLP

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

Fort Worth, Texas
December 17, 2020

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**Optex Systems Holdings, Inc.
Consolidated Balance Sheets**

	(Thousands, except share and per share data)	
	September 27, 2020	September 29, 2019
ASSETS		
Cash and Cash Equivalents	\$ 4,700	\$ 1,068
Accounts Receivable, Net	2,953	3,066
Inventory, Net	8,791	10,535
Prepaid Expenses	229	348
Current Assets	16,673	15,017
Property and Equipment, Net	1,006	1,102
Other Assets		
Deferred Tax Asset	1,227	1,414
Right-of-use Asset	1,416	-
Security Deposits	23	23
Other Assets	2,666	1,437
Total Assets	\$ 20,345	\$ 17,556
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 833	\$ 1,833
Operating Lease Liability	417	-
Accrued Expenses	1,077	1,180
Warrant Liability	2,544	-
Accrued Warranty Costs	83	46
Credit Facility	-	250
Customer Advance Deposits	1	3
Current Liabilities	2,411	3,312
Credit Facility - Long Term	377	-
Operating Lease Liability, net of current portion	1,037	-
Warrant Liability - Long Term	-	2,036
Total Liabilities	6,369	5,348
Commitments and Contingencies		
Stockholders' Equity		
Common Stock - (\$0.001 par, 2,000,000,000 authorized, 8,795,869 and 8,436,422 shares issued, and 8,690,136 and 8,436,422 outstanding, respectively)	9	8
Treasury Stock (at cost, 105,733 shares and zero shares held, respectively)	(200)	-
Additional Paid in capital	26,276	26,134
Accumulated Deficit	(12,109)	(13,934)
Stockholders' Equity	13,976	12,208
Total Liabilities and Stockholders' Equity	\$ 20,345	\$ 17,556

The accompanying notes are an integral part of these financial statements.

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Optex Systems Holdings, Inc.
Consolidated Statements of Operations

	(Thousands, except share and per share data)	
	Twelve months ended	
	September 27, 2020	September 29, 2019
Revenue	\$ 25,890	\$ 24,530
Cost of Sales	19,802	18,277
Gross Margin	6,088	6,253
General and Administrative Expense	3,205	3,056
Operating Income	2,883	3,197
(Loss) Gain on Change in Fair Value of Warrants	(508)	1,344
Interest Expense	(19)	(23)
Other (Expense) Income	(527)	1,321
Income Before Taxes	2,356	4,518
Income Tax Expense (Benefit), net	531	(1,150)
Net Income	\$ 1,825	\$ 5,668
Deemed dividends on participating securities	(598)	(1,868)
Net income applicable to common shareholders	\$ 1,227	\$ 3,800
Basic income per share	\$ 0.14	\$ 0.45
Weighted Average Common Shares Outstanding - basic	8,464,572	8,388,794
Diluted income per share	\$ 0.14	\$ 0.45
Weighted Average Common Shares Outstanding - diluted	8,589,919	8,492,884

The accompanying notes are an integral part of these financial statements.

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Optex Systems Holdings, Inc.
Consolidated Statements of Cash Flows

	(Thousands)	
	Twelve months ended	
	September 27, 2020	September 29, 2019
Cash Flows from Operating Activities:		
Net Income	\$ 1,825	\$ 5,668
Adjustments to Reconcile Net Income to Net Cash provided by Operating Activities:		
Depreciation and Amortization	248	340
Loss (Gain) on Change in Fair Value of Warrants	508	(1,344)
Stock Compensation Expense	197	113
Deferred Tax	187	(1,414)
(Gain) On Sale of Fixed Assets	-	(7)
Accounts Receivable	113	(608)
Inventory	1,744	(2,896)
Prepaid Expenses	119	(243)
Accounts Payable and Accrued Expenses	(1,065)	903
Federal Income Taxes Payable	-	(22)
Accrued Warranty Costs	37	(55)
Prepaid Royalties	-	30
Customer Advance Deposits	(2)	(305)
Total Adjustments	2,086	(5,508)
Net Cash provided by Operating Activities	3,911	160
Cash Flows used in Investing Activities		
Purchases of Property and Equipment	(152)	(143)
Proceeds From Sale of Property and Equipment	-	8
Net Cash used in Investing Activities	(152)	(135)
Cash Flows used in Financing Activities		
Cash Paid for Taxes Withheld On Net Settled Restricted Stock Unit Share Issue	(54)	(37)
Borrowings from payments (to) Credit Facility	127	(50)
Proceeds from Warrant Exercise	-	72
Warrant Repurchase	-	(75)

Stock Repurchase		(200)	-
Net Cash used in Financing Activities		(127)	(90)
Net Increase (Decrease) in Cash and Cash Equivalents		3,632	(65)
Cash and Cash Equivalents at Beginning of Year		1,068	1,133
Cash and Cash Equivalents at End of Year		\$ 4,700	\$ 1,068
Supplemental Cash Flow Information:			
Non Cash Transactions:			
Right-of-Use Asset	\$	1,811	\$ -
Operating Lease Liabilities		(1,894)	-
Cash Transactions:			
Cash Paid for Taxes		289	360
Cash Paid for Interest		19	23

The accompanying notes are an integral part of these financial statements.

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

	(Thousands, except share data)						
	Common Shares Issued	Treasury Shares	Common Stock	Treasury Stock	Additional Paid in Capital	Retained Earnings	Total Stockholders Equity
Balance at September 30, 2018	8,333,353	-	\$ 8	\$ -	\$ 25,938	\$ (19,602)	\$ 6,344
Stock Compensation Expense	-	-	-	-	113	-	113
Vested restricted stock units issued net of tax withholding	55,565	-	-	-	(37)	-	(37)
Exercise of Warrants for Common Shares at \$1.50 ⁽¹⁾	47,504	-	-	-	120	-	120
Net income	-	-	-	-	-	5,668	5,668
Balance at September 29, 2019	8,436,422	-	\$ 8	\$ -	\$ 26,134	\$ (13,934)	\$ 12,208
Stock Compensation Expense	-	-	-	-	197	-	197
Vested restricted stock units issued net of tax withholding	59,447	-	-	-	(54)	-	(54)
Restricted Board Shares Issued ⁽²⁾	300,000	-	1	-	(1)	-	-
Common Stock Repurchase ⁽³⁾	-	105,733	-	(200)	-	-	(200)
Net income	-	-	-	-	-	1,825	1,825
Balance at September 27, 2020	8,795,869	105,733	\$ 9	\$ (200)	\$ 26,276	\$ (12,109)	\$ 13,976

(1) Exercise of warrants for gross proceeds of \$72 thousand and a warrant liability fair market value of \$48 thousand as of the exercise date.

(2) 100,000 restricted common shares issued to each of the Independent Board of Directors (Rimmy Malhotra, Dale Lehman, Larry Hagenbuch) on April 30, 2020 with 20% vesting as of each January 1 each year over a five-year period. The value of the shares at issue date is \$525,000 for 300,000 shares to be amortized over the vesting period.

(3) Common shares repurchased in the open market between June 11, 2020 and September 27, 2020 for \$200 thousand and held in treasury stock using the cost method.

The accompanying notes are an integral part of these financial statements.

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Note 1 — Organization and Operations

Optex Systems Holdings, Inc. ("the Company") manufactures optical sighting systems and assemblies for the U.S. Department of Defense, foreign military applications and commercial markets. 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 or commercial customers. Optex Systems Holdings' operations are based in Dallas and Richardson, Texas in leased facilities comprising 93,967 square feet. As of September 27, 2020, the Company operated with 102 full-time equivalent employees.

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. 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: FASB ASC 280 requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available and evaluated regularly by the chief operating decision maker in decisions

regarding resource allocations and performance assessments. Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments. Segments are determined based on differences in products, internal reporting and how operational decisions are made. Management has determined that the Optex Systems, Richardson plant, and the Applied Optics Center, Dallas plant are separately managed, organized, and internally reported as separate business segments. The FASB ASC 280 requires that a public business enterprise report a measure of segment profit or loss, certain specific revenue and expense items, and segment assets. It requires reconciliations of total segment revenues, total segment profit or loss, total segment assets, and other amounts disclosed for segments to corresponding amounts in the enterprise's general-purpose financial statements.

Fiscal Year: Optex System Holdings' fiscal year ends on the Sunday nearest September 30. Fiscal year 2020 ended on September 27, 2020 and included 52 weeks. Fiscal year 2019 ended on September 29, 2019 and included 52 weeks

Fair Value of Financial Instruments: Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of the financial statement presentation date.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, are carried at, or approximate, fair value as of the reporting date because of their short-term nature. The credit facility is reported at fair value as it bears market rates of interest. Fair values for the Company's warrant liabilities and derivatives are estimated by utilizing valuation models that consider current and expected stock prices, volatility, dividends, market interest rates, forward yield curves and discount rates. Such amounts and the recognition of such amounts are subject to significant estimates that may change in the future.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value and requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

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Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

The accounting guidance establishes a hierarchy which requires an entity to maximize the use of quoted market prices and minimize the use of unobservable inputs. An asset or liability's level is based on the lowest level of input that is significant to the fair value measurement. Fair value estimates are reviewed at the origination date and again at each applicable measurement date and interim or annual financial reporting dates, as applicable for the financial instrument, and are based upon certain market assumptions and pertinent information available to management at those times.

Each of the measurements is considered a Level 3 measurement based on the availability of market data and inputs and the significance of any unobservable inputs as of the measurement date. The methods and significant inputs and assumptions utilized in estimating the fair value of the warrant liabilities, as well as the respective hierarchy designations are discussed further in Note 12 "Warrant Liabilities".

Cash and Cash Equivalents: For financial statement presentation purposes, Optex Systems Holdings considers those short-term, highly liquid investments with original maturities of three months or less to be cash or cash equivalents. Optex Systems Holdings has \$4.7 million in cash on deposit with our banks. Only a portion of the cash, currently \$500 thousand, would be covered by federal deposit insurance and the uninsured balances are substantially greater than the insured amounts.

Concentration of Credit Risk: The Company's revenues for fiscal year ended September 27, 2020 are derived from sales to U.S. government agencies (50%), three major U.S. defense contractors (19%, 6% and 5%), one major commercial customer (9%) and all other customers (11%). The Company's revenues for fiscal year ended September 29, 2019 are derived from sales to U.S. government agencies (60%), one major U.S. defense contractor (22%), one major commercial customer (7%) and all other customers (11%). Optex Systems Holdings does not believe that this concentration results in undue credit risk because of the financial strength of the obligees.

Accounts Receivable: Optex Systems Holdings 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 Systems Holdings 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 of September 27, 2020, and September 29, 2019, Optex Systems Holdings had an allowance for doubtful accounts of \$5 thousand, for non U.S. government account balances greater than 120 days. As the customer base is primarily U.S. government and government prime contractors, Optex Systems Holdings allowance for doubtful accounts is minimal. Optex Systems Holdings charges uncollectible accounts to bad debt expense in the period as they are first deemed uncollectible. In the fiscal year 2020 we recognized \$1 thousand in bad debt expenses associated with uncollectible accounts. In the fiscal year 2019 we recognized \$4 thousand in bad debt expenses associated with uncollectible accounts.

As of September 27, 2019, 89% of the accounts receivable balance was comprised of five customers: the U.S. government, 29%, three major defense contractors, 39%, 8% and 7%, and a commercial customer, 6%. As of September 29, 2019, 85% of the accounts receivable balance was comprised of four customers: the U.S. government, 41%, two major defense contractors, 25% and 13%, and a commercial customer, 6%.

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Inventory: Inventory is recorded at the lower of cost or net realizable value, 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. As of September 27, 2020, and September 29, 2019 inventory included:

	(Thousands)	
	As of September 27, 2020	As of September 29, 2019
Raw Materials	\$ 5,506	\$ 7,395
Work in Process	3,214	3,599
Finished Goods	638	254
Gross Inventory	9,358	11,248
Less: Inventory Reserves	(567)	(713)
Net Inventory	\$ 8,791	\$ 10,535

In the twelve months ended September 27, 2020 Optex Systems physically disposed of \$202 thousand of obsolete and excess inventories against the reserve balance and made other reserve adjustments of (\$56) thousand. Net Inventory decreased by \$1.7 million in support of deliveries against several long running contracts during the 2020 fiscal year.

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 twelve 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 12 month warranty experience rate and may adjust the warranty accrual as required to cover any estimated warranty expenses associated the period end backlog of returned customer units awaiting repair or replacement plus any estimated warranty expenses related to anticipated future returns on previous deliveries. As of September 27, 2020, and September 29, 2019, the existing warranty reserve balances of \$83 thousand and \$46 thousand, respectively, were reviewed and determined to be adequate to satisfy any future warranty claims that may have existed as of the end of each fiscal year for shipments occurring in the prior 12 months. The increase in warranty reserves represents an increase in the estimated returns on deliveries in the current year and an increase in the ending backlog of warranty returns awaiting repairs or replacement for quality issues encountered on our Applied Optics Center optical assemblies. The increases in estimated returns and backlog are primarily driven by increased shipments of the optical assemblies as compared to the prior year. We have made numerous improvements to our supplier bases and internal production process to reduce the return rate on future shipments but will continue to review and monitor the reserve balances related to this product line against any existing warranty backlog and current trend data as we repair and replace our current warranty backlog and process future warranty returns.

The table below summarizes the warranty expenses and incurred warranty costs for the twelve months ended September 27, 2020 and September 29, 2019.

	Years ended	
	2020	2019
Beginning balance	\$ 46	\$ 101
Incurred costs for warranties satisfied during the period	(39)	(115)
Warranty Expenses:		
Warranties reserved for new product shipped during the period ⁽¹⁾	106	86
Change in estimate for pre-existing warranty liabilities ⁽²⁾	(30)	(26)
Warranty Expense	76	60
Ending balance	\$ 83	\$ 46

(1) *Warranty expenses accrued to cost of sales (based on current year shipments and historical warranty return rate).*

(2) *Changes in estimated warranty liabilities recognized in cost of sales associated with: the period end customer returned warranty backlog, or the actual costs of repaired/replaced warranty units which were shipped to the customer during the year.*

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.

Leases: In February 2016, FASB issued ASU 2016-02—*Leases (Topic 842)*. The update is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As such, Optex Systems Holdings adopted these provisions as of the fiscal year beginning on September 30, 2019. Optex Systems Holdings has two significant operating facilities leases and one equipment lease which extends beyond twelve months and fall under the guidance of ASC Topic 842. Adoption of ASC Topic 842 resulted in the balance sheet recognition of a right-of-use asset of \$1.8 million and corresponding operating lease liabilities of approximately \$1.9 million as of September 30, 2019, representing the present value of future lease payments as of the beginning of the year, for the term of the equipment lease and both segment facility leases and which assumes the exercise of a five year renewal option at the Applied Optics Center as of November 1, 2021. As of period ended September 27, 2020, The Company has recognized a \$1.4 million in right-of-use-asset and corresponding operating lease liabilities of \$1.5 million. See also Note 7.

Revenue Recognition: The Company has adopted FASB ASC 606—Revenue from Contracts with Customers which requires revenue recognition based on a five-step model that includes: identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price and recognizing the revenue. The standard results in the recognition of revenue depicting the transfer of promised goods or services to customers in an amount reflecting the expected consideration to be received from the customer for such goods and services, based on the satisfaction of performance obligations, occurring when the control of the goods or services transfer to the customer. The majority of the Company's contracts and customer orders originate with fixed determinable unit prices for each deliverable quantity of goods defined by the customer order line item (performance obligation) and include the specific due date for the transfer of control and title of each of those deliverables to the customer at pre-established payment terms, which are generally within thirty to sixty days from the transfer of title and control. We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods. In addition, the Company has one ongoing service contract which relates to optimized weapon system support (OWSS) and includes ongoing program maintenance, repairs and spare inventory support for the customer's existing fleet units in service during the duration of the contract. Revenue recognition for this program has been recorded by the Company, and compensated by the customer, at fixed monthly increments over time, consistent with the defined contract maintenance period. The total revenue recognized over time related to the contract is \$451 thousand for the twelve months ended September 27, 2020 and the twelve months ended September 29, 2019.

The Company has on occasion, outside of the presented periods, received selective contract awards and modifications which included substantive milestone performance obligations, contract modifications, negotiated settlements and financing arrangements which could fall within the scope of FASB ASC 606 revenue recognition guidance on reoccurrence, and as such, the Company has expanded their contract review process to ensure any new contract awards, changes, modifications, financing arrangements or potential negotiated settlements are recorded in compliance to the new standard guidance.

During the twelve months ended September 27, 2020, there was \$3 thousand of revenue recognized during the period from customer deposit liabilities (deferred contract revenue). During the twelve months ended September 29, 2019 there was \$289 thousand of revenue recognized during the period from customer deposit liabilities (deferred contract revenue), and \$19 thousand of customer deposits refunded to the customer on order cancellation. As of September 27, 2020, there is \$1 thousand in customer deposit liabilities. As of the twelve months ended September 27, 2020, there are no significant deferred contract costs such as sales commissions.

Customer Advance Deposits: Customer advance deposits represent amounts collected from customers in advance of shipment or revenue recognition which relate to undelivered product due to non-substantive milestone payments or other cash in advance payment terms. As of September 27, 2020, and September 29, 2019, Optex Systems, Inc. had a balance of \$1 thousand and \$3 thousand, respectively, in customer advance deposits. Customer deposits as of September 27, 2020 represent advance customer credit card payments for product yet to be delivered.

Government Contracts: Many 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.

Impairment or Disposal of Long-Lived Assets: Optex Systems Holdings follows 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 cash flows are less than the carrying value of such assets, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to estimate future cash flows and the fair value of long-lived assets. No impairment of long-lived assets was recorded for the periods presented.

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.

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 Optex Systems Holdings will not realize tax assets through future operations. When assessing the recoverability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies and results of recent operations. Based on those estimates, management has determined that a portion of the deferred tax assets may not be realized and has established a valuation allowance against the deferred tax asset balance. We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

As of September 27, 2020, Optex Systems Inc. has a net carrying value of \$1.2 million in deferred tax assets represented by deferred tax assets of \$2.2 million and a deferred tax asset valuation allowance of (\$1.0) million against those assets. The valuation allowance has been established due to historical losses resulting in a Net Operating Loss Carryforward for each of the fiscal years 2010 through 2016 which may not be fully recognized due to an IRS Section 382 limitation related to a change in control occurring in fiscal year 2018. Due to historical losses, our valuation allowance reserve was set at 100% of the deferred tax asset for the years 2014 through 2018 for a net carrying value of zero. As of September 27, 2020, and September 29, 2019, we reviewed the deferred tax assets and determined it was more likely than not that we would be able to utilize a substantial portion of the deferred tax asset balance against future earnings. Our assumptions were based on the previous three years earnings trend as well as anticipated future earnings expected with the increases in U.S defense and Foreign Military market spending. In the twelve months ended September 29, 2019, The Company released \$1.8 million against the valuation allowance which resulted in the recognition of a tax benefit. During the twelve months ended September 27, 2020, we recognized and additional \$0.2 million in tax benefits from the deferred tax assets. We will continue to review the deferred tax assets and related valuation reserves in accordance with ASC 740 on an annual basis.

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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 September 27, 2020, 182,000 unvested restricted stock units and 300,000 restricted unvested shares (which converts to 125,347 incremental dilutive shares) were included in the diluted earnings per share calculation as dilutive, and 4,125,200 warrants were excluded as anti-dilutive. For the twelve months ended September 29, 2019, 216,500 unvested restricted stock units (which converts to 104,090 incremental dilutive shares) were included in the diluted earnings per share calculation as dilutive, and 4,125,200 warrants and 25,000 stock options were excluded as anti-dilutive.

Our outstanding warrants during the twelve months ended September 27, 2020 and September 29, 2019 are participating securities which share dividend distributions and the allocation of any undistributed earnings (deemed dividends) with our common shareholders. During the twelve months ended September 27, 2020 and September 29, 2019, there were no declared dividends and allocated undistributed earnings of \$0.6 million and \$1.9 million attributable to the participating warrants, respectively.

Note 3 — Recent Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”). ASU 2018-13 modifies the disclosure requirements on recurring and nonrecurring fair value measurements in Topic 820. The amendments in the update are effective for all entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. As such Optex Systems Holdings is required to adopt these provisions as of the fiscal year beginning on September 28, 2020. Entities are permitted to early adopt any removed or modified disclosure upon issuance of ASU 2018-13 and delay adoption of the additional disclosures until their effective date. We do not anticipate any material impact on our financial statement disclosures as a result of the amendment and are currently assessing the changes in disclosure requirements as applicable for the potential of early adoption.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (“ASU 2016-13”). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, held-to-maturity debt securities and loans, and requires entities to use a new forward-looking expected loss model that will result in the earlier recognition of allowance for losses. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for a fiscal year beginning after December 15, 2018, including interim periods within that fiscal year. Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. As such, Optex Systems Holdings is required to adopt these provisions as of the fiscal year beginning on September 28, 2020. We do not expect any material impact on our consolidated financial statements and results of operations as a result of adopting ASU 2016-13.

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In February 2016, FASB issued ASU 2016-02—Leases (Topic 842). The update is intended to increase transparency and comparability among organizations by recognizing

lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As such, Optex Systems Holdings adopted these provisions as of the fiscal year beginning on September 30, 2019. Optex Systems Holdings has two significant operating facilities leases and one equipment lease which extends beyond twelve months and fall under the guidance of ASC Topic 842. Adoption of ASC Topic 842 resulted in the balance sheet recognition of a right-of-use asset of \$1.8 million and corresponding operating lease liabilities of approximately \$1.9 million as of September 30, 2019, representing the present value of future lease payments as of the beginning of the year, for the term of the equipment lease and both segment facility leases and which assumes the exercise of a five year renewal option at the Applied Optics Center as of November 1, 2021. As of year ended September 27, 2020, The Company has recognized a \$1.4 million in right-of-use-asset and corresponding operating lease liabilities of \$1.5 million. See also Note 7.

Note 4 Segment Reporting

The Company's reportable segments are strategic businesses offering similar products to similar markets and customers; however, the companies are operated and managed separately due to differences in manufacturing technology, equipment, geographic location, and specific product mix. Applied Optics Center was acquired as a unit, and the management at the time of the acquisition was retained. Both the Applied Optics Center and Optex Systems – Richardson operate as reportable segments under the Optex Systems, Inc. corporate umbrella.

The Applied Optics Center segment also serves as the key supplier of laser coated filters used in the production of periscope assemblies for the Optex Systems-Richardson ("Optex Systems") segment. Intersegment sales and transfers are accounted for at annually agreed to pricing rates based on estimated segment product cost, which includes segment direct manufacturing and general and administrative costs, but exclude profits that would apply to third party external customers.

Optex Systems (OPX) – Richardson, Texas

Optex Systems revenues are primarily in support of prime and subcontracted military customers. Approximately 88% of the Optex Systems segment revenue is comprised of domestic military customers, and 12% is comprised of foreign military customers. Optex Systems segment revenue is derived from the U.S. government, 40%, and two major U.S. defense contractors representing 19% and 6%, of the Company's consolidated revenue, respectively.

Optex Systems is located in Richardson Texas, with leased premises consisting of approximately 49,100 square feet. As of September 27, 2020, the Richardson facility operated with 65 full time equivalent employees in a single shift operation. Optex Systems, Richardson serves as the home office for both the Optex Systems and Applied Optics Center segments.

Applied Optics Center (AOC) – Dallas, Texas

The Applied Optics Center serves primarily domestic U.S. customers. Sales to commercial customers represent 32% and military sales to prime and subcontracted customers represent 68% of the total segment revenue. Approximately 84% of the AOC revenue is derived from external customers and approximately 16% is related to intersegment sales to Optex Systems in support of military contracts. For the twelve months ended September 27, 2020, the AOC segment revenue from the U.S. government, one major commercial customer, and two major defense contractors represent approximately 10%, 9% and 5% of the Company's consolidated revenue, respectively.

The Applied Optics Center is located in Dallas, Texas with leased premises consisting of approximately 44,867 square feet of space. As of September 27, 2020, AOC operated with 37 full time equivalent employees in a single shift operation.

The financial table below presents the information for each of the reportable segments profit or loss as well as segment assets for each year. The Company does not allocate interest expense, income taxes or unusual items to segments.

	Reportable Segment Financial Information (thousands)			
	Twelve months ended September 27, 2020			
	Optex Systems Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	\$ 17,233	\$ 8,657	\$ -	\$ 25,890
Intersegment revenues	-	1,689	(1,689)	-
Total Revenue	\$ 17,233	\$ 10,346	\$ (1,689)	\$ 25,890
Interest expense	\$ -	\$ -	\$ 19	\$ 19
Depreciation and Amortization	\$ 36	\$ 212	\$ -	\$ 248
Income before taxes	\$ 1,950	\$ 1,130	\$ (724)	\$ 2,356
Other significant noncash items:				
Allocated home office expense	\$ (673)	\$ 673	\$ -	\$ -
Loss on change in fair value of warrants	\$ -	\$ -	\$ 508	\$ 508
Stock compensation expense	\$ -	\$ -	\$ 197	\$ 197
Warranty expense	\$ -	\$ 76	\$ -	\$ 76
Segment Assets	\$ 14,642	\$ 5,703	\$ -	\$ 20,345
Expenditures for segment assets	\$ 102	\$ 50	\$ -	\$ 152

	Reportable Segment Financial Information (thousands)			
	Twelve months ended September 29, 2019			
	Optex Systems Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	\$ 16,219	\$ 8,311	\$ -	\$ 24,530

Intersegment revenues	-	1,712	(1,712)	-
Total Revenue	\$ 16,219	\$ 10,023	\$ (1,712)	\$ 24,530
Interest expense	\$ -	\$ -	\$ 23	\$ 23
Depreciation and Amortization	\$ 29	\$ 311	\$ -	\$ 340
Income before taxes	\$ 2,019	\$ 1,291	\$ 1,208	\$ 4,518
Other significant noncash items:				
Allocated home office expense	\$ (684)	\$ 684	\$ -	\$ -
Gain on change in fair value of warrants	\$ -	\$ -	\$ (1,344)	\$ (1,344)
Stock option compensation expense	\$ -	\$ -	\$ 113	\$ 113
Royalty expense amortization	\$ 30	\$ -	\$ -	\$ 30
Warranty Expense	\$ -	\$ 60	\$ -	\$ 60
Segment Assets	\$ 11,570	\$ 5,986	\$ -	\$ 17,556
Expenditures for segment assets	\$ 47	\$ 96	\$ -	\$ 143

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Note 5 — Property and Equipment

A summary of property and equipment at September 27, 2020 and September 29, 2019 is as follows:

		(Thousands)	
	Estimated Useful Life	Year Ended September 27, 2020	Year Ended September 29, 2019
Property and Equipment			
Furniture and Fixtures	3-5 yrs	\$ 398	\$ 378
Machinery and Equipment	5 yrs	3,782	3,650
Leasehold Improvements	7 yrs	276	276
Less: Accumulated Depreciation		(3,450)	(3,202)
Net Property & Equipment		\$ 1,006	\$ 1,102
Depreciation Expense		\$ 248	\$ 340

During the twelve months ended September 27, 2020, Optex Systems Holdings' purchased \$20 thousand in new furniture and fixtures and \$132 thousand in machinery and equipment. During the twelve months ended September 27, 2020, there were no sales or retirements of fixed assets. During the twelve months ended September 29, 2019, Optex Systems Holdings' purchased \$143 thousand in new machinery and equipment. During the twelve months ended September 29, 2019, Optex recorded proceeds on the sale of fixed assets of \$8 thousand for the sale of \$14 thousand in machinery and equipment with a net book carrying value of \$1 thousand generating a gain on sale of \$7 thousand.

Note 6 — Accrued Expenses

The components of accrued liabilities for the years ended September 27, 2020 and September 29, 2019 are summarized below:

	Thousands	
	Year Ended September 27, 2020	Year Ended September 29, 2019
Deferred Rent Expense	\$ -	\$ 83
Accrued Vacation	469	361
Property Taxes	113	113
Operating Expenses	323	476
Payroll & Payroll Related	172	147
Total Accrued Expenses	\$ 1,077	\$ 1,180

Note 7 — Commitments and Contingencies

Rental Payments under Non-cancelable Operating Leases

Optex Systems Holdings leases its office and manufacturing facilities for the Optex Systems, Inc., Richardson address and the Applied Optics Center Dallas address, as well as certain office equipment under non-cancellable operating leases.

The leased facility under Optex Systems Inc. at 1420 Presidential Drive, Richardson, Texas consists of 49,100 square feet of space and expires March 31, 2021. The monthly base rent was \$23.0 thousand through June 30, 2019 with annual rental payment inflationary increases between 3.4% and 4.8% occurring April 1, each year. The monthly rent includes approximately \$11 thousand for additional Common Area Maintenance (CAM) fees and taxes, to be adjusted annually based on actual expenses incurred by the landlord.

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The leased facility under the Applied Optics Center at 9839 and 9827 Chartwell Drive, Dallas, Texas, consists of 44,867 square feet of space at the premises. The current lease term will expire on October 31, 2021, with two renewal options available to the tenant, each with a renewal term duration of five years. The monthly base rent was \$20.0 thousand through September 30, 2018 and escalates approximately 3% October 1, each year thereafter through 2021. The lease includes a one-month base rent abatement for October 1 through October 31, 2016 for \$19.4 thousand. The monthly rent includes approximately \$6.7 thousand for additional CAM, to be adjusted annually based on actual expenses incurred by the landlord. Our obligations to make payments under the lease are secured by a \$125,000 standby letter of credit.

The Company has one non-cancellable office equipment lease with a commencement date of October 1, 2018 and a term of 39 months. The lease cost for the equipment is \$1.5 thousand per month from October 1, 2018 through December 31, 2021.

Optex Systems Holdings adopted the provisions of ASC Topic 842 “Leases” as of the fiscal year beginning on September 30, 2019. Optex Systems Holdings has two significant operating facilities leases and one equipment lease which extends beyond twelve months and fall under the guidance of ASC Topic 842. Adoption of ASC Topic 842 resulted in the balance sheet recognition of a right-of-use asset of \$1.8 million and corresponding operating lease liabilities of approximately \$1.9 million as of September 30, 2019, representing the present value of future lease payments for the term of the equipment lease and both segment facility leases and which assumes the exercise of a five year renewal option at the Applied Optics Center as of November 1, 2021.

As of September 27, 2020, the remaining minimum base lease and estimated common area maintenance (CAM) payments under the non-cancelable office and facility space leases are as follows:

Non-cancellable Operating Leases Minimum Payments

Fiscal Year	(Thousands)				
	Optex Richardson Facility Lease Payments	Applied Optics Center Facility Lease Payments	Office Equipment Lease Payments	Consolidated Total Lease Payments	Total Variable CAM Estimate
2021 Base year lease	148	263	18	429	149
2022 Base year lease	-	22	5	27	7
Total base lease payments	\$ 148	\$ 285	\$ 23	\$ 456	\$ 156
2022-2026 Lease option-assumed exercise ⁽²⁾	-	1,312	-	1,312	
Total lease payments	\$ 148	\$ 1,597	\$ 23	\$ 1,768	
Imputed interest on lease payments ⁽¹⁾	(3)	(310)	(1)	(314)	
Total Operating Lease Liability⁽³⁾	\$ 145	\$ 1,287	\$ 22	\$ 1,454	
Right-of-use Asset	\$ 126	\$ 1,268	\$ 22	\$ 1,416	

(1) Assumes a discount borrowing rate of 7.5%.

(2) Assumes only one of the two five-year options are exercised. The Company believes it is reasonably certain to exercise the first of the two five-year options but believes the additional five-year option falls outside of the range of reasonable predictability.

(3) Short-term and Long-term portion of Operating Lease Liability is \$417 thousand and \$1,037 thousand, respectively.

Total expense under both facility lease agreements for the twelve months ended September 27, 2020 was \$735 thousand. Total expense under both facility lease agreements as of the twelve months ended September 29, 2019 was \$700 thousand.

Total office equipment rentals included in operating expenses was \$22 thousand for the twelve months ended September 27, 2020 and \$15 thousand for the twelve months ended September 29, 2019.

As of September 29, 2019, there was \$83 thousand in unamortized deferred rent included in accrued liabilities which was reclassified to the right of use asset on adoption of ASC842.

Note 8 — Debt Financing

Credit Facility — Avidbank

The Company amended its revolving credit facility with Avidbank pursuant to a Seventh Amendment to Amended and Restated Loan Agreement, dated as of April 5, 2018. The amended revolving maturity date was April 21, 2020. The facility provided for up to \$2.2 million in financing against eligible receivables and was subject to meeting certain covenants including an asset coverage ratio test for up to twenty months. The material terms of the amended revolving credit facility were as follows:

- The interest rate for all advances was the then in effect prime rate plus 2.5% and is subject to a minimum interest payment requirement per six-month period of \$10,000.
- Interest was paid monthly in arrears.
- The loan period was from April 5, 2018 through April 21, 2020 at which time any outstanding advances, and accrued and unpaid interest thereon, would be due and payable.
- The obligations of Optex Systems, Inc. to Avidbank were secured by a first lien on all of its assets (including intellectual property assets should it have any in the future) in favor of Avidbank.
- The facility contained customary events of default. Upon the occurrence of an event of default that remained uncured after any applicable cure period, Avidbank’s commitment to make further advances would terminate, and Avidbank would also be entitled to pursue other remedies against Optex Systems, Inc. and the pledged collateral.
- Pursuant to a guaranty executed by Optex Systems Holdings in favor of Avidbank, Optex Systems Holdings had guaranteed all obligations of Optex Systems, Inc. to Avidbank.
- On April 21, 2018 and each anniversary thereof for so long as the Revolving Facility was in effect, the Company would pay a facility fee equal to one half of one percent (0.5%) of the Revolving Line.
- The Company could maintain accounts at third party banks so long as the total in those other bank accounts does not exceed 20% of the total on deposit at Avidbank, and it would remit to Avidbank monthly statements for all of those accounts within 30 days of the end of each month.

In order to meet the security requirement under the lease, we entered into a letter of credit with Avidbank on October 17, 2016 in the amount of \$250,000, which expires on October 17, 2019 and is renewable by us for successive one year periods unless the bank notifies us no later than 60 days prior to the end of the initial or any extended term that

it shall not renew the letter of credit. Effective as of October 31, 2019 the letter of credit was reduced to \$125,000 pursuant to the lease terms.

As of September 29, 2019, the outstanding principal balance on the line of credit was \$250 thousand. For the year ended September 29, 2019 the total interest expense against the outstanding line of credit balance was \$23 thousand. On April 16, 2020, the Company terminated its facility with Avidbank and entered into a new facility with BBVA USA.

Credit Facility — BBVA, USA

On April 16, 2020, Optex Systems Holdings, Inc. and its subsidiary, Optex Systems, Inc. (the “Borrower”) entered into a line of credit facility (the “Facility”) with BBVA, USA (“BBVA”) The substantive terms are as follows:

- The principal amount of the Facility is \$2.25 million. The Facility matures on April 15, 2022. The interest rate is variable based on BBVA’s Prime Rate plus a margin of -0.250%, initially set at 3% at loan origination, and all accrued and unpaid interest is payable monthly in arrears starting on May 15, 2020; and the principal amount is due in full with all accrued and unpaid interest and any other fees on April 15, 2022.
- There are commercially standard covenants including, but not limited to, covenants regarding maintenance of corporate existence, not incurring other indebtedness except trade debt, not changing more than 25% stock ownership of Borrower, and a Fixed Charge Coverage Ratio of 1.25:1, with the Fixed Charge Coverage Ratio defined as (earnings before taxes, amortization, depreciation, amortization and rent expense less cash taxes, distribution, dividends and fair value of warrants) divided by (current maturities on long term debt plus interest expense plus rent expense). As of September 27, 2020, the Company was in compliance with the covenants.
- The Facility contains commercially standard events of default including, but not limited to, not making payments when due; incurring a judgment of \$10,000 or more not covered by insurance; not maintaining collateral and the like.
- The Facility is secured by a first lien on all of the assets of Borrower.

The outstanding balance on the BBVA facility was \$377 thousand as of September 27, 2020. For the year ended September 27, 2020, the total interest expense against the outstanding line of credit balance was \$19 thousand.

Note 9 — Stock Based Compensation

Stock Options issued to Employees, Officers and Directors

The Optex Systems Holdings 2009 Stock Option Plan provides for the issuance of up to 75,000 shares to the Company’s officers, directors, employees and to independent contractors who provide services to Optex Systems Holdings as either incentive or non-statutory stock options determined at the time of grant. As of September 29, 2019, there were 25,000 fully vested stock options outstanding at an exercise price of \$10 per share and an expiration date of December 18, 2020. During the twelve months ended September 27, 2020, all of the 25,000 outstanding stock options were repurchased at \$0.01 per option for a total transaction of \$250. There were no new grants of stock options during the twelve months ended September 27, 2020. As of September 27, 2020, there are zero stock options outstanding.

Restricted Stock Units issued to Officers and Employees

On June 14, 2016, the Compensation Committee (“Committee”) of the Board of Directors of Optex Systems Holdings, Inc. approved the Company’s 2016 Restricted Stock Unit Plan (the “Plan”). The Plan provides for the issuance of stock units (“RSU”) for up to 1,000,000 shares of the Company’s common stock to Optex Systems Holdings officers and employees. Each RSU constitutes a right to receive one share of the Company’s common stock, subject to vesting, which unless otherwise stated in an RSU agreement, shall vest in equal amounts on the first, second and third anniversary of the grant date. Shares of the Company’s common stock underlying the number of vested RSUs will be delivered as soon as practicable after vesting. During the period between grant and vesting, the RSUs may not be transferred, and the grantee has no rights as a shareholder until vesting has occurred. If the grantee’s employment is terminated for any reason (other than following a change in control of the Company or a termination of an officer other than for cause), then any unvested RSUs under the award will automatically terminate and be forfeited. If an officer grantee’s employment is terminated by the Company without cause or by the grantee for good reason, then, provided that the RSUs have not been previously forfeited, the remaining unvested portion of the RSUs will immediately vest as of the officer grantee’s termination date. In the event of a change in control, the Company’s obligations regarding outstanding RSUs shall, on such terms as may be approved by the Committee prior to such event, immediately vest, be assumed by the surviving or continuing company or cancelled in exchange for property (including cash).

On June 15, 2016, the Company issued 150,000 RSUs to its Chief Executive Officer, Danny Schoening, and 50,000 RSUs to its Chief Financial Officer, Karen Hawkins. The RSUs issued to Mr. Schoening and Ms. Hawkins vest as follows: 34% on January 1, 2017, 33% on January 1, 2018 and 33% on January 1, 2019. The total market value of the restricted stock units based on the share price of \$1.85 as of June 15, 2016 is \$372 thousand. The cost of the shares is amortized on a straight-line basis across the vesting periods. These restricted stock units were fully vested as of January 1, 2019.

On June 15, 2017, the Company issued 50,000 RSUs to its Applied Optics Center General Manager and new board member, Bill Bates. Pursuant to the RSU agreements the RSUs issued to Mr. Bates will vest as follows: 34% on January 1, 2018, 33% on January 1, 2019 and 33% on January 1, 2020. The total market value of the restricted stock units based on the share price of \$0.95 as of June 15, 2016 is \$47.5 thousand. The cost of the shares is amortized on a straight-line basis across the vesting periods. As of September 29, 2019, there were 16,500 unvested restricted stock units remaining from the June 15, 2017 issue which vested on January 1, 2020.

On January 2, 2019, the Company granted 150,000 and 50,000 restricted stock units with a January 2, 2019 grant date, to Danny Schoening and Karen Hawkins, respectively, vesting as of January 1 each year subsequent to the grant date over a three-year period at a rate of 34% in year one, and 33% each year thereafter. The stock price at grant date was \$1.32 per share. The Company is amortizing the grant date fair market value of \$264 thousand to stock compensation expense on a straight-line basis across the three-year vesting period beginning on January 2, 2019.

On February 17, 2020, the Company granted 50,000 restricted stock units to Bill Bates, General Manager of the Applied Optics Center. The restricted stock units vest as of January 1 each year subsequent to the grant date over a three-year period at a rate of 34% in year one, and 33% each year thereafter. The stock price at grant date was \$2.13 per share. The Company will amortize the grant date fair market value of \$107 thousand to stock compensation expense on a straight-line basis across the three-year vesting period beginning on February 17, 2020.

The following table summarizes the status of Optex Systems Holdings’ aggregate non-vested restricted stock units granted under the Company’s 2016 Restricted Stock Unit Plan:

	Outstanding Unvested RSU's	Wgt Average Grant Date Fair Value
Unvested as of September 30, 2018	99,000	\$ 1.56
Granted	200,000	\$ 1.32
Vested	(82,500)	\$ 1.68
Unvested as of September 29, 2019	216,500	\$ 1.29
Granted	50,000	\$ 2.13
Vested	(84,500)	\$ 1.25
Unvested as of September 27, 2020	<u>182,000</u>	<u>\$ 1.54</u>

On January 7, 2019, the Company issued 55,565 common shares to three directors and officers, net of tax withholding of \$37 thousand, in settlement of 82,500 restricted stock units which vested on January 1, 2019.

On January 7, 2020, the Company issued 59,447 common shares to one director and two officers, net of tax withholding of \$54 thousand, in settlement of 84,500 restricted stock units which vested on January 1, 2020.

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Restricted Shares Issued to Independent Board Members

On April 30, 2020, the Optex Systems Holdings, Inc. Board of Directors held a meeting and voted to increase the annual board compensation for the three independent directors from \$22,000 to \$36,000 with an effective date of January 1, 2020, in addition to granting 100,000 restricted shares to each independent director which shall vest at a rate of 20% per year (20,000 shares) each January 1st, over the next five years, through January 1, 2025. The total fair market value for the 300,000 shares is \$525 thousand based on the stock price of \$1.75 as of April 30, 2020. The Company will amortize the fair market value to stock compensation expense on a straight-line basis across the five-year vesting period beginning on April 30, 2020. As of period ended September 27, 2020, none of the restricted shares had vested.

Stock Based Compensation Expense

Equity compensation is amortized based on a straight-line basis across the vesting or service period as applicable. The recorded compensation costs for restricted shares granted and restricted stock units awarded as well as the unrecognized compensation costs are summarized in the table below:

	Stock Compensation (thousands)			
	Recognized Compensation Expense Twelve months ended		Unrecognized Compensation Expense As of year ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Restricted Shares	\$ 79	\$ —	\$ 446	\$ —
Restricted Stock Units	118	113	188	200
Total Stock Compensation	<u>\$ 197</u>	<u>\$ 113</u>	<u>\$ 634</u>	<u>\$ 200</u>

The unrecognized compensation expense for restricted shares and restricted stock units is expected to be recognized over a weighted-average period of 4.25 years and 1.67 years, respectively.

Note 10 — 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 are determined annually at the discretion of the Board of Directors at the beginning of each fiscal year. For the fiscal years ended September 29, 2019 and September 30, 2018, the Company offered a qualified automatic contribution arrangement (QACA) with a 100% match of the first 1% and 50% matching of the next 5% and a 2 year vesting requirement. The Company's contribution expense for the fiscal years ended September 27, 2020 and September 29, 2019 were \$165 thousand and \$153 thousand, respectively.

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Note 11 — Stockholders Equity

Dividends

There were no dividends declared or paid during the twelve months ended September 27, 2020 and September 29, 2019.

Common stock

During the twelve months ended September 29, 2019, there were 55,565 common shares issued, net of tax withholding, in settlement of 82,500 restricted stock units which vested on January 1, 2019. On June 12, 2019, we issued 47,504 common shares for the exercise of 47,504 warrants at an exercise price of \$1.50 per share.

During the twelve months ended September 27, 2020, there were 59,447 common shares issued, net of tax withholding, in settlement of 84,500 restricted stock units which vested on January 1 2020. On April 30, 2020, there were 300,000 restricted shares issued to independent board members. There were no other issuances of common stock during the twelve months ended September 29, 2019.

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On June 8, 2020 the Company announced authorization for a \$1 million stock repurchase program. The shares authorized to be repurchased under the new repurchase program may be purchased from time to time at prevailing market prices, through open market or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC. During the twelve months ended September 27, 2020, there were 105,733 common shares repurchased through the program at a cost of \$200 thousand. The shares have been returned to the Treasury. A summary of the purchases under the plan follows:

Fiscal Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan	Maximum dollar value that may yet be purchased under the plan
May 24, 2020 through June 28, 2020	34,243	\$ 1.84	34,243	\$ 936,857
June 29, 2020 through July 26, 2020	6,806	\$ 1.89	6,806	923,994
July 27, 2020 through August 23, 2020	10,688	\$ 1.96	10,688	903,062
August 23, 2020 through September 27, 2020	53,996	\$ 1.90	53,996	800,397
Total shares repurchased as of period ended September 27, 2020	105,733	\$ 1.89	105,733	\$ 800,397

Plan announced on June 8, 2020 for purchases up to \$1 million at prevailing market prices.

As of September 29, 2019, and September 27, 2020, the total outstanding common shares were 8,436,422 and 8,690,136, respectively. As of and September 27, 2020, there are 105,733 shares held in Treasury Stock. From September 28 through December 10, 2020 the company has repurchased 170,408 shares for \$347 thousand dollars.

Warrants

On August 26, 2016, Optex Systems Holdings Inc. issued 4,323,135 warrants to new shareholders and the underwriter, in connection with a public share offering. The warrants entitle the holder to purchase one share of our common stock at an exercise price equal to \$1.50 per share at any time on or after August 26, 2016 (the "Initial Exercise Date") and on or prior to the close of business on August 26, 2021 (the "Termination Date").

Pursuant to a warrant agreement between Optex Systems Inc. and Equity Stock Transfer, LLC, as warrant agent, the warrants will be issued in book-entry form and shall initially be represented only by one or more global warrants deposited with the warrant agent, as custodian on behalf of The Depository Trust Company, or DTC, and registered in the name of Cede & Co., a nominee of DTC, or as otherwise directed by DTC.

The exercise price and number of shares of common stock issuable upon exercise of the warrants may be adjusted in certain circumstances, including in the event of a stock splits, stock dividend, extraordinary dividend on or recapitalization, reorganization, merger or consolidation.

Under the terms of the warrant agreement, Optex Systems Holdings Inc. has agreed to use their best efforts to maintain the effectiveness of the registration statement and current prospectus relating to common stock issuable upon exercise of the warrants until the expiration of the warrants. During any period Optex fails to have maintained an effective registration statement covering the shares underlying the warrants, the warrant holder may exercise the warrants on a cashless basis. The warrant holders do not have the rights or privileges of holders of common stock and any voting rights until they exercise their warrants and receive shares of common stock, except as set forth in the warrants. After the issuance of shares of common stock upon exercise of the warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by stockholders.

Subject to limited exceptions, a holder of warrants will not have the right to exercise any portion of its warrants if the holder (together with such holder's affiliates, and any persons acting as a group together with such holder or any of such holder's affiliates) would beneficially own a number of shares of common stock in excess of 4.99% of the shares of our common stock then outstanding after giving effect to such exercise (the "Beneficial Ownership Limitation"); provided, however, that, upon notice to the Company, the holder may increase or decrease the Beneficial Ownership Limitation, provided that in no event shall the Beneficial Ownership Limitation exceed 9.99% and any increase in the Beneficial Ownership Limitation will not be effective until 61 days following notice of such increase from the holder to us.

No fractional shares of common stock will be issued upon exercise of the warrants. If, upon exercise of the warrants, a holder would be entitled to receive a fractional interest in a share, Optex Systems Holdings Inc. will, upon exercise, round up to the nearest whole number of shares of common stock to be issued to the warrant holder. If multiple warrants are exercised by the holder at the same time, Optex Systems Holdings Inc. will aggregate the number of whole shares issuable upon exercise of all the warrants. There is no established trading market for the warrants. The warrants have been approved for quotation on the OTCQB under ticker symbol "OPXXW".

In the event of a fundamental transaction (as defined in warrant), then the Company or any successor entity will pay at the holder's option, exercisable at any time concurrently with or within 30 days after the consummation of the fundamental transaction, an amount of cash equal to the value of the remaining unexercised portion of the warrants on the date of consummation of the fundamental transaction as determined in accordance with the Black Scholes option pricing model.

As of September 30, 2018, there were 4,260,785 warrants outstanding. During the twelve months ended September 29, 2019, 47,504 of the warrants were exercised. On June 26, 2019, the Company repurchased 88,081 warrants at \$0.85 per warrant for a total transaction cost of \$74,869. During the twelve months ended September 27, 2020, there were zero warrants exercised or repurchased. As of September 27, 2020, there were 4,125,200 outstanding warrants remaining.

Note 12 — Warrant Liabilities

On August 26, 2016, Optex Systems Holdings, Inc. issued 4,323,135 warrants to new shareholders and the underwriter, in connection with a public share offering. The warrants entitle the holder to purchase one share of our common stock at an exercise price equal to \$1.50 per share at any time on or after August 26, 2016, and on or prior to the close of business on August 26, 2021. The Company determined that these warrants are free standing financial instruments that are legally detachable and separately exercisable from the common stock included in the public share offering. Management also determined that the warrants are puttable for cash upon a fundamental transaction at the option of the holder and as such required classification as a liability pursuant to ASC 480 "Distinguishing Liabilities from Equity". The Company has no plans to consummate a fundamental transaction and does not believe a fundamental transaction is likely to occur during the remaining term of the outstanding warrants. In accordance with the accounting guidance, the outstanding warrants are recognized as a warrant liability on the balance sheet and are measured at their inception date fair value and subsequently re-measured at each reporting period with changes being recorded as a component of other income in the consolidated statement of operations.

The fair value of the warrant liabilities presented below were measured using either a BSM valuation model. Significant inputs into the respective model at the inception and reporting period measurement dates are as follows:

Valuation Assumptions	Issuance date August 26, 2016	Period ended October 1, 2017	Period ended September 30, 2018	Period ended September 29, 2019	Period ended September 27, 2020
Exercise Price(1)	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50
Warrant Expiration Date (1)	8/26/2021	8/26/2021	8/26/2021	8/26/2021	8/26/2021
Stock Price (2)	\$ 0.95	\$ 0.98	\$ 1.71	\$ 1.56	\$ 1.96
Interest Rate (annual) (3)	1.23%	1.62%	2.88%	1.63%	0.12%
Volatility (annual) (4)	246.44%	179.36%	64.05%	53.66%	51.67%
Time to Maturity (Years)	5	3.9	2.9	1.9	0.9
Calculated fair value per share	\$ 0.93	\$ 0.87	\$ 0.82	\$ 0.49	\$ 0.62

(1) Based on the terms provided in the warrant agreement to purchase common stock of Optex Systems Holdings, Inc. dated August 26, 2016.

(2) Based on the trading value of common stock of Optex Systems Holdings, Inc. as of each presented period ending date.

(3) Interest rate for U.S. Treasury Bonds, as of each presented period ending date, as published by the U.S. Federal Reserve.

(4) Based on the historical daily volatility of Optex Systems Holdings, Inc. as of each presented period ending date.

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The warrants outstanding and fair values at each of the respective valuation dates are summarized below:

Warrant Liability	Warrants Outstanding	Fair Value per Share	Fair Value (000's)
Fair Value as of period ended 9/30/2018	4,260,785	\$ 0.82	\$ 3,500
Reclassification to additional paid in capital upon exercise of warrants ⁽¹⁾	(47,504)		(48)
Warrant buyback and cancellation ⁽²⁾	(88,081)		(72)
Gain on Change in Fair Value of Warrant Liability			(1,344)
Fair Value as of period ended 9/29/2019	4,125,200	\$ 0.49	\$ 2,036
Loss on Change in Fair Value of Warrant Liability			508
Fair Value as of period ended 9/27/2020	4,125,200	\$ 0.62	\$ 2,544

(1) Exercise of warrants for gross proceeds of \$72 thousand and a warrant liability fair market value of \$48 thousand as of the exercise date.

(2) Buyback of 88,081 warrants at \$0.85 per warrant for a total consideration of (\$75) thousand and a warrant liability fair market value of \$72 thousand.

The warrant liabilities are considered Level 3 liabilities on the fair value hierarchy as the determination of fair value includes various assumptions about of future activities and the Company's stock prices and historical volatility as inputs.

Note 13 — Income Taxes

The income tax provision for the years ended September 27, 2020 and September 29, 2019 include the following:

	(Thousands)	
	2020	2019
Current income tax expense:		
Current year federal income tax	\$ 403	\$ 279
Prior year tax adjustment	(59)	(15)
	<u>344</u>	<u>264</u>
Deferred income tax provision (benefit):		
Federal	187	(1,414)
Provision for (Benefit from) income taxes, net	<u>\$ 531</u>	<u>\$ (1,150)</u>

As of September 27, 2020, Optex Systems Inc. has a net carrying value of \$1.2 million in deferred tax assets represented by deferred tax assets of \$2.2 million and a deferred tax asset valuation allowance of (\$1.0) million against those assets. The valuation allowance has been established due to historical losses resulting in a Net Operating Loss Carryforward for each of the fiscal years 2010 through 2016 which may not be fully recognized due to an IRS Section 382 limitation related to a change in control occurring in fiscal year 2018. Due to historical losses, our valuation allowance reserve was set at 100% of the deferred tax asset for the years 2014 through 2018 for a net carrying value of zero. As of September 27, 2020, and September 29, 2019, we reviewed the deferred tax assets and determined it was more likely than not that we would be able to utilize a substantial portion of the deferred tax asset balance against future earnings. Our assumptions were based on the previous three years earnings trend as well as anticipated future earnings expected with the increases in U.S defense and Foreign Military market spending. In the twelve months ended December 29, 2019, The Company released \$1.8 million against the valuation allowance which resulted in the recognition of a tax benefit. During the twelve months ended September 27, 2020, we recognized an additional \$0.05 million in tax benefits from the deferred tax assets. We will continue to review the deferred tax assets and related valuation reserves in accordance with ASC 740 on an annual basis.

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The income tax provision for Optex Systems as of September 27, 2020 differs from those computed using the statutory federal tax rate in the respective years due to the following permanent differences:

	2020	%	2019	%
Tax provision (benefit) at statutory federal rate	\$ 495	21	\$ 949	21
Nondeductible expenses	108	5	(281)	(6)
Other	35	1	79	2
Prior year federal income tax adjustment	(59)	(2)	(15)	-
Change in deferred tax valuation allowance	(48)	(2)	(1,882)	(42)
Provision for (benefit from) income taxes, net	<u>\$ 531</u>	<u>23</u>	<u>\$ (1,150)</u>	<u>(25)</u>

Deferred income taxes recorded in the balance sheets result 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:

(Thousands)	
Deferred Tax Asset	
As of September 27, 2020	As of September 29, 2019

Stock Compensation	\$	64	\$	88
Inventory Reserve		119		150
Unicap		31		39
Deferred Compensation		39		31
Fixed assets		(18)		(13)
Goodwill Amortization		299		398
Intangible Asset Amortization		170		226
Net Operating Losses		1,362		1,407
Other		124		99
Subtotal	\$	2,190	\$	2,425
Valuation allowance		(963)		(1,011)
Net deferred asset (liability)	\$	1,227	\$	1,414

The Company has a net loss carryforward of \$6.5 million as of September 27, 2020 as compared to a net loss carryforward of \$6.7 million as of September 29, 2019. Due to an IRS section 382 change in control limitation which was effective during the fiscal year ended 2017, it is anticipated that the company may only realize \$2.6 million of the current net operating loss carryforward for a net tax benefit of \$0.6 million over the next sixteen years.

As the result of the application of the FASB ASC 740-10, Optex Systems Holdings has no unrecognized tax benefits. By statute, the tax years ended in September 30, 2020, September 29, 2019 and September 30, 2018 are open to examination by the major taxing jurisdictions to which the Optex Systems Holdings is subject.

During the twelve months ended September 30, 2020 the Company paid \$289 thousand in income taxes, and has a net tax refund due related to the fiscal year 2020 tax year of (\$20) thousand included in prepaid expenses. During the twelve months ended September 29, 2019 the Company paid \$360 thousand in income taxes, and had a net tax refund due related to the fiscal year 2019 tax year of (\$75) thousand included in prepaid expenses. There were additional tax adjustments of \$59 thousand due to changes from the provisional 2019 rates as compared to the federal income tax report associated with research and development tax credits and other adjustments.

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Note 14 — Subsequent Events

We entered into an updated employment agreement with Danny Schoening dated October 15, 2020. The term of the agreement commenced as of October 15, 2020 and the current term ends on November 30, 2021. Mr. Schoening's base salary continues to be \$284,645 per annum. Mr. Schoening will be eligible for a performance bonus which is based upon a rolling three-year operating plan adopted by our Board of Directors. The bonus will be tied to operating metrics decided by our board against the three-year plan, and such metrics will be decided annually and tie to the three-year plan. The target bonus equates to 30% of Mr. Schoening's base salary. Our board will have discretion to alter the performance bonus upward or downward by 20% based on its good faith discretion.

The employment agreement events of termination consist of: (i) death or permanent disability of Mr. Schoening; (ii) termination by us 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 us and (iv) termination by Mr. Schoening for good reason (including breach by us 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 us or our successor changing ownership or a sale of all or substantially all of our assets, without the surviving entity assuming the obligations under the agreement). For a termination by us for cause or upon death or permanent disability of Mr. Schoening, Mr. Schoening shall be paid salary and for a termination due to his death or permanent disability, also any bonus earned through the date of termination. For a termination by us without cause or by Mr. Schoening with good reason, Mr. Schoening shall also be paid six months' base salary in effect.

As of December 10, 2020, there have been a total of 276,141 shares repurchased pursuant to the stock repurchase plan announced on June 8, 2020 for a total of \$547 thousand. From September 28, 2020 through December 10, 2020 the company repurchased 170,408 shares for \$347 thousand dollars.

On December 15, 2020, the Company's Board of Directors approved executive bonuses for Danny Schoening, CEO, of \$48 thousand to be paid in January, 2021, and Karen Hawkins, CFO, of \$37 thousand to be paid in December 2020.

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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 September 27, 2020, 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 September 27, 2020, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the year ended September 27, 2020, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 September 27, 2020. Management's assessment of internal control over financial reporting was conducted using the criteria in the 2013 Internal Control-Integrated Framework 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 September 27, 2020. We have thus concluded that our internal control over financial reporting was effective as of September 27, 2020.

PART III

Item 10 Directors, Executive Officers and Corporate Governance

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 regularly scheduled board and committee meetings.

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Our company is led by Danny Schoening, who has served as COO since 2009 and was appointed CEO and Director in 2013, and became Chairman in 2017.

On November 4, 2019, the Board of Directors of Optex Systems Holdings, Inc. (the "Company") appointed three new directors: Larry Hagenbuch, Dale Lehmann and Rimmy Malhotra, all of whom have been qualified as independent as defined under Nasdaq Listing Rules by the Board. All three new independent directors are compensated in accordance with the Company's non-employee director compensation policies. Larry Hagenbuch serves as the Audit Committee Chair and Rimmy Malhotra serves as the Compensation Committee Chair. Bill Bates and Karen Hawkins have resigned as directors of the Company in order to enable the Company to have this reconstituted Board comprised of a majority of independent directors. David Kittay also resigned from the Company's Board and Audit Committee to pursue other business interests.

As of December 10, 2020, our board of directors consists of four directors which includes three independent directors and one non-independent directors as discussed below.

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 our directors provide effective oversight of the risk management function, especially through dialogue between the full board and our management. Our directors serve for a one year term and until their successors are elected and duly qualify.

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.

The following table sets forth certain information with respect to our directors and executive officers:

Name	Age	Position
Danny Schoening ⁽⁴⁾	56	Chairman and Director, Chief Executive Officer, Chief Operating Officer
Karen L. Hawkins ⁽¹⁾	55	Chief Financial Officer (<i>resigned as Director on November 4, 2019</i>)
Larry Hagenbuch ⁽³⁾	54	Director, Audit Committee Chair (<i>appointed November 4, 2019</i>)
Dale Lehmann ⁽³⁾	62	Director (<i>appointed November 4, 2019</i>)
Rimmy Malhotra ⁽³⁾	45	Director, Compensation Committee Chair (<i>appointed November 4, 2019</i>)
Billy Bates ⁽²⁾	58	General Manager, Applied Optics Center, (<i>resigned as Director on November 4, 2019</i>)

(1) Effective June 9, 2017, Karen Hawkins, Chief Financial Officer and was appointed as a Director. Ms. Hawkins stepped down from the board on November 4, 2019 to enable the appointment of new independent board members.

(2) Billy Bates was appointed as a Director on June 9, 2017. Mr. Bates stepped down from the board on November 4, 2019 to enable the appointment of new independent board members.

(3) Appointed to the board as a director effective as of November 4, 2019 as independent directors as such term is defined under NASDAQ Listing Rule 5605(b)(2) and Exchange Act Rule 10A-3.

(4) Danny Schoening has served as COO since 2009 and CEO and Director since 2013 and has served as Chairman of the board since June 9, 2017.

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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 and was appointed Chief Executive Officer and as a Director in 2013. 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 ISO 9001:2000 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 Bachelor's of Science in Manufacturing Engineering Technology from the University of Nebraska, an MBA from Southern Methodist University, and holds three U.S. patents. The Board of Directors has determined that Mr. Schoening is suited to sit on our Board because of his industry experience and as he is the CEO.

Karen L. Hawkins. On November 19, 2014, Karen Hawkins was appointed as our Chief Financial Officer. Ms. Hawkins had previously served as our 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 has over 30 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 25 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 and became a Certified Public Accountant in 1992.

Larry Hagenbuch joins the Board and has accepted the role of Audit Committee Chair. Larry is currently a Managing Director at Huron Consulting Group. Prior to that, Larry was the Chief Operating Officer and Chief Financial Officer for J. Hilburn, Inc., a custom clothier for men from Dec 2009 to May 2019. He served on the board of directors of Remy International (REMY) from November 2008 until that company's sale to BorgWarner in November 2015, where he served on the audit and compensation committees. Larry also currently serves on the board of directors for both Arotech (ARTX) and HireQuest (HQI). Larry has served in senior management positions for SunTx Capital Partners, Alix Partners, GE / GE Capital, and American National Can Group, Inc. Larry began his professional career in the United States Navy.

Dale Lehmann joins the Board as an industry expert having over 30 years of management, strategy, product development, delivery and operational experience in the electro-optical industry. Dale was the Director of Business Development & Strategy for General Dynamics Global Imaging Technologies Group from 2014 through 2017. Prior to that, Dale was the Senior Vice President & General Manager of the Infrared Products Group for L-3 Communications/Cincinnati Electronics from 1995 through 2014. Dale currently sits on the Board of Directors for Adimec USA, a provider of application specific imaging solutions.

Rimmy Malhotra joins the Board and has accepted the role of Compensation Committee Chair. Rimmy currently manages The Nicoya Fund, an investment partnership whose partners include, high net worth individuals, entrepreneurs and family offices and has acted in that capacity since 2013. He currently serves as Vice-Chairman of HireQuest, a NASDAQ listed staffing operator. He holds an MBA from The Wharton School in Finance, MA in International Affairs from The University of Pennsylvania and a Bachelor of Science in Computer Science from Johns Hopkins University.

Bill Bates. Mr. Bates has thirty-five years of experience related to optical component and system manufacturing. He is currently the General Manager of the Applied Optics Center in Dallas, Texas where he oversees the Thin-film Coating and Optical Assembly Operations. He has held various positions throughout his thirty-five years of experience within Litton Industries, Northrop Grumman Corporation, and L-3 Communications. He previously served as Vice President and General Manager within the Warrior Systems Division of L-3 Communications. Mr. Bates received a Bachelor of Science of Business Administration from DeVry University and an MBA from the University of Texas at Dallas.

Family Relationships

There are no family relationships among the officers and directors.

Presiding Director

Our Chairman, Danny Schoening, is the presiding director at meetings. In the event that the Chairman is unavailable to serve at a particular meeting, responsibility for the presiding director function will rotate among the directors in attendance.

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 actively supports management's adoption and implementation of many "best practices" in the area of corporate governance, including annual review of internal control changes, compensation practices, executive management and auditor retention. In 2019 and 2018, all directors attended a minimum of 75% of the 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 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 4 meetings (including special meetings) and took action by unanimous written consent 2 times during our fiscal year ended September 27, 2020.

Board Committees

As of November 4, 2019, Larry Hagenbuch was appointed to the board as an independent director and has accepted the role of Audit Committee Chair and Rimmy Malhotra was appointed to the board as an independent director and has accepted the role of Compensation Committee Chair. Each committee has three independent board members including Dale Lehmann.

Mr. Kittay, resigned as of November 4, 2019 and previously served as our only independent director, and as chair of the Audit and Compensation Committee until November 3, 2019.

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.

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Board Independence

Our board of directors has determined that three of our directors would meet the independence requirements of the Nasdaq Capital Market, if such standards applied to the Company. 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, Danny Schoening 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 officers and directors 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 our 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	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$ (2))	Option Awards (\$ (1))	All Other Compensation (\$)	Total (\$)
Danny Schoening, CEO & Board Chairman	2020	\$ 284,645	\$ 74,719	\$ 110,670	\$ -	\$ -	\$ 470,034
	2019	279,504	76,216	73,740	-	-	429,460
	2018	262,417	152,432	93,000	4,273	-	512,122
Karen Hawkins CFO & Board Director	2020	\$ 205,425	\$ 53,924	\$ 36,890	\$ -	\$ -	\$ 296,239
	2019	201,537	55,691	24,580	-	-	281,808
	2018	188,055	55,691	31,000	2,137	-	276,883
Bill Bates AOC GM & Board Director	2020	\$ 150,834	\$ 22,236	\$ 35,805	\$ -	\$ -	\$ 208,875
	2019	148,269	28,561	15,675	-	-	192,505
	2018	140,220	28,044	19,210	-	-	187,474
Stanley A. Hirschman, President, resigned ⁽³⁾	2018	\$ -	\$ -	\$ -	\$ 2,137	\$ -	\$ 2,137

(1) 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 2014 through fiscal 2016, as required by FASB ASC 718, disregarding any estimates for forfeitures relating to service-based vesting conditions. For the assumptions relating to these valuations, see note 10 to our fiscal 2014 audited financial statements.

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(2) On June 15, 2016, the Company issued 150,000 RSUs to its Chief Executive Officer, Danny Schoening, and 50,000 RSUs to its Chief Financial Officer, Karen Hawkins. The RSUs issued to Mr. Schoening and Ms. Hawkins vest as follows: 34% on January 1, 2017, 33% on January 1, 2018 and 33% on January 1, 2019. The total market value of the restricted stock units based on the shares price of \$1.85 as of June 15, 2016 is \$372 thousand. The restricted stock units were fully vested on January 1, 2019. On June 15, 2017, the Company issued 50,000 RSUs to its General Manager (Applied Optical Products). The RSUs issued to Mr. Bates vest as follows: 34% on January 1, 2018, 33% on January 1, 2019 and 33% on January 1, 2020. The total market value of the restricted stock units granted to Mr. Bates based on the shares price of \$0.95 as of June 15, 2017 is \$47.5 thousand. On January 2, 2019, the Company issued 150,000 RSUs to its Chief Executive Officer, Danny Schoening, and 50,000 RSUs to its Chief Financial Officer, Karen Hawkins. The RSUs issued to Mr. Schoening and Ms. Hawkins vest as follows: 34% on January 1, 2020, 33% on January 1, 2021 and 33% on January 1, 2022. The total market value of the restricted stock units based on the shares price of \$1.32 as of January 2, 2019 is \$264 thousand. The cost of the shares is amortized on a straight line basis across the vesting periods. The amounts in the "Stock 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 the fiscal years, as required by FASB ASC 718 (prior authoritative literature SFAS 123(R), disregarding any estimates for forfeitures relating to service-based vesting conditions.

(3) Stanley Hirschman retired as our President as of July 20, 2017 and resigned as a director effective on November 4, 2015.

Option Grants in Last Fiscal Year

There were no Option Grants during the twelve months ended September 27, 2020 or September 29, 2019.

Employment Agreements - Danny Schoening

We 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 has automatically renewed through December 1, 2020. The term of the agreement shall be automatically extended for successive 18-month periods, unless we shall provide a written notice of termination at least ninety (90) days, or 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.

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 our 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.

The employment agreement events of termination consist of: (i) death of Mr. Schoening; (ii) termination by us 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 us and (iv) termination by Mr. Schoening for good reason (including breach by us 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 us or our successor changing ownership or a sale of all or substantially all of our assets, without the surviving entity assuming the obligations under the agreement). For a termination by us 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 us 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.

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We entered into an updated employment agreement with Danny Schoening dated October 15, 2020. The term of the agreement commenced as of October 15, 2020 and the current term ends on November 30, 2021. Mr. Schoening's base salary continues to be \$284,645 per annum. Mr. Schoening will be eligible for a performance bonus which is based upon a rolling three-year operating plan adopted by our Board of Directors. The bonus will be tied to operating metrics decided by our board against the three-year plan, and such metrics will be decided annually and tie to the three-year plan. The target bonus equates to 30% of Mr. Schoening's base salary. Our board will have discretion to alter the performance bonus upward or downward by 20% based on its good faith discretion.

The employment agreement events of termination consist of: (i) death or permanent disability of Mr. Schoening; (ii) termination by us 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 us and (iv) termination by Mr. Schoening for good reason (including breach by us 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 us or our successor changing ownership or a sale of all or substantially all of our assets, without the surviving entity assuming the obligations under the agreement). For a termination by us for cause or upon death or permanent disability of Mr. Schoening, Mr. Schoening shall be paid salary and for a termination due to his death or permanent disability, also any bonus earned through the date of termination. For a termination by us without cause or by Mr. Schoening with good reason, Mr. Schoening shall also be paid six months' base salary in effect.

- On November 4, 2016, our Board of Directors Compensation Committee held a meeting and approved a bonus payment of \$48.9 thousand awarded to Danny Schoening for 2016 performance.
- On March 31, 2017, our Board of Directors Compensation Committee held a meeting and approved a base salary increase of 4% for Danny Schoening, CEO.
- On June 9, 2017, through Unanimous Written Consent, our Board of Directors approved an amendment to Danny Schoening's employment agreement to increase his annual bonus from a maximum of 30% to 60% of his base salary.
- On December 19, 2017, our Board of Directors approved a bonus payment of 60% of the base salary, or \$152.4 thousand for 2017 performance.
- On November 20, 2018, the Company's Board of Directors approved a 30% bonus payable in December 2018, an 8% salary increase as of January 1, 2019 and the issuance of 150,000 restricted stock units with a January 2, 2019 grant date, vesting as of January 1 each year subsequent to the grant date over a three year period at a rate of 34% in year one, and 33% each year thereafter. The base salary effective as of January 1, 2019 is \$284,645.
- On November 19, 2019, the Company's Board of Directors approved an executive bonus for Danny Schoening, CEO of \$75 thousand to be paid December 2019.
- On December 15, 2020, the Company's Board of Directors approved an executive bonus for Danny Schoening, CEO of \$48 thousand to be paid January 2021.

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Karen Hawkins

On August 4, 2016, our Board of Directors approved an employment agreement for Karen Hawkins, Chief Financial Officer, dated as of August 1, 2016. This agreement has the following salient terms:

- The term of the agreement commenced on August 1, 2016 and expires on January 31, 2018 and automatically renews for subsequent 18-month periods unless Ms. Hawkins or we give notice of termination at least 90 days before the end of the term then in effect. As of July 31, 2019, the contract automatically renewed to January 31, 2021.
- On each subsequent renewal date of the commencement of employment, Hawkins' 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 and Ms. Hawkins is entitled to annual bonuses of up to 30% of her base salary as approved by the Board.
- Ms. Hawkins is entitled to 15 days' vacation and all other benefits accorded to our other senior executives.
- The employment agreement events of termination consist of: (i) death of Ms. Hawkins; (ii) termination by us for cause (including conviction of a felony, commission of fraudulent acts, willful misconduct by Ms. Hawkins, continued failure to perform duties after written notice, violation of securities laws and breach of the employment agreement), (iii) termination without cause by us and (iv) termination by Ms. Hawkins for good reason (including breach by us of its obligations under the agreement, the requirement for Ms. Hawkins to move more than 100 miles away for her employment without consent, and merger or consolidation that results in more than 66% of the combined voting power of the then outstanding securities of us or our successor changing ownership or a sale of all or substantially all of our assets, without the surviving entity assuming the obligations under the agreement). For a termination by us for cause or upon death of Ms. Hawkins, Ms. Hawkins shall be paid salary and bonus earned through the date of termination. For a termination by us without cause or by Ms. Hawkins with good reason, Ms. Hawkins 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.
- On November 4, 2016, our Board of Directors Compensation Committee held a meeting and approved a bonus payment of \$35.7 thousand awarded to Karen Hawkins for 2016 performance.
- On March 31, 2017, our Board of Directors Compensation Committee held a meeting and approved a base salary increase of 4% for Karen Hawkins, CFO.
- On December 19, 2017, our Board of Directors approved a bonus payment of 30% of the base salary, or \$55.7 thousand for 2017 performance.
- On November 20, 2018 the Company's board of directors approved a 30% bonus payable in December 2018, or \$55.7 thousand, and an 8% salary increase as of January 1, 2019, and the issuance of 50,000 restricted stock units with a January 2, 2019 grant date, vesting as of January 1 each year subsequent to the grant date over a three year period at a rate of 34% in year one, and 33% each year thereafter. The base salary effective as of January 1, 2019 is \$205,425.
- On November 19, 2019, the Company's Board of Directors approved an executive bonus for Karen Hawkins, CFO of \$54 thousand to be paid in December 2019.
- On December 15, 2020, the Company's Board of Directors approved an executive bonus for Karen Hawkins, CFO of \$37 thousand to be paid in December 2020.

We do not have any other employment agreements with our executive officers and directors.

Equity Compensation Plan Information

We currently have an option compensation plan covering the issuance of both incentive and non-statutory options, determined at the time of grant, for the purchase of up to 75,000 shares, which was increased from 50,000 shares on December 19, 2013. The purpose of the Plan is to assist us in attracting and retaining highly competent employees and to act as an incentive in motivating selected officers and other employees of us and our subsidiaries, and directors and consultants of us and our subsidiaries, to achieve long-term corporate objectives. On December 19, 2013, the Board of Directors authorized the grant of 20,000 options to three board members and a grant of 5,000 to an officer. There are 75,000, shares of common stock reserved for issuance under this Plan.

As of September 29, 2019, there were 25,000 fully vested stock options outstanding at an exercise price of \$10 per share and an expiration date of December 18, 2020. During the twelve months ended September 27, 2020, all 25,000 outstanding stock options were repurchased at \$0.01 per option for a total transaction of \$250. There were no new grants of stock options during the twelve months ended September 27, 2020. As of September 27, 2020, there are zero stock options outstanding.

Restricted Stock Units issued to Officers and Employees

On June 14, 2016, the Compensation Committee ("Committee") of the Board of Directors of Optex Systems Holdings, Inc. approved the Company's 2016 Restricted Stock Unit Plan (the "Plan"). The Plan provides for the issuance of stock units ("RSU") for up to 1,000,000 shares of the Company's common stock to Optex Systems Holdings officers and employees. Each RSU constitutes a right to receive one share of the Company's common stock, subject to vesting, which unless otherwise stated in an RSU agreement, shall vest in equal amounts on the first, second and third anniversary of the grant date. Shares of the Company's common stock underlying the number of vested RSUs will be delivered as soon as practicable after vesting. During the period between grant and vesting, the RSUs may not be transferred, and the grantee has no rights as a shareholder until vesting has occurred. If the grantee's employment is terminated for any reason (other than following a change in control of the Company or a termination of an officer other than for cause), then any unvested RSUs under the award will automatically terminate and be forfeited. If an officer grantee's employment is terminated by the Company without cause or by the grantee for good reason, then, provided that the RSUs have not been previously forfeited, the remaining unvested portion of the RSUs will immediately vest as of the officer grantee's termination date. In the event of a change in control, the Company's obligations regarding outstanding RSUs shall, on such terms as may be approved by the Committee prior to such event, immediately vest, be assumed by the surviving or continuing company or cancelled in exchange for property (including cash).

On June 15, 2016, the Company issued 150,000 RSUs to its Chief Executive Officer, Danny Schoening, and 50,000 RSUs to its Chief Financial Officer, Karen Hawkins. The RSUs issued to Mr. Schoening and Ms. Hawkins vest as follows: 34% on January 1, 2017, 33% on January 1, 2018 and 33% on January 1, 2019. The total market value of the restricted stock units based on the shares price of \$1.85 as of June 15, 2016 is \$372 thousand. The cost of the shares is amortized on a straight line basis across the vesting periods.

On January 5, 2017, Optex Systems Holdings issued 45,799 common shares related to the vesting of the 68,000 restricted stock units on January 1, 2017. The shares issued were net of 22,201 common shares withheld for employee federal income tax requirements.

On June 15, 2017, the Company issued 50,000 RSUs to its Applied Optics Center General Manager and new board member, Bill Bates. Pursuant to the RSU agreements the RSUs issued to Mr. Bates will vest as follows: 34% on January 1, 2018, 33% on January 1, 2019 and 33% on January 1, 2020. The total market value of the restricted stock units based on the shares price of \$0.95 as of June 15, 2016 is \$47.5 thousand. The cost of the shares is amortized on a straight line basis across the vesting periods.

On January 2, 2018 the Company issued 55,902 common shares related to the vesting of 83,000 restricted stock units on January 1, 2018. The shares issued were net of 27,098 common shares withheld for employee federal income tax requirements.

On November 20, 2018 the Company's board of directors approved the issuance of 150,000 and 50,000 restricted stock units to Danny Schoening and Karen Hawkins, respectively, with a January 2, 2019 grant date, vesting as of January 1 each year subsequent to the grant date over a three-year period at a rate of 34% in year one, and 33% each year thereafter. The total market value of the restricted stock units based on the shares price of \$1.32 as of January 2, 2019 is \$264 thousand.

On January 7, 2019, the Company issued 55,565 common shares to three directors and officers, net of tax withholding of \$37 thousand, in settlement of 82,500 restricted stock units which vested on January 1, 2019.

On January 7, 2020, the Company issued 59,447 common shares to one director and two officers, net of tax withholding of \$54 thousand, in settlement of 84,500 restricted stock units which vested on January 1, 2020.

On February 17, 2020, the Company granted 50,000 restricted stock units to Bill Bates, General Manager of the Applied Optics Center. The restricted stock units vest as of January 1 each year subsequent to the grant date over a three-year period at a rate of 34% in year one, and 33% each year thereafter. The stock price at grant date was \$2.13 per share. The Company will amortize the grant date fair market value of \$107 thousand to stock compensation expense on a straight-line basis across the three-year vesting period beginning on February 17, 2020.

As of September 27, 2020, there are 182,000 outstanding unvested restricted stock units remaining to vest, of which 83,000 will vest as of January 1, 2020 and the remaining 99,000 will vest on January 1, 2021 and January 1, 2022 and January 1, 2023.

Restricted Shares Issued to Independent Board Members

On April 30, 2020, the Optex Systems Holdings, Inc. Board of Directors held a meeting and voted to increase the annual board compensation for the three independent directors from \$22,000 to \$36,000 with an effective date of January 1, 2020, in addition to granting 100,000 restricted shares to each independent director which shall vest at a rate of 20% per year (20,000 shares) each January 1st, over the next five years, through January 1, 2025. The total market value for the 300,000 shares is \$525 thousand based on the stock price of \$1.75 as of April 30, 2020. The Company will amortize the fair market value to stock compensation expense on a straight-line basis across the five-year vesting period beginning on April 30, 2020. As of period ended September 27, 2020, none of the restricted shares had vested.

Consulting and Vendor Equity Compensation

There was no equity compensation to consultants or vendors during the years ended September 27, 2020 or September 29, 2019.

Nonqualified deferred compensation

We had no non-qualified deferred compensation plans during year ended September 27, 2020.

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 and Ms. Hawkins 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.

Director Compensation

The following table provides information regarding compensation paid to directors for services rendered during the year ended September 27, 2020.

Name	Fees Earned or Paid in Cash (\$) ⁽¹⁾
Rimmy Malhotra	\$ 30,667
Larry Hagenbuch	30,667
Dale Lehmann	30,667
Danny Schoening	-

(1) Director fees paid quarterly from October 2019 through September 2020.

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 Danny Schoening, our directors are compensated separately for service as independent members of our board of directors.

On November 14, 2019, the Board of Directors reviewed the independent director compensation and concluded to leave the pay as is currently in place for former independent directors, currently set at \$5.5 thousand per quarter served. The board determined to revisit the independent board compensation during the first calendar quarter of 2020.

On April 30, 2020, the Optex Systems Holdings, Inc. Board of Directors held a meeting and voted to increase the annual board compensation for the three independent directors from \$22,000 to \$36,000 with an effective date of January 1, 2020, in addition to granting 100,000 restricted shares to each independent director which shall vest at a rate of 20% per year (20,000 shares) each January 1st, over the next five years, through January 1, 2025. The total market value for the 300,000 shares is \$525 thousand based on the stock price of \$1.75 as of April 30, 2020.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

On December 10, 2020, we had 8,519,728 shares of common stock outstanding, 4,125,200 warrants, and 182,000 granted and unvested restricted stock units. The following table sets forth certain information with respect to the beneficial ownership of our securities as of December 10, 2020, for (i) each of our directors and executive officers; (ii) all of our directors and executive officers as a group (not noting our three new directors who have not yet been issued any stock or options which have vested); 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 or convertible into shares of our common stock within 60 days of December 10, 2020 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 our corporate headquarters.

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Except as otherwise set forth below, the address of each of the persons listed below is our address.

Title of Class	Name of Beneficial Owner	Number of Shares	Percentage of Outstanding Shares
5% Holders	Gate City Capital Management LLC ⁽¹⁾	1,417,518	16.5%
	Ephraim Fields ⁽²⁾	1,179,174	13.7%
Directors and Officers:	Danny Schoening ⁽³⁾	854,006	9.9%
	Karen Hawkins ⁽⁴⁾	244,536	2.8%
	Bill Bates ⁽⁵⁾	51,171	0.6%
Directors and officers as a group (3 Individuals) ⁽⁶⁾		1,149,713	13.4%

1 Represents 1,320,609 common shares reported as held by Gate City Capital Management LLC, 70 West Madison Street, Suite 1400 Chicago, IL 60602 on SEC schedule 13G/A (filed on February 13, 2019).

2 Represents 1,179,174 common shares reported as held by Ephraim Fields (c/o Echo Lake Capital) located at 501 Madison Avenue, Floor 12A New York, NY 10022 on SEC schedule 13D (filed on October 3, 2019).

3 Includes common shares held of 796,206, restricted stock units of 49,500 expected to vest on January 1, 2021, and 8,300 warrants.

4 Represents common shares held of 228,036 and restricted stock units of 16,500 expected to vest on January 1, 2021.

5 Represents common shares held of 34,171 and restricted stock units of 17,000 expected to vest on January 1, 2021.

6 Represents common shares, options, and warrants held by Danny Schoening, Karen Hawkins, and Bill Bates.

Item 13 Certain Relationships and Related Transactions, and Director Independence

None

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.

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Director Independence

As of the date of filing of this Annual Report, the Company has three independent directors, as such term is defined under NASDAQ standards and one non independent director.

Item 14 Principal Accountant Fees and Services

The following table sets forth the fees paid to date for audit services rendered during fiscal years ended September 27, 2020 and September 29, 2019, respectively.

Fee Category	2020	2019
Audit Fees ⁽¹⁾	\$ 89,802	\$ 75,650
Audit-Related Fees-registration statement consents ⁽²⁾	-	5,000
Tax Fees	7,613	7,300

(1) Audit Fees are fees for professional services performed 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 September 27, 2020 and September 29, 2019, 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.

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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^{\(1\)}](#)
- 3.3 [Charters of the Audit Committee, Compensation Committee and Nominating Committee^{\(26\)}](#)
- 4.1 [Certificate of Powers, Designations, Preferences and Rights of the Series B Preferred Stock of Optex Systems Holdings, Inc. dated March 26, 2011^{\(23\)}](#)
- 4.2 [Form of Warrant for Offering^{\(25\)}](#)
- 4.3 [Form of Underwriter Warrant for Offering^{\(25\)}](#)
- 4.4 [Certificate of Designation of Series C Convertible Preferred Stock^{\(29\)}](#)
- 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 August 19, 2009^{\(5\)\(6\)}](#)
- 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, 2009^{\(5\)\(6\)}](#)
- 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^{\(4\)}](#)

Exhibit No.	Description
10.12	Single Source Supplier Purchase Orders with TSP Inc.⁽⁵⁾
10.13	Single Source Supplier Purchase Orders with SWS Trima⁽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, 2011⁽⁵⁾
10.20	Form of Unconditional Guaranty executed by Optex Systems Holdings, Inc. in favor of Peninsula Bank Business Funding, dated March 4, 2011⁽⁵⁾
10.21	Form of Warrant issued by Optex Systems Holdings, Inc. to Peninsula Bank Business Funding, dated March 4, 2011⁽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-Warner⁽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 [Fourth 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⁾

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Exhibit No. Description

- 10.33 [PO# SPRDL1-12-C-0023 with DLA Land-Warren, dated October 24, 2011](#)⁽¹⁶⁾
- 10.34 [Agreement with GDLS-Canada, dated as of November 3, 2011](#)⁽¹⁹⁾
- 10.35 [Amendment to 2009 Stock Option Plan](#)⁽¹⁷⁾
- 10.36 [Amendment to the Articles of Incorporation](#)⁽¹⁸⁾
- 10.37 [Amendment to Credit Facility with Avidbank](#)⁽²⁰⁾
- 10.38 [Purchase Agreement dated November 3, 2014](#)⁽²¹⁾
- 10.39 [Assignment of Lease dated October 30, 2014](#)⁽²¹⁾
- 10.40 [Form of Subscription Agreement](#)⁽²²⁾
- 10.41 [Form of Convertible Note](#)⁽²²⁾
- 10.42 [Form of Registration Rights Agreement](#)⁽²²⁾
- 10.43 [Form of Make Whole Agreement](#)⁽²²⁾
- 10.44 [Supply Agreement, dated May 26, 2015, between Optex Systems Holding, Inc. and Nightforce Optics, Inc.](#)⁽²⁴⁾
- 10.45 [First Amendment to Amended and Restated Loan Agreement with Avidbank](#)⁽²⁶⁾
- 10.46 [Restricted Stock Unit Plan](#)⁽²⁷⁾
- 10.47 [Form of RSU Agreement](#)⁽²⁷⁾
- 10.48 [Employment Agreement with Karen Hawkins, dated as of August 1, 2016](#)⁽²⁵⁾
- 10.49 [Form of Lease](#)⁽³⁰⁾
- 10.50 [Form of Letter of Credit](#)⁽³⁰⁾

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- 10.51 [Form of Second Amendment to Loan Agreement](#)⁽³⁰⁾
- 10.52 [Form of Stock Repurchase Agreement](#)⁽³¹⁾
- 10.53 [Form of Note Satisfaction Agreement](#)⁽³²⁾
- 10.54 [Form of Stock Purchase Agreement](#)⁽³²⁾
- 10.55 [Form of Award/Contract between the Company and US DLA, dated July 3, 2017](#)⁽³³⁾
- 10.56 [Amendment to AvidBank Facility dated April 5, 2018](#)⁽³⁴⁾
- 10.57 [Employment Agreement with Danny Schoening, dated October 15, 2020](#)⁽³⁵⁾
- 14.1 [Code of Ethics](#)⁽³⁾
- 21.1 [List of Subsidiaries — Optex Systems, Inc.](#)⁽¹⁾
- 31.1 [Certifications pursuant to Section 302 of Sarbanes Oxley Act of 2002](#)
- 31.2 [Certifications pursuant to Section 302 of Sarbanes Oxley Act of 2002](#)
- 32.1 [Certifications pursuant to Section 906 of Sarbanes Oxley Act of 2002](#)
- 32.2 [Certifications pursuant to Section 906 of Sarbanes Oxley Act of 2002](#)

EX-101.INS	XBRL Instance Document
EX-101.SCH	XBRL Taxonomy Extension Schema Document
EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
EX-101.LAB	XBRL Taxonomy Extension Label Linkbase Document
EX-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. 4 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 September 27, 2009, 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 September 11, 2010
- (9) Incorporated by reference from our Amendment No. 5 to Registration Statement on Form S-1 filed on September 3, 2010
- (10) Incorporated by reference from our Amendment No. 20 to Registration Statement on Form S-1 filed on January 13, 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) Intentionally left blank
- (14) Incorporated by reference from our Form S-1 filed on August 1, 2011

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- (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
- (17) Incorporated by reference from our Form 10-K filed on December 27, 2011
- (18) Incorporated by reference from our Amendment No. 5 to Registration Statement on Form S-1 filed on January 27, 2012
- (19) Incorporated by reference from our Form 10-K/A for the year ended September 30, 2018, filed on March 27, 2012
- (20) Incorporated by reference from our Form 10-Q for the quarter ended on April 1, 2012, filed on May 15, 2012
- (21) Incorporated by reference from our Current Report on Form 8-K, dated November 7, 2014
- (22) Incorporated by reference from our Current Report on Form 8-K, dated November 18, 2014
- (23) Incorporated by reference from our Current Report on Form 8-K, dated April 1, 2015
- (24) Incorporated by reference from our Current Report on Form 8-K, dated July 13, 2015
- (25) Incorporated by reference from our Current Report on Form 8-K, filed on August 10, 2016
- (26) Incorporated by reference from our Current Report on Form 8-K, filed on April 28, 2016
- (27) Incorporated by reference from our Current Report on Form 8-K, filed on June 17, 2016
- (28) Intentionally omitted.
- (29) Incorporated by reference from our Amendment No. 5 to Form S-1, filed on August 22, 2016
- (30) Incorporated by reference from our Current Report on Form 8-K, filed on November 23, 2016
- (31) Incorporated by reference from our Current Report on Form 8-K, filed on May 1, 2017
- (32) Incorporated by reference from our Current Report on Form 8-K, filed on June 15, 2017
- (33) Incorporated by reference from our Current Report on Form 8-K, filed on July 10, 2017
- (34) Incorporated by reference from our Current Report on Form 8-K, dated April 11, 2018
- (35) Incorporated by reference from our Current Report on Form 8-K, dated October 21, 2020

Item 16. Form 10-K Summary

None.

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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/ Danny Schoening
 Danny Schoening, Principal Executive Officer and Director

Date: December 17, 2020

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

Date: December 17, 2020

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/ Danny Schoening</u> Danny Schoening	Chairman, Principal Executive Officer and Director	December 17, 2020
<u>/s/ Karen Hawkins</u> Karen Hawkins	Principal Financial Officer and Principal Accounting Officer	December 17, 2020

/s/ Larry Hagenbuch

Larry Hagenbuch

Director and Audit Committee Chair

December 17, 2020

/s/ Rimmy Malhotra

Rimmy Malhotra

Director and Compensation Committee Chair

December 17, 2020

/s/ Dale Lehmann

Dale Lehmann

Director

December 17, 2020