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

FORM 10-K/A

Amendment No. 1

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

For the fiscal year ended October 3, 2021

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

For the transition period from ___ until ___

Commission File Number 000-54114

OPTEX SYSTEMS HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation organization)	**90-0609531** (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 ☒

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

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

Indicate by check mark whether the registrant has submitted electronically 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 ☒ No ☐

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

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

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

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

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

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

The aggregate market value of the 4,984,863 shares of voting stock held by non-affiliates of the registrant based on the closing price on the OTCQB on March 28, 2021 was $9,172,148.

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 17, 2021
Common Stock	8,460,270

DOCUMENTS INCORPORATED BY REFERENCE

None.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this "Amendment") to the Annual Report on Form 10-K of Optex Systems Holdings, Inc. (the "Company") for the fiscal year ended October 3, 2021, initially filed with the Securities and Exchange Commission (the "SEC") on December 20, 2021 (the "Original 10-K"), is being filed to correct an administrative error in the Original 10-K. The Original 10-K inadvertently failed to include the conformed signature of Whitley Penn LLP on the version of the Report of Independent Registered Public Accounting Firm (the "Audit Report") included in such filing.

This Amendment is being filed to add "/s/ Whitley Penn LLP" to the Audit Report included in the filing. This Amendment includes Part II,Item 8, "Financial Statements and Supplemental Data" in its entirety and without change from the Original 10-K other than the addition of the conformed signature of Whitley Penn LLP.

In addition, this Amendment amends the exhibit list included in Item 15 of Part IV of the Original 10-K to contain currently-dated certifications from the Company's principal executive officer and principal financial officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, and such certifications are filed as exhibits to this Amendment.

Except for the foregoing amended information, this Amendment does not amend, modify or update any other information contained in the Original 10-K. In particular, this Amendment does not reflect events that occurred subsequent to December 20, 2021. Therefore, this Amendment should be read together with other reports and documents that the Company has filed with the Securities and Exchange Commission subsequent to December 20, 2021. Information in such reports and documents updates and supersedes certain information contained in the Original 10-K.

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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 October 3, 2021 and September 27, 2020, and the related consolidated statements of income, 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 October 3, 2021 and September 27, 2020, 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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Deferred Taxes

Critical Audit Matter Description

As described in notes 2 and 13 to the consolidated financial statements, deferred tax assets and liabilities are determined based on differing treatment of items for financial reporting and income tax reporting purposes. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations. 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. 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. For the year ended October 3, 2021, the Company has a net carrying value of $1.3 million in deferred tax assets represented by deferred tax assets of $2.1 million and a deferred tax asset valuation allowance of $0.8 million against those assets.

We identified the evaluation of the deferred taxes as a critical audit matter because of the significant estimates and assumptions management used in calculating the deferred tax assets and liabilities as well as the valuation allowance. Performing audit procedures to evaluate the reasonableness of these estimates and assumptions required a high degree of auditor judgment. Additionally, the audit procedures performed on deferred taxes required increased audit effort and involved the use of professionals with specialized skill and knowledge.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures consisted of the following:

- Testing management's process for developing the accounting estimate for deferred taxes including the valuation allowance.
- Evaluating the appropriateness of the significant estimates and assumptions used by management, including the scheduled reversal of deferred tax liabilities, projected future taxable income, and results of recent operations. We considered the current and past performance of the entity, the industry in which the Company operates, and whether audit evidence obtained from other audit procedures resulted in any disconfirming evidence.
- Testing the completeness and accuracy of underlying data used in calculating deferred taxes and the related valuation allowance.
- Utilizing professionals with specialized skill and knowledge to assist in the evaluation of the reasonableness of deferred taxes and the related valuation allowance.

/s/ Whitley Penn LLP

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

Fort Worth, Texas
December 20, 2021

Optex Systems Holdings, Inc.
Consolidated Balance Sheets

	(Thousands, except share and per share data)	
	October 3, 2021	**September 27, 2020**
ASSETS		
Cash and Cash Equivalents	$ 3,900	$ 4,700
Accounts Receivable, Net	3,183	2,953
Inventory, Net	7,583	8,791
Prepaid Expenses	262	229
Current Assets	**14,928**	**16,673**
Property and Equipment, Net	**1,017**	**1,006**
Other Assets		
Deferred Tax Asset	1,288	1,227
Right-of-use Asset	3,599	1,416
Security Deposits	23	23
Other Assets	**4,910**	**2,666**
Total Assets	**$ 20,855**	**$ 20,345**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$ 551	$ 833
Operating Lease Liability	528	417
Accrued Expenses	851	1,077
Warrant Liability	-	2,544
Accrued Warranty Costs	78	83
Customer Advance Deposits	-	1
Current Liabilities	**2,008**	**4,955**
Other Liabilities		
Credit Facility	-	377
Operating Lease Liability, net of current portion	3,133	1,037

Other Liabilities	**3,133**	**1,414**
Total Liabilities	**5,141**	**6,369**
Commitments and Contingencies		
Stockholders' Equity		
Common Stock – ($0.001 par, 2,000,000,000 authorized, 8,523,704 and 8,795,869 shares issued, and 8,488,149 and 8,690,136 outstanding, respectively)	9	9
Treasury Stock (at cost, 35,555 and 105,733 shares held, respectively)	(69)	(200)
Additional Paid in capital	25,752	26,276
Accumulated Deficit	(9,978)	(12,109)
Stockholders' Equity	**15,714**	**13,976**
Total Liabilities and Stockholders' Equity	**$ 20,855**	**$ 20,345**

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

Optex Systems Holdings, Inc.
Consolidated Statements of Income

	(Thousands, except share and per share data) Twelve months ended	
	October 3, 2021	**September 27, 2020**
Revenue	**$ 18,222**	**$ 25,890**
Cost of Sales	15,702	19,802
Gross Margin	**2,520**	**6,088**
General and Administrative Expense	3,014	3,205
Operating Income (Loss)	**(494)**	**2,883**
Gain (Loss) on Change in Fair Value of Warrants	2,535	(508)
Interest Expense	(11)	(19)
Other Income (Expense)	**2,524**	**(527)**
Income Before Taxes	**2,030**	**2,356**
Income Tax Expense (Benefit), net	(101)	531
Net Income	**$ 2,131**	**$ 1,825**
Deemed dividends on participating securities	(660)	(598)
Net income applicable to common shareholders	**$ 1,471**	**$ 1,227**
Basic income per share	**$ 0.18**	**$ 0.14**
Weighted Average Common Shares Outstanding - basic	**8,241,021**	**8,464,572**
Diluted income per share	**$ 0.18**	**$ 0.14**
Weighted Average Common Shares Outstanding - diluted	**8,323,809**	**8,589,919**

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

Optex Systems Holdings, Inc.
Consolidated Statements of Cash Flows

	(Thousands) Twelve months ended	
	October 3, 2021	**September 27, 2020**
Cash Flows from Operating Activities:		
Net Income	$ 2,131	$ 1,825
Adjustments to Reconcile Net Income to Net Cash provided by Operating Activities:		
Depreciation and Amortization	263	248
(Gain) Loss on Change in Fair Value of Warrants	(2,535)	508
Stock Compensation Expense	228	197
Deferred Tax	(60)	187
Accounts Receivable	(230)	113

Inventory	1,208	1,744
Prepaid Expenses	(33)	119
Leases	24	38
Accounts Payable and Accrued Expenses	(510)	(1,103)
Accrued Warranty Costs	(4)	37
Customer Advance Deposits	(1)	(2)
Increase (Decrease) In Accrued Estimated Loss On Contracts	-	-
Total Adjustments	**(1,650)**	**2,086**
Net Cash provided by Operating Activities	**481**	**3,911**
Cash Flows used in Investing Activities		
Purchases of Property and Equipment	(274)	(152)
Net Cash used in Investing Activities	**(274)**	**(152)**
Cash Flows used in Financing Activities		
Cash Paid for Taxes Withheld On Net Settled Restricted Stock Unit Share Issue	(44)	(54)
Payments (to) Borrowings from Credit Facility	(377)	127
Proceeds from Warrant Exercise	283	-
Stock Repurchase	(869)	(200)
Net Cash used in Financing Activities	**(1,007)**	**(127)**
Net (Decrease) Increase in Cash and Cash Equivalents	(800)	3,632
Cash and Cash Equivalents at Beginning of Period	4,700	1,068
Cash and Cash Equivalents at End of Period	**$ 3,900**	**$ 4,700**
Supplemental Cash Flow Information:		
Non Cash Transactions:		
Right-of-Use Asset	$ 3,688	$ 1,811
Operating Lease Liabilities	(3,688)	(1,894)
Treasury stock retired	(1,000)	-
Cash Transactions:		
Cash Paid for Taxes	48	289
Cash Paid for Interest	11	19

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

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 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 (1)	300,000	-	1	-	(1)	-	-
Common Stock Repurchase (2)	-	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
Stock Compensation Expense	-	-	-	-	228	-	228
Vested restricted stock units issued net of tax withholding	58,392	-	-	-	(44)	-	(44)
Common Stock Repurchase (2)	-	449,088	-	(869)	-	-	(869)
Exercise of Warrants (3)	188,809	-	-	-	292	-	292
Common Stock Purchase and Cancellation	(100)	-	-	-	-	-	-
Cancellation of Treasury Shares (2)	(519,266)	(519,266)	-	1,000	(1,000)	-	-
Net income	-	-	-	-	-	2,131	2,131
Balance at October 3, 2021	8,523,704	35,555	$ 9	$ (69)	$ 25,752	$ (9,978)	$ 15,714

(1) 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. As of October 3, 2021, 60,000 of the director shares were vested, and 240,000 were unvested.

(2) Common shares repurchased in the open market between June 11, 2020 and October 3, 2021. On June 14, 2021,519,266 of the repurchased shares were cancelled, and as of October 3, 2021, 35,555 shares were held in treasury stock using the cost method.

(3) Exercise of warrants for common shares at $1.50 for gross proceeds of $283 thousand and a fair market value of $9 thousand as of the exercise dates.

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

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 October 3, 2021, the Company operated with 84 full-time equivalent employees.

Note 2 — Summary of Significant 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 2021 ended on October 3, 2021 and included 53 weeks. Fiscal year 2020 ended on September 27, 2020 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. Besides the Company’s warrant liabilities, 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.

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 $3.9 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 October 3, 2021 are derived from sales to U.S. government agencies (28%), four U.S. defense contractors (27%, 11%, 5%, and 5%), one major commercial customer (10%) and all other customers (14%). 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%). 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 October 3, 2021, and September 27, 2020, 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 2021 we recognized zero in bad debt expenses associated with uncollectible accounts. In the fiscal year 2020 we recognized $1 thousand in bad debt expenses associated with uncollectible accounts.

As of October 3, 2021, 87% of the accounts receivable balance was comprised of six customers: the U.S. government, 34%, three major defense contractors, 13%, 10% and 7%, a commercial customer, 16%, and a foreign military customer, 7%. As of September 27, 2020, 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%.

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 October 3, 2021, and September 27, 2020 inventory included:

	(Thousands)	
	As of October 3, 2021	**As of September 27, 2020**
Raw Materials	$ 4,926	$ 5,506
Work in Process	2,664	3,214
Finished Goods	629	638
Gross Inventory	8,219	9,358
Less: Inventory Reserves	(636)	(567)
Net Inventory	**$ 7,583**	**$ 8,791**

In the twelve months ended October 3, 2021 Optex Systems recorded $69 thousand of obsolete and excess inventory reserves. Net Inventory decreased by $1.2 million in support of deliveries against several long running contracts during the 2021 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 October 3, 2021, and September 27, 2020, the existing warranty reserve balances of $78 thousand and $83 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. 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 October 3, 2021 and September 27, 2020.

	Years ended	
	2021	**2020**
Beginning balance	$ 83	$ 46
Incurred costs for warranties satisfied during the period	(80)	(39)
Warranty Expenses:		
Warranties reserved for new product shipped during the period[1]	38	106
Change in estimate for pre-existing warranty liabilities[2]	37	(30)
Warranty Expense	75	76
Ending balance	**$ 78**	**$ 83**

(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 which extend 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 $ 1.9 million and corresponding operating lease liabilities of approximately $1.8 million as of the beginning of the fiscal year ended on September 27, 2020, 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 assumed the exercise of a five-year renewal option at the Applied Optics Center as of November 1, 2021. On January 11, 2021, the Company executed amendments extending the lease terms of both facilities for eighty-six months. Execution of the new lease amendments for the Dallas and Richardson facilities on January 11, 2021 resulted in the balance sheet recognition of a right-of-use asset of $3.7 million and corresponding operating lease liabilities of approximately $3.7 million during the period.

As of period ended September 27, 2021, the Company has recognized a $1.4 million in right-of-use-asset and corresponding operating lease liabilities of $1.5 million. As of period ended October 3, 2021, the Company has recognized a $3.6 million in right-of-use-asset and corresponding operating lease liabilities of $3.7 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 $479 thousand for the twelve months ended October 3, 2021 and $451 thousand for the twelve months ended September 27, 2020.

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 October 3, 2021, there was $1 thousand of revenue recognized during the period from customer deposit liabilities (deferred contract revenue). 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. As of the twelve months ended October 3, 2021 and 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 October 3, 2021, and September 27, 2020, Optex Systems, Inc. had a balance of zero and $1 thousand, respectively, in customer advance deposits.

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 required by the government to be "flowed down" by the prime contractor to any subcontractors used to perform work or provide components against the award. 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 prime contracts or customer purchase orders.

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 October 3, 2021, Optex Systems Inc. has a net carrying value of $1.3 million in deferred tax assets represented by deferred tax assets of $2.1 million and a deferred tax asset valuation allowance of ($0.8) 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 October 3, 2021, and September 27, 2020, 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. During the twelve months ended October 3, 2021, we recognized an additional $0.04 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.

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 had outstanding were stock options and warrants. Optex Systems Holdings uses the Treasury Stock Method to compute the dilutive effect of stock options and warrants. Stock options and warrants that are anti-dilutive are excluded from the calculation of diluted earnings per common share.

For the twelve months ended October 3, 2021, 99,000 unvested restricted stock units and 240,000 restricted unvested shares (which converts to 82,788 incremental dilutive shares) were included in the diluted earnings per share calculation as dilutive. 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.

Our outstanding warrants during the twelve months ended October 3, 2021 and September 27, 2020 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 October 3, 2021 and September 27, 2020, there were no declared dividends and allocated undistributed earnings of $0.7 million and $0.6 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. As such, Optex Systems Holdings adopted these provisions as of the fiscal year beginning on September 28, 2020. There was no material impact on our financial statement disclosures as a result of the amendment 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. As such, Optex Systems Holdings adopted these provisions as of the fiscal year beginning on September 28, 2020. There was no material impact on our consolidated financial statements and results of operations as a result of adopting ASU 2016-13.

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. 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. Approximately85% of the Optex Systems segment revenue is comprised of domestic military customers, and 15% is comprised of foreign military customers. Optex Systems segment revenue is derived from the U.S. government,28%, and two major U.S. defense contractors representing 21% and 11%, of the Company's consolidated revenue, respectively.

Optex Systems is located in Richardson Texas, with leased premises consisting of approximately49,100 square feet. As of October 3, 2021, the Richardson facility operated with 47 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 represent35% and military sales to prime and subcontracted customers represent 65% of the total segment revenue. Approximately 86% of the AOC revenue is derived from external customers and approximately 14% is related to intersegment sales to Optex Systems in support of military contracts. For the twelve months ended October 3, 2021, the AOC segment revenue from the U.S. government, one major commercial customer, and two major defense contractors represent approximately 10%, 7% 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 October 3, 2021, 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 October 3, 2021			
	Optex Systems Richardson	**Applied Optics Center Dallas**	**Other (non-allocated costs and intersegment eliminations)**	**Consolidated Total**
Revenues from external customers	$ 11,827	$ 6,395	$ -	$ 18,222
Intersegment revenues	-	1,056	(1,056)	-
Total Revenue	$ 11,827	$ 7,451	$ (1,056)	$ 18,222
Interest expense	$ -	$ -	$ 11	$ 11
Depreciation and Amortization	$ 41	$ 222	$ -	$ 263
Income (loss) before taxes	$ 251	$ (517)	$ 2,296	$ 2,030
Other significant noncash items:				
Allocated home office expense	$ (677)	$ 677	$ -	$ -
Gain on change in fair value of warrants	$ -	$ -	$ (2,535)	$ (2,535)
Stock compensation expense	$ -	$ -	$ 228	$ 228

	Optex Systems Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Warranty expense	$ (15)	$ 90	$ -	$ 75
Segment Assets	$ 14,010	$ 6,845	$ -	$ 20,855
Expenditures for segment assets	$ 20	$ 254	$ -	$ 274

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 option compensation expense	$ -	$ -	$ 197	$ 197
Warranty Expense	$ -	$ 76	$ -	$ 76
Segment Assets	$ 14,642	$ 5,703	$ -	$ 20,345
Expenditures for segment assets	$ 102	$ 50	$ -	$ 152

Note 5 — Property and Equipment

A summary of property and equipment at October 3, 2021 and September 27, 2020 is as follows:

	Estimated Useful Life	(Thousands) Year Ended October 3, 2021	Year Ended September 27, 2020
Property and Equipment			
Furniture and Fixtures	3-5 yrs	$ 398	$ 398
Machinery and Equipment	5 yrs	4,035	3,782
Leasehold Improvements	7 yrs	296	276
Less: Accumulated Depreciation		(3,712)	(3,450)
Net Property & Equipment		**$ 1,017**	**$ 1,006**
Depreciation Expense		**$ 263**	**$ 248**

During the twelve months ended October 3, 2021, Optex Systems Holdings' purchased $254 thousand in new furniture and fixtures and $20 thousand in leasehold improvements. During the twelve months ended October 3, 2021, there were no sales or retirements of fixed assets. 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.

Note 6 — Accrued Expenses

The components of accrued liabilities for the years ended October 3, 2021 and September 27, 2020 are summarized below:

	(Thousands) Year Ended October 3, 2021	Year Ended September 27, 2020
Contract Loss Reserves	$ 51	$ -
Accrued Vacation	376	469
Property Taxes	117	113
Operating Expenses	99	323
Payroll & Payroll Related	208	172
Total Accrued Expenses	**$ 851**	**$ 1,077**

Note 7 — Commitments and Contingencies

Rental Payments under Non-cancellable Operating Leases

Optex Systems Holdings leases its office and manufacturing facilities for the Optex Systems, Inc. Richardson location and the Applied Optics Center Dallas location. The company also leases certain office equipment under non-cancellable operating leases.

The leased facility under Optex Systems Inc. located at 1420 Presidential Drive, Richardson, Texas consists of49,100 square feet of space at the premises. The previous lease term for this location expired March 31, 2021 and the monthly base rent was $24.6 thousand through March 31, 2021. On January 11, 2021 the Company executed a sixth amendment extending the terms of the lease for eighty-six (86) months, commencing on April 1, 2021 and ending on May 31, 2028. The initial base rent is set at $25.3

thousand and escalates 3% on April 1 each year thereafter. The initial term included 2 months of rent abatement for April and May of 2021. The monthly rent includes approximately $11.6 thousand for additional Common Area Maintenance fees and taxes ("CAM"), to be adjusted annually based on actual expenses incurred by the landlord.

The leased facility under the Applied Optics Center located at 9839 and 9827 Chartwell Drive, Dallas, Texas, consists of44,867 square feet of space at the premises. The previous lease term for this location expired on October 31, 2021 and the monthly base rent was $21.9 thousand through the end of the lease On January 11, 2021 the Company executed a first amendment extending the terms of the lease for eighty-six (86) months, commencing on November 1, 2021 and ending on December 31, 2028. The initial base rent is set at $23.6 thousand as of January 1, 2022 and escalates 2.75% on January 1 each year thereafter. The initial term includes 2 months of rent abatement for November and December of 2021. The amendment provides for a five-year renewal option at the end of the lease term at the greater of the then "prevailing rental rate" or the then current base rental rate. Our obligations to make payments under the lease are secured by a $125,000 standby letter of credit. The monthly rent includes approximately $7.8 thousand for additional CAM, to be adjusted annually based on actual expenses incurred by the landlord.

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 extend 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, which represented the present value of future lease payments for the term of the equipment lease and both segment facility leases and which assumed the exercise of a five-year renewal option at the Applied Optics Center as of November 1, 2021. Execution of the new lease amendments for the Dallas and Richardson facilities on January 11, 2021 resulted in the balance sheet recognition of a right-of-use asset of $3.7 million and corresponding operating lease liabilities of approximately $3.7 million during the twelve months ended October 3, 2021.

As of October 3, 2021, the remaining minimum base lease and estimated common area maintenance (CAM) payments under the non-cancellable office equipment and facility space leases are as follows:

Non-cancellable Operating Leases Minimum Payments

	(Thousands)				
	Optex Richardson	Applied Optics Center	Office Equipment	Consolidated	
Fiscal Year	Facility Lease Payments	Facility Lease Payments	Lease Payments	Total Lease Payments	Total Variable CAM Estimate
2022 Base year lease	308	234	4	546	235
2023 Base year lease	317	288		605	240
2024 Base year lease	327	296		623	245
2025 Base year lease	336	305		641	249
2026 Base year lease	346	313		659	254
2027 Base year lease	357	322		679	259
2028 Base year lease	241	330		571	186
2029 Base year lease	-	83		83	27
Total base lease payments	**2,232**	**$ 2,171**	**$ 4**	**4,407**	**$ 1,695**
Imputed interest on lease payments [(1)]	(339)	(407)	-	(746)	
Total Operating Lease Liability[(2)]	**$ 1,893**	**$ 1,764**	**$ 4**	**$ 3,661**	
Right-of-use Asset[(3)]	**$ 1,831**	**$ 1,764**	**$ 4**	**$ 3,599**	

(1) Assumes a discount borrowing rate of 5.0% on the new lease amendments effective as of January 11, 2021 and 7.5% on the remaining lease term for the Applied Optics Dallas facility through October 31, 2021.

(2) Includes $62 thousand of unamortized deferred rent.

(3) Short-term and Long-term portion of Operating Lease Liability is $528 thousand and $3,133 thousand, respectively.

Total expense under both facility lease agreements for the twelve months ended October 3, 2021 was $769 thousand. Total expense under both facility lease agreements as of the twelve months ended September 27, 2020 was $735 thousand.

Total office equipment rentals included in operating expenses was $22 thousand for the twelve months ended October 3, 2021 and for the twelve months ended September 27, 2020.

Note 8 — Debt Financing

Credit Facility — PNC Bank (formerly BBVA, USA)

On April 16, 2020, the Company terminated its facility with Avidbank and entered into a new facility with 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. In June 2021, PNC Bank completed its acquisition of BBVA, USA and the bank name changed to PNC Bank ("PNC"). 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 PNC's Prime Rate plus a margin of -0.250%, initially set at3% 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 October 3, 2021, 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 credit facility was zero and $377 thousand as of October 3, 2021 and September 27, 2020, respectively. For the years ended October 3, 2021 and September 27, 2020, the total interest expense against the outstanding line of credit balance was $11 thousand and $19 thousand, respectively.

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 to75,000 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. 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 October 3, 2021. As of October 3, 2021, 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 restricted 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 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.

On January 2, 2021, the Company issued 58,392 common shares to directors and officers, net of tax withholding of $44 thousand, in settlement of 83,000 restricted stock units which vested on January 1, 2021.

Effective December 1, 2021, the vesting terms of Danny Schoening's RSU grant from January 2019 were revised as described in "*Item 11. Executive Compensation – Employment Agreements - Danny Schoening*," which disclosure is incorporated by reference herein.

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. On January 1, 2021, 60,000 of the restricted director shares vested.

There were no new grants of restricted stock units during the twelve months ended October 3, 2021.

The following table summarizes the status of Optex Systems Holdings' aggregate non-vested restricted stock units and restricted shares granted as of October 3, 2021:

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding at September 29, 2019	216,500	$ 1.29	—	—
Granted	50,000	$ 2.13	300,000	$ 1.75
Vested	(84,500)	$ 1.25	—	—
Forfeited	-	—	—	—
Outstanding at September 27, 2020	182,000	$ 1.54	300,000	**$ 1.75**
Granted	—	—	—	—
Vested	(83,000)	$ 1.49	(60,000)	$ 1.75
Forfeited	—	—	—	—
Outstanding at October 3, 2021	**99,000**	**$ 1.59**	**240,000**	**$ 1.75**

Stock Based Compensation Expense

Equity compensation is amortized to general and administrative expenses 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	
	October 3, 2021	September 27, 2020	October 3, 2021	September 27, 2020
Restricted Shares	$ 105	$ 79	$ 341	$ 446
Restricted Stock Units	123	118	66	188
Total Stock Compensation	$ 228	**$ 197**	$ 407	**$ 634**

The unrecognized compensation expense for restricted shares and restricted stock units is expected to be recognized over a weighted-average period of 1.25 years and 0.92 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 October 3, 2021 and September 27, 2020, 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 October 3, 2021 and September 27, 2020 were $158 thousand and $165 thousand, respectively.

Note 11 — Stockholders' Equity

Dividends

There were no dividends declared or paid during the twelve months ended October 3, 2021 and September 27, 2020.

Common stock

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 27, 2020.

During the twelve months ended October 3, 2021, there were 58,392 common shares issued, net of tax withholding, in settlement of 83,000 restricted stock units which vested on January 1 2021.

On August 10, 2021 and August 23, 2021, there were 148,300 and 40,509 warrants exercised, respectively, at $1.50 per common share at a total transaction cost of $283 thousand. The total fair market value at the time of exercise was $292 thousand. There were no other issuances of common stock during the twelve months ended October 3, 2021.

On August 31, 2021, the Company repurchased 100 shares from a private investor for a total transaction cost of $150 which were subsequently cancelled.

On June 8, 2020 the Company announced authorization for a $1 million stock repurchase program. As of September 27, 2020 there were 105,733 shares held in treasury purchased under the June 2020 stock repurchase plan. The Company purchased a total of 519,266 shares against the program through April 2021, which were subsequently cancelled in June 2021.

On September 22, 2021 the Company announced authorization for an additional $1 million stock repurchase program. As of October 3, 2021, there were 35,555 shares held in treasury purchased under the September 2021 stock repurchase plan. The shares authorized to be repurchased under the 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 October 3, 2021, there were 449,088 common shares repurchased through the program at a cost of $869 thousand. During the twelve months ended September 27, 2020, there were 105,733 common shares repurchased through the program at a cost of $200 thousand. A summary of the purchases under the plan follows:

Fiscal Period	Total number of shares purchased	Total purchase cost	Average price paid per share (with commission)	Maximum dollar value that may yet be purchased under the plan
Stock Buyback Plan initiated May 2020 ($1,000,000)				
May 24, 2020 through June 28, 2020	34,243	$ 63	$ 1.84	$ 937
June 29, 2020 through July 26, 2020	6,806	13	1.89	924
July 27, 2020 through August 23, 2020	10,688	21	1.96	903
August 23, 2020 through September 27, 2020	53,996	103	1.90	800
September 28, 2020 through October 25, 2020	20,948	42	2.01	758
October 26, 2020 through November 22, 2020	129,245	265	2.05	493
November 23, 2020 through December 27, 2020	58,399	109	1.86	384
December 28, 2020 through January 24, 2021	40,362	73	1.80	311
January 25, 2021 through February 21, 2021	52,180	101	1.94	210
February 22, 2021 through March 28, 2021	73,800	140	1.90	70
March 29, 2021 through April 19, 2021	38,599	70	1.82	-
Total shares repurchased and cancelled	**519,266**	**$ 1,000**	**$ 1.93**	**$ -**
Stock Buyback Plan initiated September 2021 ($1,000,000)				
September 23, 2021 through October 1, 2021	**35,555**	**$ 69**	**$ 1.93**	**$ 931**

Total shares repurched for the twelve months ended September 27, 2020	105,733	$ 200	$ 1.89	
Total shares repurched for the twelve months ended October 3, 2021	449,088	869	1.93	
Total shares repurchased as of October 3, 2021	**554,821**	**$ 1,069**	**$ 1.93**	**$ 931**

As of October 3, 2021, and September 27, 2020, the total outstanding common shares were8,488,149 and 8,690,136, respectively.

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 entitled 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 were issued in book-entry form and were initially 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 could be adjusted in certain circumstances, including in the event of a stock split, stock dividend, extraordinary dividend on or recapitalization, reorganization, merger or consolidation.

Under the terms of the warrant agreement, Optex Systems Holdings Inc. 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 in which Optex failed to have an effective registration statement covering the shares underlying the warrants, the warrant holder was permitted to exercise the warrants on a cashless basis. The warrant holders did not have the rights or privileges of holders of common stock and any voting rights until they exercised their warrants and received 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 was 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 did 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 could increase or decrease the Beneficial Ownership Limitation, provided that in no event could the Beneficial Ownership Limitation have exceeded 9.99% and any increase in the Beneficial Ownership Limitation would not be effective until 61 days following notice of such increase from the holder to us.

No fractional shares of common stock would 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. would, upon exercise, round up to the nearest whole number of shares of common stock to be issued to the warrant holder. If multiple warrants were exercised by the holder at the same time, Optex Systems Holdings Inc. would aggregate the number of whole shares issuable upon exercise of all the warrants. There was no established trading market for the warrants.

In the event of a fundamental transaction (as defined in warrant), then the Company or any successor entity would 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 27, 2020 there were 4,125,200 warrants outstanding. During the twelve months ended September 27, 2020, there werezero warrants exercised or repurchased. During the twelve months ended October 3, 2021, 188,809 of the warrants were exercised and zero warrants repurchased. On August 26, 2021, the remaining 3,936,391 warrants expired worthless. As of October 3, 2021, there were zero 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 had no plans to consummate a fundamental transaction and did not believe a fundamental transaction was likely to occur during the remaining term of the outstanding warrants. In accordance with the accounting guidance, the outstanding warrants were 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 income.

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	Expiration date August 26, 2021(5)
Exercise Price(1)	$ 1.50	$ 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	8/26/2021
Stock Price (2)	$ 0.95	$ 0.98	$ 1.71	$ 1.56	$ 1.96	$ 1.49
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	Expired
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. August 26, 2021 stock price based on the volume weighted average price for 618,451 share trades on that date. Closing price was $1.55 based trades of 2,400 final shares traded.

(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.

(5) Warrants expired worthless without cashless exchange pursuant to the Warrant Agreement Section 2(c) determination that the August 26, 2021 VWAP calculation of $1.49 was below the exercise price of $1.50.

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 9/29/2019	**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**
Reclassification to additional paid in capital on exercise of warrants *(1)*	(188,809)				(9)
Gain on Change in Fair Value of Warrant Liability *(2)*	(3,936,391)				(2,535)
Fair Value as of period ended 10/03/2021	**-**	**$**	**-**	**$**	**-**

(1) Exercise of warrants for gross proceeds of $283 thousand and a warrant liability fair market value of $292 thousand as of the exercise date.
(2) Expiration of Warrants on August 26, 2021.

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 October 3, 2021 and September 27, 2020 include the following:

	(Thousands)			
		2021		**2020**
Current income tax expense:				
Current year federal income tax	$	-	$	403
Prior year tax adjustment		(62)		(59)
		(62)		344
Deferred income tax provision (benefit):				
Federal		(39)		187
Provision for (Benefit from) income taxes, net	$	(101)	$	531

As of October 3, 2021, Optex Systems Inc. has a net carrying value of $1.3 million in deferred tax assets represented by deferred tax assets of $2.1 million and a deferred tax asset valuation allowance of ($0.8) 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. As of October 3, 2021, and September 27, 2020, 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 recent orders and increased backlog as of October 3, 2021. During the twelve months ended October 3, 2021, the Company recognized ($0.04) million in tax benefits to deferred tax assets. During the twelve months ended September 27, 2020, the Company recognized $0.2 million in tax expenses from 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.

The income tax provision for Optex Systems as of October 3, 2021 differs from those computed using the statutory federal tax rate in the respective years due to the following permanent differences:

		2021	**%**		**2020**	**%**
Tax provision (benefit) at statutory federal rate	$	426	21	$	495	21
Nondeductible expenses		(531)	(26)		108	5
Other temporary adjustments		221	11		35	1
Prior year federal income tax adjustment		(62)	(3)		(59)	(2)
Change in deferred tax valuation allowance		(155)	(8)		(48)	(2)
Provision for (benefit from) income taxes, net	$	(101)	(5)	$	531	23

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 October 3, 2021		**As of September 27, 2020**
Stock Compensation	$	73	$	64

Inventory Reserve		134		119
Unicap		27		31
Deferred Compensation		-		39
Fixed assets		(226)		(18)
Goodwill Amortization		199		299
Intangible Asset Amortization		113		170
Net Operating Losses		1,657		1,362
Other		119		124
Subtotal	$	2,096	$	2,190
Valuation allowance		(808)		(963)
Net deferred asset	$	1,288	$	1,227

The Company has a net loss carryforward of $7.9 million as of October 3, 2021 as compared to a net loss carryforward of $6.5 million as of September 27, 2020. 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 $4.0 million of the current net operating loss carryforward for a net tax benefit of $0.8 million through fiscal year ending in 2037. For the year ended October 3, 2021, the Company realized a ($1.4) million net operating tax loss which is not subject to the IRS section 382 limitation and is available for a tax loss carryback up to five years.

The Company applied FASB ASC 740-10 and has no unrecognized tax benefits. By statute, the tax years ended October 3, 2021, September 27, 2020 and September 29, 2019 are open to examination by the major taxing jurisdictions to which the Optex Systems Holdings is subject.

During the twelve months ended October 3, 2021 the Company paid $48 thousand in income taxes, and has a net tax refund due related to the fiscal year 2021 tax year of ($48) thousand included in prepaid expenses. During the twelve months ended September 27, 2020 the Company paid $289 thousand in income taxes, and had a net tax refund due related to the fiscal year 2020 tax year of ($20) thousand included in prepaid expenses. There were additional tax benefit adjustments of $40 thousand due to changes from the provisional 2020 rates as compared to the federal income tax report associated with research and development tax credits and other adjustments.

Note 14 — Subsequent Events

The Company entered into an amended and restated employment agreement with Danny Schoening dated December 1, 2021. The term of the agreement commenced as of December 1, 2021 and the current term ends on November 30, 2022. Mr. Schoening's base salary is $296,031 per annum. Mr. Schoening will be eligible for a performance bonus based upon a rolling three-year operating plan adopted by the Company's Board of Directors (the "Board"). The bonus will be based on operating metrics decided annually by our Board and tied to such three-year plan. The target bonus equates to 30% of Mr. Schoening's base salary. Our Board will have discretion in good faith to alter the performance bonus upward or downward by 20%.

The updated employment agreement also served to amend Mr. Schoening's RSU Agreement, dated January 2, 2019, by changing the third and final vesting date for the restricted stock units granted under such agreement from January 2, 2022 to the "change of control date," that being the first of the following to occur with respect to the Company: (i) any "Person," as that term is defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with certain exclusions, is or becomes the "Beneficial Owner" (as that term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; or (ii) the Company is merged or consolidated with any other corporation or other entity, other than: (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (B) the Company engages in a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "Person" (as defined above) acquires fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities. The amended RSU Agreement contains certain exceptions to the definition of change of control.

The employment agreement events of termination consist of: (i) death or permanent disability of Mr. Schoening; (ii) termination by the Company 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 by the Company without cause and (iv) termination by Mr. Schoening for good reason (including breach by the Company 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 Company's then outstanding securities or those of its successor changing ownership or a sale of all or substantially all of its assets, without the surviving entity assuming the obligations under the agreement). For a termination by the Company for cause or upon death or permanent disability of Mr. Schoening, Mr. Schoening will 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 the Company without cause or by Mr. Schoening with good reason, Mr. Schoening will also be paid six months' base salary in effect and, if such termination occurs prior to a change of control, Mr. Schoening will not forfeit the unvested RSUs until and unless the change of control does not occur by March 13, 2023.

PART IV

Item 15. Exhibits

(a)(1) *Financial Statements.* The following financial statements of Optex Systems Holdings, Inc. are included in Part II, Item 8:

(a)(2) *Financial Statement Schedules.*

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

(a)(3) *Exhibits.*

See Exhibit Index

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 to date(12)
3.2	Bylaws of Optex Systems Holdings(1).
3.3	Charters of the Audit Committee, Compensation Committee and Nominating Committee(6).
4.1	Description of Capital Stock(12)
4.2	Specimen Stock Certificate(2)
10.1	Lease for 1420 Presidential Blvd., Richardson, TX(1).
10.2	Third Amendment to Lease, between Aquiport DFWIP and Optex Systems, Inc., dated January 7, 2010(3)
10.3	Restricted Stock Unit Plan(7)
10.4	Form of RSU Agreement(7)
10.5	Employment Agreement with Karen Hawkins, dated as of August 1, 2016(5)
10.6	Form of Lease(8)
10.7	Form of Letter of Credit(8)

10.8	Form of Award/Contract between the Company and US DLA, dated July 3, 2017(9)
10.9	Employment Agreement with Danny Schoening, dated December 1, 2021(10)
10.10	Sixth Amendment to Lease Agreement(12)
10.11	First Amendment to Lease(12)
10.13	BBVA Business Loan Agreement(11)
10.14	BBVA Letter of Credit(12)
10.15	2009 Stock option Plan (4)
14.1	Code of Ethics(2)
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
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

(1) Incorporated by reference from our Current Report on Form 8-K dated April 3, 2009.
(2) Incorporated by reference from our Registration Statement on Form S-1 filed on May 19, 2009.
(3) Incorporated by reference from our Amendment No. 4 to Registration Statement on Form S-1 filed on June 14, 2010.
(4) Incorporated by reference from our Current Report on Form 8-K dated April 3, 2009.
(5) Incorporated by reference from our Current Report on Form 8-K, filed on August 10, 2016.
(6) Incorporated by reference from our Amendment No. 1 to Registration Statement on Form S-1 filed on July 23, 2015.
(7) Incorporated by reference from our Current Report on Form 8-K, filed on June 17, 2016.
(8) Incorporated by reference from our Current Report on Form 8-K, filed on November 23, 2016.
(9) Incorporated by reference from our Current Report on Form 8-K, filed on July 10, 2017.
(10) Incorporated by reference from our Current Report on Form 8-K, dated December 7, 2021.
(11) Incorporated by reference from our Current Report on Form 8-K, dated April 20, 2020.

(12) Incorporated by reference from our Annual Report on Form 10-K for the year ended October 3, 2021 filed on December 20, 2021.

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: February 3, 2022

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

Date: February 3, 2022

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.

Signature	Title	Date
/s/ Danny Schoening Danny Schoening	Chairman, Principal Executive Officer and Director	February 3, 2022
/s/ Karen Hawkins Karen Hawkins	Principal Financial Officer and Principal Accounting Officer	February 3, 2022
/s/ Larry Hagenbuch Larry Hagenbuch	Director	February 3, 2022
/s/ Rimmy Malhotra Rimmy Malhotra	Director	February 3, 2022
/s/ Dale Lehmann Dale Lehmann	Director	February 3, 2022

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Danny Schoening, certify that:

1. I have reviewed this Form 10-K/A of Optex Systems Holdings, Inc.:

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

By: */s/ Danny Schoening*
Danny Schoening
Principal Executive Officer

Dated: February 3, 2022

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Karen Hawkins, certify that:

1. I have reviewed this Form 10-K/A of Optex Systems Holdings, Inc.:

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

By: *\/s/ Karen Hawkins*

Karen Hawkins
Principal Financial Officer and
Principal Accounting Officer

Dated: February 3, 2022

Exhibit 32.1

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

In connection with this Annual Report of Optex Systems Holdings, Inc. (the “Company”) on this Form 10-K/A for the year ended October 3, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Danny Schoening, Principal Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

By: */s/ Danny Schoening*
Danny Schoening
Principal Executive Officer

Dated: February 3, 2022

Exhibit 32.2

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

In connection with this Annual Report of Optex Systems Holdings, Inc. (the “Company”) on this Form 10-K/A for the year ended October 3, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Karen Hawkins, Principal Financial Officer and Principal Accounting Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Dated: February 3, 2022