

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

FORM 10-Q

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

For the quarterly period ended April 3, 2022

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

For the transition period from _____ to _____.

OPTEX SYSTEMS HOLDINGS, INC.

(Exact Name of Registrant as Specified in Charter)

Delaware
(State or other jurisdiction
of incorporation)

000-54114
(Commission
File Number)

90-0609531
(IRS 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 pursuant to Section 12(b) of the Act:

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

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 preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition 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 is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 13, 2022: 8,377,354 shares of common stock.

OPTEX SYSTEMS HOLDINGS, INC.
FORM 10-Q

For the period ended April 3, 2022

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Part 1. Financial Information

Item 1. Unaudited Condensed Consolidated Financial Statements

OPTEX SYSTEMS HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Optex Systems Holdings, Inc.
Condensed Consolidated Balance Sheets

	(Thousands, except share and per share data)	
	April 3, 2022	October 3, 2021
	(Unaudited)	
ASSETS		
Cash and Cash Equivalents	\$ 4,881	\$ 3,900
Accounts Receivable, Net	1,924	3,183
Inventory, Net	8,381	7,583
Prepaid Expenses	290	262
Current Assets	15,476	14,928
Property and Equipment, Net	989	1,017
Other Assets		
Deferred Tax Asset	1,341	1,288
Right-of-use Asset	3,405	3,599
Security Deposits	23	23
Other Assets	4,769	4,910
Total Assets	\$ 21,234	\$ 20,855
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 1,303	\$ 551
Operating Lease Liability	581	528
Accrued Expenses	802	851
Accrued Warranty Costs	155	78
Current Liabilities	2,841	2,008
Operating Lease Liability, net of current portion	2,951	3,133
Total Liabilities	5,792	5,141
Commitments and Contingencies		
Stockholders' Equity		
Common Stock – (\$0.001 par, 2,000,000,000 authorized, 8,395,394 and 8,523,704 shares issued, and 8,395,394 and 8,488,149 outstanding, respectively)	8	9
Treasury Stock (at cost, zero and 35,555 shares held, respectively)	-	(69)
Additional Paid in Capital	25,534	25,752
Accumulated Deficit	(10,100)	(9,978)
Stockholders' Equity	15,442	15,714
Total Liabilities and Stockholders' Equity	\$ 21,234	\$ 20,855

The accompanying notes are an integral part of these condensed consolidated financial statements

Optex Systems Holdings, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	(Thousands, except share and per share data)			
	Three months ended		Six months ended	
	April 3, 2022	March 28, 2021	April 3, 2022	March 28, 2021
Revenue	\$ 5,136	\$ 4,246	\$ 9,475	\$ 8,717
Cost of Sales	4,420	3,868	7,936	7,504
Gross Margin	716	378	1,539	1,213
General and Administrative Expense	907	792	1,715	1,548
Operating Loss	(191)	(414)	(176)	(335)
Gain (Loss) on Change in Fair Value of Warrants	-	(169)	-	858
Interest Expense	-	(2)	-	(5)
Other Income (Loss)	-	(171)	-	853
Income (Loss) Before Taxes	(191)	(585)	(176)	518
Income Tax (Benefit) Expense, net	\$ (40)	\$ 17	\$ (54)	\$ 33
Net Income (Loss)	\$ (151)	\$ (602)	\$ (122)	\$ 485
Deemed dividends on participating securities	-	-	-	(162)
Net income applicable to common shareholders	\$ (151)	\$ (602)	\$ (122)	\$ 323
Basic income (loss) per share	\$ (0.02)	\$ (0.07)	\$ (0.01)	\$ 0.04
Weighted Average Common Shares Outstanding - basic	8,255,578	8,214,481	8,242,279	8,256,879
Diluted income (loss) per share	\$ (0.02)	\$ (0.07)	\$ (0.01)	\$ 0.04
Weighted Average Common Shares Outstanding – diluted	\$ 8,255,578	\$ 8,214,481	\$ 8,242,279	\$ 8,369,763

The accompanying notes are an integral part of these condensed consolidated financial statements

Optex Systems Holdings, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	(Thousands)	
	Six months ended	
	April 3, 2022	March 28, 2021
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ (122)	\$ 485
Adjustments to Reconcile Net Income (Loss) to Net Cash provided by Operating Activities:		
Depreciation and Amortization	147	128
Gain on Change in Fair Value of Warrants	-	(858)
Stock Compensation Expense	92	114
Deferred Tax	(54)	33
Accounts Receivable	1,259	922
Inventory	(798)	(202)
Prepaid Expenses	(29)	71
Leases	65	(29)
Accounts Payable and Accrued Expenses	703	(561)
Accrued Warranty Costs	77	(20)
Customer Advance Deposits	-	(1)
Total Adjustments	1,462	(403)
Net Cash provided by Operating Activities	1,340	82
Cash Flows used in Investing Activities		
Purchases of Property and Equipment	(118)	(128)
Net Cash used in Investing Activities	(118)	(128)
Cash Flows used in Financing Activities		
Cash Paid for Taxes Withheld on Net Settled Restricted Stock Unit Shares Issued	(19)	(44)
Stock Repurchase	(222)	(730)
Net Cash used in Financing Activities	(241)	(774)
Net Increase (Decrease) in Cash and Cash Equivalents	981	(820)
Cash and Cash Equivalents at Beginning of Period	3,900	4,700
Cash and Cash Equivalents at End of Period	\$ 4,881	\$ 3,880
Supplemental Cash Flow Information:		
Non Cash Transactions:		
Right-of-Use Asset	\$ -	\$ 3,688
Operating Lease Liabilities	-	(3,688)
Treasury Stock Retired	(291)	-
Cash Transactions:		
Cash Paid for Taxes	-	48
Cash Paid for Interest	-	5

The accompanying notes are an integral part of these condensed consolidated financial statements

Optex Systems Holdings, Inc.
Condensed Consolidated Statement of Stockholders' Equity
(Thousands, except share data)

	Three months ended April 3, 2022						
	Common Shares Issued	Treasury Shares	Common Stock	Treasury Stock	Additional Paid in Capital	Retained Earnings	Total Stockholders Equity
Balance at January 2, 2022	8,546,920	72,793	\$ 9	\$ (143)	\$ 25,809	\$ (9,949)	\$ 15,726
Stock Compensation Expense	-	-	-	-	35	-	35
Taxes on Shares Issued for Vested Restricted Stock Units	-	-	-	-	(19)	-	(19)
Common Stock Repurchase ⁽¹⁾	-	78,733	-	(148)	-	-	(148)
Cancellation of Treasury Shares	(151,526)	(151,526)	(1)	291	(291)	-	(1)
Net Loss	-	-	-	-	-	(151)	(151)
Balance at April 3, 2022	<u>8,395,394</u>	<u>-</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 25,534</u>	<u>\$ (10,100)</u>	<u>\$ 15,442</u>

	Three months ended March 28, 2021						
	Common Shares Issued	Treasury Shares	Common Stock	Treasury Stock	Additional Paid in Capital	Retained Earnings	Total Stockholders Equity
Balance at December 27, 2020	8,795,869	314,325	\$ 9	\$ (615)	\$ 26,333	\$ (11,022)	\$ 14,705
Stock Compensation Expense	-	-	-	-	57	-	57
Vested Restricted Stock Units Issued Net of Tax Withholding	58,392	-	-	-	(44)	-	(44)
Common Stock Repurchase ⁽²⁾	-	166,342	-	(315)	-	-	(315)
Net Loss	-	-	-	-	-	(602)	(602)
Balance at March 28, 2021	<u>8,854,261</u>	<u>480,667</u>	<u>\$ 9</u>	<u>\$ (930)</u>	<u>\$ 26,346</u>	<u>\$ (11,624)</u>	<u>\$ 13,801</u>

	Six months ended April 3, 2022						
	Common Shares Issued	Treasury Shares	Common Stock	Treasury Stock	Additional Paid in Capital	Retained Earnings	Total Stockholders Equity
Balance at October 3, 2021	8,523,704	35,555	\$ 9	\$ (69)	\$ 25,752	\$ (9,978)	15,714
Stock Compensation Expense	-	-	-	-	92	-	92
Vested Restricted Stock Units Issued Net of Tax Withholding	23,216	-	-	-	(19)	-	(19)
Common Stock Repurchase ⁽¹⁾	-	115,971	-	(222)	-	-	(222)
Cancellation of Treasury Shares	(151,526)	(151,526)	(1)	291	(291)	-	(1)
Net Loss	-	-	-	-	-	(122)	(122)
Balance at April 3, 2022	<u>8,395,394</u>	<u>-</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 25,534</u>	<u>\$ (10,100)</u>	<u>\$ 15,442</u>

	Six months ended March 28, 2021						
	Common Shares Issued	Treasury Shares	Common Stock	Treasury Stock	Additional Paid in Capital	Retained Earnings	Total Stockholders Equity
Balance at September 27, 2020	8,795,869	105,733	\$ 9	\$ (200)	\$ 26,276	\$ (12,109)	13,976
Stock Compensation Expense	-	-	-	-	114	-	114
Vested Restricted Stock Units Issued Net of Tax Withholding	58,392	-	-	-	(44)	-	(44)
Common Stock Repurchase ⁽²⁾	-	374,934	-	(730)	-	-	(730)
Net Income	-	-	-	-	-	485	485
Balance at March 28, 2021	<u>8,854,261</u>	<u>480,667</u>	<u>\$ 9</u>	<u>\$ (930)</u>	<u>\$ 26,346</u>	<u>\$ (11,624)</u>	<u>\$ 13,801</u>

(1) Common shares repurchased in the open market through April 3, 2022.

(2) Common shares repurchased in the open market through March 28, 2021 and held as treasury stock using the cost method.

The accompanying notes are an integral part of these condensed consolidated 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. The Company 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. The Company's consolidated revenues for the six months ended April 3, 2022 were derived from the U.S. government (13%), four major U.S. defense contractors (15%, 12%, 6% and 6%, respectively), one major commercial customer (21%) and all other customers (27%). Approximately 93% of the total Company revenue is generated from domestic customers and 7% is derived from foreign customers, primarily in Canada. Optex Systems Holdings' operations are based in Dallas and Richardson, Texas in leased facilities comprising 93,967 square feet. As of April 3, 2022, Optex Systems Holdings operated with 83 full-time equivalent employees.

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

Beginning in April 2020 through October 3, 2021, we experienced a significant reduction in new orders and ending customer backlog in our Optex Richardson segment, resulting in an overall decrease in backlog of 40% between September 29, 2019 and October 3, 2021. We attribute the lower orders to a combination of factors including a COVID-19 driven slow-down of contract awards for both U.S. military sales and foreign military sales (FMS), combined with significant shifting in defense spending budget allocations in US military sales and FMS away from Army ground system vehicles toward other military agency applications. In addition, the pandemic has caused several program delays throughout the defense supply chain as a result of plant shutdowns, employee illnesses, travel restrictions, remote work arrangements and similar supply chain issues.

While the Applied Optics Center segment experienced a significant decline in orders during the second half of fiscal year 2020, the segment saw a sizable increase in new orders during the fiscal year ended October 3, 2021 as a result of increased military spending in Army infantry optical equipment, a larger customer base and higher customer demand for commercial optical assemblies. As of October 3, 2021, the Applied Optics Center segment backlog had increased by 153% as compared to the level on September 29, 2019. As a result of this significant shift in orders and backlog between segments, we anticipate corresponding shifts in revenue during the 2022 fiscal year, with revenue from the Optex Richardson segment decreasing, and revenue from the Applied Optics Center segment increasing.

Note 2 - Accounting Policies

Basis of Presentation

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

The condensed consolidated financial statements of Optex Systems Holdings included herein have been prepared by Optex Systems Holdings, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in conjunction with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and the notes thereto included in the Optex Systems Holdings' Form 10-K for the year ended October 3, 2021 and other reports filed with the SEC.

The accompanying unaudited interim condensed consolidated financial statements reflect all adjustments of a normal and recurring nature which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows of Optex Systems Holdings for the interim periods presented. The results of operations for these periods are not necessarily comparable to, or indicative of, results of any other interim period or for the fiscal year taken as a whole. Certain information that is not required for interim financial reporting purposes has been omitted.

Inventory: As of April 3, 2022 and October 3, 2021, inventory included:

	(Thousands)	
	April 3, 2022	October 3, 2021
Raw Material	\$ 4,759	\$ 4,926
Work in Process	3,688	2,664
Finished Goods	567	629
Gross Inventory	\$ 9,014	\$ 8,219
Less: Inventory Reserves	(633)	(636)
Net Inventory	\$ 8,381	\$ 7,583

Concentration of Credit Risk: Optex Systems Holdings' accounts receivables as of April 3, 2022 consist of U.S. government agencies (13%), five major U.S. defense contractors (29%, 15%, 12%, 11% and 7%, respectively), one commercial customer (7%) and all other customers (6%). The Company does not believe that this concentration results in undue credit risk because of the financial strength of the customers and the Company's long history with these customers.

Accrued Warranties: Optex Systems Holdings accrues product warranty liabilities based on the historical return rate against period shipments as they occur and reviews and adjusts these accruals quarterly for any significant changes in estimated costs or return rates. The accrued warranty liability includes estimated costs to repair or replace returned warranty backlog units currently in-house plus estimated costs for future warranty returns that may be incurred against warranty covered products previously shipped as of the period end date. As of April 3, 2022, and October 3, 2021, the Company had warranty reserve balances of \$155 and \$78 thousand, respectively.

	Three months ended		Six Months ended	
	April 3, 2022	March 28, 2021	April 3, 2022	March 28, 2021
Beginning balance	\$ 122	\$ 49	\$ 78	\$ 83
Incurred costs for warranties satisfied during the period	-	(25)	(2)	(68)
Warranty Expenses:				
Warranties reserved for new product shipped during the period ⁽¹⁾	33	5	79	9
Change in estimate for pre-existing warranty liabilities ⁽²⁾	-	34	-	39
Warranty Expense	33	39	79	48
Ending balance	\$ 155	\$ 63	\$ 155	\$ 63

(1) Warranty expenses accrued to cost of sales (based on current period 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 current period.

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.

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

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

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

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.

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 6 "Warrant Liabilities". The warrant liability measurement 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.

Revenue Recognition: 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 began in October 2017, 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 through February 2025. 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. During the three and six months ended April 3, 2022 and March 28, 2021, there was \$120 thousand and \$240 thousand in 2022 and \$120 thousand and \$240 thousand in 2021 in service contract revenue recognized over time.

During the three- and six-month periods ended April 3, 2022 and March 28, 2021, there was \$30 thousand and \$30 thousand in 2022 and \$0 and \$1 thousand in 2021 of revenue recognized from customer deposit liabilities (deferred contract revenue). As of April 3, 2022, there are no customer deposit liabilities. As of April 3, 2022, there are no deferred sales commissions or other significant deferred contract costs.

Income Tax/Deferred Tax: As of April 3, 2022 and October 3, 2021, Optex Systems, Inc. has a deferred tax asset valuation allowance of (\$0.8) million against deferred tax assets of \$2.1 million for a net deferred tax asset of \$1.3 million. The valuation allowance has been established due to historical losses resulting in a Net Operating Loss Carryforward for each of the fiscal years 2011 through 2016 which may not be fully recognized due to an IRS Section 382 limitation related to a change in control.

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.

A significant number of our warrants outstanding through August 26, 2021 were participating securities, which shared dividend distributions and the allocation of any undistributed earnings (deemed dividends) with our common shareholders. Since the warrants expired in accordance with their terms on August 26, 2021, during the three and six months ended April 3, 2022, there were no declared dividends and no allocated undistributed earnings attributable to the participating warrants, respectively. During the three and six months ended March 28, 2021, there were no declared dividends and \$0 and \$162 thousand, respectively, in allocated undistributed earnings attributable to the participating warrants.

The Company has potentially dilutive securities outstanding, which include unvested restricted stock units, stock options and, for the three and six months ended March 28, 2021, warrants. In computing the dilutive effect of warrants, the numerator is adjusted to add back any deemed dividends on participating securities (warrants) and the denominator is increased to assume the conversion of the number of additional incremental common shares. The Company uses the Treasury Stock Method to compute the dilutive effect of any dilutive shares. Unvested restricted stock units, stock options and warrants that are anti-dilutive are excluded from the calculation of diluted earnings per common share.

For the three months ended April 3, 2022, 66,000 unvested restricted stock units and 180,000 shares of unvested restricted stock (which convert to an aggregate of 70,007 incremental shares) were excluded from the diluted earnings per share calculation due to the antidilutive effect of the net loss during the period. For the three months ended March 28, 2021, 99,000 unvested restricted stock units and 240,000 shares of unvested restricted stock (which convert to an aggregate of 51,425 incremental shares) were excluded from the diluted earnings per share calculation due to the net loss during the period.

For the six months ended April 3, 2022, 66,000 unvested restricted stock units and 180,000 shares of unvested restricted stock (which convert to an aggregate of 61,434 incremental shares) were excluded from the diluted earnings per share calculation due to the antidilutive effect of the net loss. For the six months ended March 28, 2021, 99,000 unvested restricted stock units and 240,000 restricted shares (which convert to an aggregate of 112,884 incremental shares) were included in the diluted earnings per share calculation.

Note 3 - 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

The Optex Systems segment revenue is comprised of approximately 84% domestic military customers and 16% foreign military customers. For the six months ended April 3, 2022, Optex Systems – Richardson represented 42% of the Company's total consolidated revenue and consisted of the U.S. government (13%), two major U.S. defense contractors, (7%) and (6%), and all other customers (16%).

Optex Systems is located in Richardson Texas, with leased premises consisting of approximately 49,100 square feet. As of April 3, 2022, 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 represent approximately 37% and military sales to prime and subcontracted customers represent approximately 63% of the external segment revenue. Approximately 93% of the AOC revenue is derived from external customers and approximately 7% is related to intersegment sales to Optex Systems in support of military contracts. For the six months ended April 3, 2022, AOC represented 58% of the Company's total consolidated revenue and consisted of three major defense contractors (12%, 8% and 6%), one commercial customer (21%), and all other customers (11%).

The Applied Optics Center is located in Dallas, Texas with leased premises consisting of approximately 44,867 square feet of space. As of April 3, 2022, AOC operated with 36 full time equivalent employees in a single shift operation.

The financial tables below present information on the reportable segments' profit or loss for each period, as well as segment assets as of each period end. The Company does not allocate interest expense, income taxes or unusual items to segments.

Reportable Segment Financial Information				
(thousands)				
As of and for the three months ended April 3, 2022				
	Optex Systems Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	\$ 2,078	\$ 3,058	\$ -	\$ 5,136
Intersegment revenues	-	255	(255)	-
Total revenue	\$ 2,078	\$ 3,313	\$ (255)	\$ 5,136
Interest expense	\$ -	\$ -	\$ -	\$ -
Depreciation and amortization	\$ 10	\$ 65	\$ -	\$ 75
Income (loss) before taxes	\$ (243)	\$ 87	\$ (35)	\$ (191)
Other significant noncash items:				
Allocated home office expense	\$ (298)	\$ 298	\$ -	\$ -
Stock compensation expense	\$ -	\$ -	\$ 35	\$ 35
Warranty expense	\$ -	\$ 33	\$ -	\$ 33
Segment assets	\$ 14,457	\$ 6,777	\$ -	\$ 21,234
Expenditures for segment assets	\$ (19)	\$ 47	\$ -	\$ 28

Reportable Segment Financial Information				
(thousands)				
As of and for the three months ended March 28, 2021				
	Optex Systems Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	\$ 2,805	\$ 1,441	\$ -	\$ 4,246
Intersegment revenues	-	530	(530)	-
Total revenue	\$ 2,805	\$ 1,971	\$ (530)	\$ 4,246
Interest expense	\$ -	\$ -	\$ 2	\$ 2
Depreciation and amortization	\$ 10	\$ 55	\$ -	\$ 65
Income (loss) before taxes	\$ (733)	\$ 376	\$ (228)	\$ (585)
Other significant noncash items:				
Allocated home office expense	\$ (153)	\$ 153	\$ -	\$ -
Loss on change in fair value of warrants	\$ -	\$ -	\$ 169	\$ 169
Stock compensation expense	\$ -	\$ -	\$ 57	\$ 57
Warranty expense	\$ -	\$ 39	\$ -	\$ 39
Segment assets	\$ 14,820	\$ 6,307	\$ -	\$ 21,127
Expenditures for segment assets	\$ -	\$ 47	\$ -	\$ 47

Reportable Segment Financial Information
(thousands)
As of and for the six months ended April 3, 2022

	Optex Systems Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	\$ 3,934	\$ 5,541	\$ -	\$ 9,475
Intersegment revenues	-	435	(435)	-
Total revenue	\$ 3,934	\$ 5,976	\$ (435)	\$ 9,475
Interest expense	\$ -	\$ -	\$ -	\$ -
Depreciation and amortization	\$ 20	\$ 127	\$ -	\$ 147
Income (loss) before taxes	\$ (460)	\$ 376	\$ (92)	\$ (176)
Other significant noncash items:				
Allocated home office expense	\$ (534)	\$ 534	\$ -	\$ -
Stock compensation expense	\$ -	\$ -	\$ 92	\$ 92
Warranty expense	\$ -	\$ 79	\$ -	\$ 79
Segment assets	\$ 14,457	\$ 6,777	\$ -	\$ 21,234
Expenditures for segment assets	\$ 6	\$ 112	\$ -	\$ 118

Reportable Segment Financial Information
(thousands)
As of and for the six months ended March 28, 2021

	Optex Systems Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	\$ 5,833	\$ 2,884	\$ -	\$ 8,717
Intersegment revenues	-	896	(896)	-
Total revenue	\$ 5,833	\$ 3,780	\$ (896)	\$ 8,717
Interest expense	\$ -	\$ -	\$ 5	\$ 5
Depreciation and amortization	\$ 21	\$ 107	\$ -	\$ 128
Income (loss) before taxes	\$ 24	\$ (245)	\$ 739	\$ 518
Other significant noncash items:				
Allocated home office expense	\$ (353)	\$ 353	\$ -	\$ -
Gain on change in fair value of warrants	\$ -	\$ -	\$ (858)	\$ (858)
Stock compensation expense	\$ -	\$ -	\$ 114	\$ 114
Warranty expense	\$ -	\$ 48	\$ -	\$ 48
Segment assets	\$ 14,820	\$ 6,307	\$ -	\$ 21,127
Expenditures for segment assets	\$ 20	\$ 108	\$ -	\$ 128

Note 4 - Commitments and Contingencies

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 address 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 of 49,100 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 \$11.3 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 of 44,867 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 \$7.9 thousand for additional CAM, to be adjusted annually based on actual expenses incurred by the landlord.

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.

The Company had 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 was \$1.5 thousand per month from October 1, 2018 through December 31, 2021. The lease was renewed on November 18, 2021 for an additional 48 months at a cost of \$1.2 thousand per month. Equipment for the new lease has not yet been delivered due to part shortages. The lease effectivity date has been delayed by the supplier pending the receipt of the equipment by Optex.

As of April 3, 2022, the remaining minimum lease and estimated CAM payments under the non-cancelable facility space leases are as follows:

Fiscal Year	Non-cancellable Operating Leases (Thousands)		Consolidated	
	Optex Richardson Facility Lease Payments	Applied Optics Center Facility Lease Payments	Total Lease Payments	Total Variable CAM Estimate
2022 Base year lease	156	141	297	116
2023 Base year lease	317	288	605	235
2024 Base year lease	327	296	623	240
2025 Base year lease	336	305	641	245
2026 Base year lease	346	313	659	249
2027 Base year lease	357	322	679	254
2028 Base year lease	242	330	572	184
2029 Base year lease	-	83	83	27
Total base lease payments	2,081	\$ 2,078	4,159	\$ 1,550
Imputed interest on lease payments ⁽¹⁾	(301)	(326)	(627)	
Total Operating Lease Liability⁽²⁾	\$ 1,780	\$ 1,752	\$ 3,532	
Right-of-use Asset⁽³⁾	\$ 1,707	\$ 1,698	\$ 3,405	

(1) Assumes a discount borrowing rate of 5.0% on the new lease amendments effective as of January 11, 2021.

(2) Includes \$127 thousand of unamortized deferred rent.

(3) Short-term and Long-term portion of Operating Lease Liability is \$581 thousand and \$2,951 thousand, respectively.

Total expense under both facility lease agreements for the three months ended April 3, 2022 and March 28, 2021 was \$210 and \$183 thousand, respectively. Total office equipment rentals included in operating expenses was \$8 and \$5 thousand for the three months ended April 3, 2022 and March 28, 2021, respectively.

Total expense under both facility lease agreements for the six months ended April 3, 2022 and March 28, 2021 was \$419 and \$361 thousand, respectively. Total office equipment rentals included in operating expenses was \$10 thousand and \$9 thousand for the six months ended April 3, 2022 and March 28, 2021, respectively.

Note 5 - Debt Financing

Credit Facility — PNC Bank (formerly BBVA, USA)

On April 16, 2020, Optex Systems Holdings, Inc. and its subsidiary, Optex Systems, Inc. (collectively, 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 of the facility were as follows:

- The principal amount of the Facility was \$2.25 million. The Facility matured on April 15, 2022. The interest rate was variable based on PNC’s Prime Rate plus a margin of -0.250%, initially set at 3% at loan origination, and all accrued and unpaid interest was payable monthly in arrears starting on May 15, 2020; and the principal amount was due in full with all accrued and unpaid interest and any other fees on April 15, 2022.
- There were 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 April 3, 2022, the Company was in compliance with the covenants.
- The Facility contained 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 was secured by a first lien on all of the assets of Borrower.

The outstanding balance on the Facility was zero as of April 3, 2022 and October 3, 2021. For the three and six months ended April 3, 2022, the total interest expense against the outstanding line of credit balance was zero. For the three and six months ended March 28, 2021, the total interest expense against the outstanding line of credit balance was \$2 thousand and \$5 thousand, respectively.

As further disclosed in *Note 9. Subsequent Events*, the Facility was replaced on April 12, 2022 with a new facility.

Note 6 - 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 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 and on or prior to the close of business on August 26, 2021 (the “Termination Date”). The Company determined that these warrants were free standing financial instruments that were legally detachable and separately exercisable from the common stock included in the public share offering. Management also determined that the warrants were 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 warrants. In accordance with the accounting guidance, the outstanding warrants were recognized as a warrant liability on the balance sheet, and were measured at their inception date fair value and subsequently re-measured at each reporting period with changes recorded as a component of other income in the condensed consolidated statements of operations. The warrants expired on the Termination Date in accordance with their terms; therefore, no warrants were outstanding as of April 3, 2022 or during the three or six months ended April 3, 2022.

The fair value of the warrant liabilities presented below were measured using a Black Scholes Merton (BSM) valuation model. Significant inputs into the respective model at the reporting period measurement dates are as follows:

Valuation Assumptions	Period ended September 27, 2020	Period ended March 28, 2021
Exercise Price ⁽¹⁾	\$ 1.50	\$ 1.50
Warrant Expiration Date ⁽¹⁾	8/26/2021	8/26/2021
Stock Price ⁽²⁾	\$ 1.96	\$ 1.84
Interest Rate (annual) ⁽³⁾	0.12%	0.04%
Volatility (annual)	51.67%	45.12%
Time to Maturity (Years)	0.9	0.4
Calculated fair value per share	\$ 0.62	\$ 0.41

(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 end date.

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

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 9/27/2020	4,125,200	\$ 0.62	\$ 2,544
Gain on Change in Fair Value of Warrant Liability			(858)
Fair Value as of period ended 3/28/2021	4,125,200	\$ 0.41	1,686
Fair Value as of period ended 10/3/2021	-	\$ -	\$ -
Gain on Change in Fair Value of Warrant Liability			-
Fair Value as of period ended 4/3/2022	-	\$ -	\$ -

During the three and six months ended April 3, 2022 and March 28, 2021, there were no new issues or exercises of existing warrants.

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

Note 7-Stock Based Compensation

Stock Options issued to Employees, Officers and Directors

The Optex Systems Holdings 2009 Stock Option Plan provides for the issuance of up to 75,000 shares to the Company's officers, directors, employees and to independent contractors who provide services to Optex Systems Holdings as either incentive or non-statutory stock options determined at the time of grant. There were no new grants of stock options during the three or six months ended April 3, 2022. As of April 3, 2022, there are zero stock options outstanding.

Restricted Stock and Restricted Stock Units issued to Officers and Employees

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

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Restricted Shares	Weighted Average Grant Date Fair Value
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
Granted	—	—	—	—
Vested	(33,000)	1.73	(60,000)	1.75
Forfeited	—	—	—	—
Outstanding at April 3, 2022	66,000	\$ 1.52	180,000	\$ 1.75

On January 2, 2019, the Company granted 150,000 and 50,000 restricted stock units with a January 2, 2019 grant date to Danny Schoening and Karen Hawkins, respectively, vesting as of January 1 each year subsequent to the grant date over a three-year period at a rate of 34% in year one, and 33% each year thereafter. The stock price at grant date was \$1.32 per share. Effective December 1, 2021, the vesting terms of Danny Schoening's Restricted Stock Unit (RSU) grant from January 2019 were revised as described in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Events – D. Schoening Employment Agreement," which disclosure is incorporated by reference herein. The Company amortizes the grant date fair value of \$264 thousand to stock compensation expense on a straight-line basis across the three-year vesting period beginning on January 2, 2019. As of January 2, 2022, there was no unrecognized compensation cost relating to this award.

The Company entered into an amended and restated employment agreement with Danny Schoening dated December 1, 2021. 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 1, 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.

As of the December 1, 2021 modification date related to the third and final vesting date of the 49,500 unvested restricted stock units held by Danny Schoening, there was no change in the fair value of the modified award as compared to the original award immediately prior to the modification date. The restricted stock units were certain to vest on January 1, 2022, but due to the modification, they are less certain to vest, contingent on a "change in control date" occurring prior to March 13, 2023. As of the modification date, there was \$5 thousand of unrecognized compensation cost associated with the original award. As a matter of expediency, the unrecognized compensation expense as of the modification date was fully expensed through January 2, 2022. There is no additional compensation expense associated with the modification of the restricted stock unit agreement.

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 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.

On January 4, 2022, the Company issued 23,216 common shares to directors and officers, net of tax withholding of \$19 thousand, in settlement of 33,000 restricted stock units which vested on January 1, 2022.

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 grant date fair 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 and January 1, 2022, 60,000 of the restricted director shares vested.

Stock Based Compensation Expense

Equity compensation is amortized based on a straight-line basis across the vesting or service period as applicable. The recorded compensation costs for options and 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				Unrecognized Compensation Expense	
	Three months ended		Six months ended		As of period ended	
	April 3, 2022	March 28, 2021	April 3, 2022	March 28, 2021	April 3, 2022	October 3, 2021
Restricted Shares	\$ 26	\$ 26	\$ 53	\$ 52	\$ 289	\$ 341
Restricted Stock Units	9	31	39	62	26	66
Total Stock Compensation	\$ 35	\$ 57	\$ 92	\$ 114	\$ 315	\$ 407

Note 8 - Stockholders' Equity

Dividends

As of the three and six months ended April 3, 2022 and the twelve months ended October 3, 2021, there were no declared or outstanding dividends payable.

Common stock

On June 8, 2020 the Company announced authorization of 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 program. 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 of an additional \$1 million stock repurchase program. The shares authorized to be repurchased under the repurchase program may be purchased from time to time at prevailing market prices, through open market transactions or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC. As of April 3, 2022, the Company had purchased a total of 151,526 shares. All of the repurchased shares have been canceled and there were zero shares held in treasury purchased under the September 2021 stock repurchase program.

During the six months ended April 3, 2022, there were 115,971 common shares repurchased under the program at a cost of \$222 thousand. A summary of the purchases under the program follows:

<u>Fiscal Period</u>	<u>Total number of shares purchased</u>	<u>Total purchase cost</u>	<u>Average price paid per share (with commission)</u>	<u>Maximum dollar value that may yet be purchased under the plan</u>
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	-
September 23, 2021 through October 1, 2021	<u>35,555</u>	<u>\$ 69</u>	<u>\$ 1.93</u>	<u>\$ 931</u>
Total shares repurchased for year ended October 3, 2021	<u>449,088</u>	<u>\$ 869</u>	<u>\$ 1.93</u>	<u>\$ -</u>
October 4, 2021 through October 31, 2021	18,265	37	2.01	894
November 1, 2021 through November 28, 2021	4,415	9	2.04	885
November 29, 2021 through January 2, 2022	14,558	28	1.93	857
January 3, 2022 through January 30, 2022	15,585	30	1.89	827
January 31, 2022 through February 27, 2022	27,618	48	1.75	779
February 28, 2022 through April 3, 2022	<u>35,530</u>	<u>70</u>	<u>1.98</u>	<u>709</u>
Total shares repurchased for six months ended April 3, 2022	<u>115,971</u>	<u>\$ 222</u>	<u>\$ 1.91</u>	<u>\$ 709</u>

As of October 3, 2021, and April 3, 2022, the total outstanding common shares were 8,488,149 and 8,395,394, respectively. As of October 3, 2021, and April 3, 2022, there were 35,555 and zero shares held in Treasury, respectively.

As of October 3, 2021, and April 3, 2022, the total issued common shares were 8,523,704 and 8,395,394, respectively.

Note 9 - Subsequent Events

On April 12, 2022, the Company and its subsidiary, Optex Systems, Inc. ("Optex", and with the Company, the "Borrowers"), entered into an Amended and Restated Loan Agreement (the "Loan Agreement") with PNC Bank, National Association, successor to BBVA USA (the "Lender"), pursuant to which the Borrowers' existing revolving line of credit facility was decreased from \$2.25 million to \$1.125 million, and the maturity date was extended from April 15, 2022 to April 15, 2023. Obligations outstanding under the credit facility will accrue interest at a rate equal to the Lender's prime rate minus 0.25%.

The Loan Agreement contains customary events of default and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes, investments, and restricted payments. The Loan Agreement also requires the Borrowers to maintain a fixed charge coverage ratio of at least 1.25:1. The credit facility is secured by substantially all of the operating assets of the Borrowers as collateral. The Borrowers' obligations under the credit facility are subject to acceleration upon the occurrence of an event of default as defined in the Loan Agreement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to supplement and complement our audited condensed consolidated financial statements and notes thereto for the fiscal year ended October 3, 2021 and our unaudited consolidated financial statements and notes thereto for the quarter ended April 3, 2022, prepared in accordance with U.S. generally accepted accounting principles (GAAP). You are encouraged to review our consolidated financial statements in conjunction with your review of this MD&A. The financial information in this MD&A has been prepared in accordance with GAAP, unless otherwise indicated. In addition, we use non-GAAP financial measures as supplemental indicators of our operating performance and financial position. We use these non-GAAP financial measures internally for comparing actual results from one period to another, as well as for planning purposes. We will also report non-GAAP financial results as supplemental information, as we believe their use provides more insight into our performance. When a non-GAAP measure is used in this MD&A, it is clearly identified as a non-GAAP measure and reconciled to the most closely corresponding GAAP measure.

The following discussion highlights the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described. The operating results for the periods presented were not significantly affected by inflation.

Cautionary Note Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q, in particular the MD&A, contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements. When used in this Quarterly Report on Form 10-Q and other reports, statements, and information we have filed with the Securities and Exchange Commission ("Commission" or "SEC"), in our press releases, presentations to securities analysts or investors, or in oral statements made by or with the approval of an executive officer, the words or phrases "believes," "may," "will," "expects," "should," "continue," "anticipates," "intends," "will likely result," "estimates," "projects" or similar expressions and variations thereof are intended to identify such forward-looking statements.

These forward-looking statements represent our expectations, beliefs, intentions or strategies concerning future events, including, but not limited to, any statements regarding growth strategy; product and development programs; financial performance (including revenue and net income); backlog; orders; the impact of the COVID-19 pandemic; supply chain challenges; the continuation of historical trends; the sufficiency of our cash balances for future liquidity and capital resource needs; the expected impact of changes in accounting policies on our results of operations, financial condition or cash flows; anticipated problems and our plans for future operations; and the economy in general or the future of the defense industry.

We caution that these statements by their nature involve risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors. Some of these risks and uncertainties are identified in "Risk Factors" in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K and you are urged to review those sections. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete list of all potential risks or uncertainties.

We do not assume the obligation to update any forward-looking statement. You should carefully evaluate such statements in light of factors described in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K.

Background

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

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

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

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

In the event a termination for convenience were to occur, Federal Acquisition Regulation clause 52.249-2 provides for full recovery of all contractual costs and profits reasonably occurred up to and as a result of the terminated contract. In the event a termination for default were to occur, we could be liable for any excess cost incurred by the government to acquire supplies from another supplier similar to those terminated from us. We would not be liable for any excess costs if the failure to perform the contract arises from causes beyond the control and without the fault or negligence of the Company as defined by Federal Acquisition Regulation clause 52.249-8.

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

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

Beginning in April 2020 through October 3, 2021, we experienced a significant reduction in new orders and ending customer backlog in our Optex Richardson segment, resulting in an overall decrease in backlog of 40% between September 29, 2019 and October 3, 2021. We attribute the lower orders to a combination of factors including a COVID-19 driven slow-down of contract awards for both U.S. military sales and foreign military sales (FMS), combined with significant shifting in defense spending budget allocations in US military sales and FMS away from Army ground system vehicles toward other military agency applications. In addition, the pandemic has caused several program delays throughout the defense supply chain as a result of plant shutdowns, employee illnesses, travel restrictions, remote work arrangements and similar supply chain issues. While the Applied Optics Center segment experienced a significant decline in orders during the second half of fiscal year 2020, the segment saw a sizable increase in new orders during the fiscal year ended October 3, 2021 as a result of increased military spending in Army infantry optical equipment, a larger customer base and higher customer demand for commercial optical assemblies. As of October 3, 2021, the Applied Optics Center segment backlog had increased by 153% as compared to the level on September 29, 2019. As a result of this significant shift in orders and backlog between segments, we anticipate corresponding shifts in revenue during the 2022 fiscal year, with revenue from the Optex Richardson segment decreasing, and revenue from the Applied Optics Center segment increasing.

Recent Events

D. Schoening Employment Agreement

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 1, 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.

K. Hawkins Salary Increase

On March 28, 2022, the Board of Directors Compensation Committee approved a salary increase of 4% for Karen Hawkins, CFO to be effective on April 1, 2022. As a result of the increase, the salary has been changed from \$205,425 to \$213,642.

Recent Stock Repurchases

On September 22, 2021, the Company announced authorization of a \$1 million stock repurchase program. The shares authorized to be repurchased under this repurchase program may be purchased from time to time at prevailing market prices, through open market transactions or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC. During the six months ended April 3, 2022, 115,971 common shares were repurchased under the September 2021 repurchase program at an aggregate cost of \$222 thousand. As of April 3, 2022, all shares repurchased under the September 2021 stock repurchase program have been cancelled and there were no shares held in Treasury.

Results of Operations

Non-GAAP Adjusted EBITDA

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

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

The table below summarizes our three-and six month operating results for the periods ended April 3, 2022 and March 28, 2021, in terms of both the GAAP net income measure and the non-GAAP Adjusted EBITDA measure. We believe that including both measures allows the reader better to evaluate our overall performance.

	(Thousands)			
	Three months ended		Six months ended	
	April 3, 2022	March 28, 2021	April 3, 2022	March 28, 2021
Net Income (Loss) (GAAP)	\$ (151)	\$ (602)	\$ (122)	\$ 485
<i>Add:</i>				
Loss (Gain) on Change in Fair Value of Warrants	-	169	-	(858)
Federal Income Tax (Benefit) Expense	(40)	17	(54)	33
Depreciation	75	65	147	128
Stock Compensation	35	57	92	114
Interest Expense	-	2	-	5
Adjusted EBITDA - Non GAAP	\$ (81)	\$ (292)	\$ 63	\$ (93)

Our net income increased by \$0.4 million to a (\$0.2) million net loss the three months ended April 3, 2022, as compared to a net loss of (\$0.6) million for the prior year period. Our adjusted EBITDA increased by \$0.2 million to a loss of (\$0.1) million for the three months ended April 3, 2022, as compared to (\$0.3) million for the prior year period. The increase in the most recent three-month period is primarily driven by increased revenue during the current year period as compared to the prior year period. Operating segment performance is discussed in greater detail throughout the following sections.

Our net income decreased by (\$0.6) million to a net loss of (\$0.1) million for the six months ended April 3, 2022, as compared to a net income of \$0.5 million for the prior year period. Our adjusted EBITDA increased by \$0.2 million to \$0.1 million for the six months ended April 3, 2022, as compared to a loss of (\$0.1) million for the prior year period. The increase in the most recent six-month period adjusted EBITDA is primarily driven by increased revenue during the current year period as compared to the prior year period. Operating segment performance is discussed in greater detail throughout the following sections.

During the three and six months ended April 3, 2022, we did not recognize either a gain or a loss on the change in fair value of warrants, as the warrants had expired on August 26, 2021 in accordance with their terms. By comparison, during the three months ended March 28, 2021, we recognized a loss on the change in fair value of warrants of \$0.2 million, and during the six months ended March 28, 2021, we recognized a gain on the change in fair value of warrants of \$0.9 million. As this was a non-cash (loss) gain driven by then-current fair market value of our outstanding warrants and unrelated to our core business operating performance, the change in fair value losses and gains have historically been excluded from our adjusted EBITDA calculations presented above. Further discussion regarding the changes in fair value of the warrants and the related warrant liability can be found in Item 1, "Unaudited Condensed Consolidated Financial Statements, Note 6 - Warrant Liabilities".

Results of Operations Selective Financial Info
(Thousands)

	Three months ended							
	April 3, 2022				March 28, 2021			
	Optex Richardson	Applied Optics Center Dallas	Other (non- allocated costs and eliminations)	Consolidated	Optex Richardson	Applied Optics Center Dallas	Other (non- allocated costs and eliminations)	Consolidated
Revenue from External Customers	\$ 2,078	\$ 3,058	\$ -	\$ 5,136	\$ 2,805	\$ 1,441	\$ -	\$ 4,246
Intersegment Revenues	-	255	(255)	-	-	530	(530)	-
Total Segment Revenue	2,078	3,313	(255)	5,136	2,805	1,971	(530)	4,246
Total Cost of Sales	1,903	2,772	(255)	4,420	2,561	1,837	(530)	3,868
Gross Margin	175	541	-	716	244	134	-	378
Gross Margin %	8.4%	16.3%	-	13.9%	8.7%	6.8%	-	8.9%
General and Administrative Expense	716	156	35	907	586	149	57	792
Segment Allocated G&A Expense	(298)	298	-	-	(153)	153	-	-
Net General & Administrative Expense	418	454	35	907	433	302	57	792
Operating Income (Loss)	(243)	87	(35)	(191)	(189)	(168)	(57)	(414)
Operating Income (Loss) %	(11.7)%	2.6%	-	(3.7)%	(6.7)%	(8.5)%	-	(9.8)%
Loss on Change in Fair Value of Warrants	-	-	-	-	-	-	(169)	(169)
Interest Expense	-	-	-	-	-	-	(2)	(2)
Net Income (Loss) before taxes	\$ (243)	\$ 87	\$ (35)	\$ (191)	\$ (189)	\$ (168)	\$ (228)	\$ (585)
Net Income (Loss) %	(11.7)%	2.6%	-	(3.7)%	(6.7)%	(8.5)%	-	(13.8)%

Results of Operations Selected Financial Info by Segment
(Thousands)

	Six months ended							
	April 3, 2022				March 28, 2021			
	Optex Richardson	Applied Optics Center Dallas	Other (non- allocated costs and eliminations)	Consolidated	Optex Richardson	Applied Optics Center Dallas	Other (non- allocated costs and eliminations)	Consolidated
Revenue from External Customers	\$ 3,934	\$ 5,541	\$ -	\$ 9,475	\$ 5,833	\$ 2,884	\$ -	\$ 8,717
Intersegment Revenues	-	435	(435)	-	-	896	(896)	-
Total Segment Revenue	3,934	5,976	(435)	9,475	5,833	3,780	(896)	8,717
Total Cost of Sales	3,569	4,802	(435)	7,936	5,003	3,397	(896)	7,504
Gross Margin	365	1,174	-	1,539	830	383	-	1,213
Gross Margin %	9.3%	19.6%	-	16.2%	14.2%	10.1%	-	13.9%
General and Administrative Expense	1,359	264	92	1,715	1,159	275	114	1,548
Segment Allocated G&A Expense	(534)	534	-	-	(353)	353	-	-
Net General & Administrative Expense	825	798	92	1,715	806	628	114	1,548
Operating Income (Loss)	(460)	376	(92)	(176)	24	(245)	(114)	(335)
Operating Income (Loss) %	(11.7)%	6.3%	-	(1.9)%	0.4%	(6.5)%	-	(3.8)%
Gain on Change in Fair Value of Warrants	-	-	-	-	-	-	858	858
Interest Expense	-	-	-	-	-	-	(5)	(5)
Income (Loss) before taxes	\$ (460)	\$ 376	\$ (92)	\$ (176)	\$ 24	\$ (245)	\$ 739	\$ 518
Income (loss) before taxes %	(11.7)%	6.3%	-	(1.9)%	0.4%	(6.5)%	-	5.9%

For the three months ended April 3, 2022, our total revenues increased by \$0.9 million, or 21.0%, compared to the prior year period. The increase in revenue was primarily driven by a \$1.6 million increase in external revenue at the Applied Optics Center segment, partially offset by a decrease in revenue at the Optex Richardson segment of (\$0.7) million, respectively, over the prior year period.

For the six months ended April 3, 2022, our total revenues increased by \$0.8 million, or 8.7%, compared to the prior year period. The increase in revenue was primarily driven by a \$2.7 million increase in external revenue at the Applied Optics Center segment, partially offset by a decrease in revenue at the Optex Richardson segment of (\$1.9) million, respectively, over the prior year period.

During the year ended October 3, 2021, we realized a significant increase in customer orders and backlog for the Applied Optics Center segment. For the first six months of fiscal year 2022, new orders were 22.4% higher than in the prior year period primarily driven by increases in the Optex Systems – Richardson segment. We expect revenue for the Applied Optics Center to increase over the course of the 2022 fiscal year as compared to the prior year periods consistent with the increases in customer demand for optical assemblies and laser filter units. Based on our current customer orders, we anticipate a 30-35% increase in consolidated revenue for the six months ending October 2, 2022 as compared to the six months ended April 3, 2022 and a total increase for fiscal year 2022 of 20-25% as compared to the prior year.

Consolidated gross margin for the three months ended April 3, 2022 increased by \$0.3 million, or 89.4%, compared to the prior year period. The increase in margin was primarily attributable to increased revenue at the Applied Optics Center segment.

Consolidated gross margin for the six months ended April 3, 2022 increased by \$0.3 million, or 26.9%, compared to the prior year period. The increase in margin was primarily attributable to increased revenue at the Applied Optics Center segment.

Our operating loss for the three months ended April 3, 2022 decreased by \$0.2 million, or 53.9%, compared to the prior year period. The decrease in operating loss was primarily driven by increases in revenue and gross margin at the Applied Optics Center segment.

Our operating loss for the six months ended April 3, 2022 decreased by \$0.2 million, or 47.5%, compared to the prior year period. The decrease in operating loss was primarily driven by increases in revenue and gross margin at the Applied Optics Center segment.

Backlog

During the six months ended April 3, 2022, the Company booked \$10.4 million in new orders, representing a 22.4% increase over the prior year period. The increase in orders is primarily attributable to an increase in the Optex Systems – Richardson segment orders over the prior year period.

The orders for the most recently completed six months consist of \$6.1 million for our Optex Richardson segment and \$4.3 million attributable to the Applied Optics Center.

The following table depicts the new customer orders for the six months ending April 3, 2022 as compared to the prior year period in millions of dollars:

Product Line	(Millions)			
	Six months ended April 3, 2022	Six months ended March 28, 2021	Variance	% Chg
Periscopes	\$ 4.6	\$ 3.0	\$ 1.6	53.3%
Sighting Systems	0.5	0.3	0.2	66.7%
Howitzer	-	-	-	-%
Other	1.0	-	1.0	100.0%
Optex Systems – Richardson	6.1	3.3	2.8	84.8%
Optical Assemblies	2.4	3.1	(0.7)	(22.6)%
Laser Filters	0.8	1.6	(0.8)	(50.0)%
Day Windows	0.3	-	0.3	(100.0)%
Other	0.8	0.5	0.3	60.0%
Applied Optics Center – Dallas	4.3	5.2	(0.9)	(17.3)%
Total Customer Orders	\$ 10.4	\$ 8.5	\$ 1.9	22.4%

Backlog as of April 3, 2022, was \$28.2 million, compared to a backlog of \$27.3 million as of October 3, 2021, representing an increase of \$0.9 million or 3.3%. The following table depicts the April 3, 2022 backlog as compared to the backlog on October 3, 2021:

Product Line	(Millions)			
	Total Backlog 4/3/2022	Total Backlog 10/3/2021	Variance	% Chg
Periscopes	\$ 7.7	\$ 5.6	\$ 2.1	37.5%
Sighting Systems	1.9	1.7	0.2	11.8%
Howitzer	2.2	2.3	(0.1)	(4.3)%
Other	1.4	1.4	-	-%
Optex Systems - Richardson	13.2	11.0	2.2	20.0%
Optical Assemblies	5.4	5.0	0.4	8.0%
Laser Filters	8.2	9.9	(1.7)	(17.2)%
Day Windows	0.7	1.1	(0.4)	(36.4)%
Other	0.7	0.3	0.4	133.3%
Applied Optics Center - Dallas	15.0	16.3	(1.3)	(8.0)%
Total Backlog	\$ 28.2	\$ 27.3	\$ 0.9	3.3%

Backlog as of April 3, 2022, was \$28.2 million as compared to a backlog of \$16.0 million as of March 28, 2021, representing an increase of \$12.2 million or 76.3%. The following table depicts the current expected delivery by period of all contracts awarded as of April 3, 2022 in millions of dollars, as well as the April 3, 2022 backlog as compared to the backlog on March 28, 2021:

Product Line	(Millions)							
	Q3 2022	Q4 2022	2022 Delivery	2023+ Delivery	Total Backlog 4/3/2022	Total Backlog 3/28/2021	Variance	% Chg
Periscopes	\$ 2.5	\$ 2.8	\$ 5.3	\$ 2.4	\$ 7.7	4.8	2.9	60.4%
Sighting Systems	0.2	0.1	0.3	1.6	1.9	1.9	-	-%
Howitzer	-	-	-	2.2	2.2	2.3	(0.1)	(4.3)%
Other	0.1	0.2	0.4	1.0	1.4	1.6	(0.2)	(12.5)%
Optex Systems - Richardson	2.8	3.1	6.0	7.2	13.2	10.6	2.6	24.5%
Optical Assemblies	1.1	1.5	2.6	2.8	5.4	2.8	2.6	92.9%
Laser Filters	1.7	1.5	3.2	5.0	8.2	1.3	6.9	530.8%
Day Windows	0.2	0.1	0.3	0.4	0.7	0.8	(0.1)	(12.5)%
Other	0.2	0.1	0.3	0.4	0.7	0.5	0.2	40.0%
Applied Optics Center - Dallas	3.2	3.2	6.4	8.6	15.0	5.4	9.6	177.8%
Total Backlog	\$ 6.0	\$ 6.3	\$ 12.4	\$ 15.8	\$ 28.2	16.0	12.2	76.3%

Optex Systems Richardson backlog as of April 3, 2022, was \$13.2 million as compared to a backlog of \$10.6 million as of March 28, 2021, representing an increase of \$2.6 million or 24.5%.

Applied Optics Center backlog as of April 3, 2022, was \$15.0 million as compared to a backlog of \$5.4 million as of March 28, 2021, representing an increase of \$9.6 million or 177.8%.

During the fourth quarter of the fiscal year ended October 3, 2021, we booked significant new orders in both commercial optical assemblies and laser filter units including a significant new defense contract customer. On April 20, 2022, the Company announced an additional \$1.1 million Applied Optics Center order for premium optical devices.

As a result of the significant backlog increases in our Applied Optics Center, we have expanded our presentation of backlog, order and revenue data to include comparative period product line information for the segment. Furthermore, the period end backlog is now presented as compared to the prior year period end backlog in addition to the previous fiscal year-end backlog as we believe it provides a better indication of the twelve-month market trends by product line and segment.

Please refer to “—Background” above or “Liquidity and Capital Resources” below for more information on recent developments and trends with respect to our orders and backlog, which information is incorporated herein by reference.

The Company continues to aggressively pursue international and commercial opportunities in addition to maintaining its current footprint with U.S. vehicle manufactures, with existing as well as new product lines. We are also reviewing potential products, outside our traditional product lines, which could be manufactured using our current production facilities in order to capitalize on our existing excess capacity.

Three Months Ended April 3, 2022 Compared to the Three Months Ended March 28, 2021

Revenues. For the three months ended April 3, 2022, revenues increased by \$0.9 million or 21.0% compared to the prior year period as set forth in the table below:

Product Line	Three months ended (Thousands)			
	April 3, 2022	March 28, 2021	Variance	% Chg
Periscopes	\$ 1,564	\$ 1,613	\$ (49)	(3.0)
Sighting Systems	176	405	(229)	(56.5)
Howitzers	-	95	(95)	(100.0)
Other	338	692	(354)	(51.2)
Optex Systems - Richardson	2,078	2,805	(727)	(25.9)
Optical Assemblies	830	244	586	240.2
Laser Filters	1,524	704	820	116.5
Day Windows	420	299	121	40.5
Other	284	194	90	46.4
Applied Optics Center - Dallas	3,058	1,441	1,617	112.2
Total Revenue	\$ 5,136	\$ 4,246	\$ 890	21.0

Optex Systems Richardson revenue decreased by \$0.7 million or 25.9% for the three months ended April 3, 2022 as compared to the prior year period on lower customer demand across all product groups as compared to the prior year period.

Applied Optics Center revenue increased by \$1.6 million or 112.2% for the three months ended April 3, 2022 as compared to the prior year period. The revenue increase is primarily attributable to increased customer demand across all product groups as compared to the prior year period.

Gross Margin. The gross margin during the three-month period ended April 3, 2022 was 13.9% of revenue as compared to a gross margin of 8.9% of revenue for the prior year period. The gross margin increased by \$0.3 million to \$0.7 million for the three months ended April 3, 2022 as compared to \$0.4 million in the prior year three months. The increase in gross margin is primarily attributable to higher consolidated revenue and changes in mix between products and operating segments. Cost of sales increased to \$4.4 million for the current period as compared to the prior year period of \$3.9 million.

G&A Expenses. During the three months ended April 3, 2022 and March 28, 2021, we recorded operating expenses of \$0.9 million and \$0.8 million, respectively. Operating expenses increased by 14.5% between the respective periods primarily due to increased office expenses, legal expenses, audit fees and selling expenses, partially offset by lower salary expenses.

Operating Loss. During the three months ended April 3, 2022, we recorded an operating loss of \$0.2 million, as compared to an operating loss of \$0.4 million during the three months ended March 28, 2021. The \$0.2 million decrease in operating loss for the current year period from the prior year period is primarily due to increased gross margin, partially offset by higher general and administrative costs in the current year quarter as compared to the prior year quarter.

Other (Expense) Income. During the three months ended April 3, 2022, we did not recognize either a gain or a loss on the change in fair value of warrants, as the warrants had expired on August 26, 2021 in accordance with their terms. By comparison, during the three months ended March 28, 2021, we recognized a loss on the change in fair value of warrants of \$0.2 million. Further discussion regarding the changes in fair value of the warrants and the related warrant liability can be found in Item 1, “Consolidated Financial Statements, Note 6 - Warrant Liabilities”.

Net Loss applicable to common shareholders. During the three months ended April 3, 2022, we recorded a net loss applicable to common shareholders of \$0.2 million as compared to a net loss applicable to common shareholders of \$0.6 during the three months ended March 28, 2021. The decrease in net loss of \$0.5 million is primarily attributable to the lower operating loss, combined with the expiration of the warrants, which eliminated the fair value impacts on net income for the current year period.

Six Months Ended April 3, 2022 Compared to the Six Months Ended March 28, 2021

Revenues. For the six months ended April 3, 2022, revenues increased by \$0.8 million or 8.7% compared to the prior year period as set forth in the table below:

Product Line	Six months ended (Thousands)			
	April 3, 2022	March 28, 2021	Variance	% Chg
Periscopes	\$ 2,629	\$ 3,567	\$ (938)	(26.3)
Sighting Systems	449	1,183	(734)	(62.0)
Howitzers	-	200	(200)	(100.0)
Other	856	883	(27)	(3.1)
Optex Systems - Richardson	3,934	5,833	(1,899)	(32.6)
Optical Assemblies	1,975	442	1,533	346.8
Laser Filters	2,461	1,603	858	53.5
Day Windows	640	527	113	21.4
Other	465	312	153	49.0
Applied Optics Center - Dallas	5,541	2,884	2,657	92.1
Total Revenue	\$ 9,475	\$ 8,717	\$ 758	8.7

Optex Systems Richardson revenue decreased by \$1.9 million or 32.6% for the six months ended April 3, 2022 as compared to the prior year period on lower customer demand across all product lines. Based on current customer periscope orders, we are anticipating a 50-55% increase in the Optex Richardson segment revenue during the next six months, ending October 2, 2022, as compared to the six months ending April 3, 2022. We anticipate future awards for these programs, however at reduced levels from 2021 based on the most recent U.S. defense budget for ground systems programs, more specifically reductions in government spending on the Abrams tank platform. Deliveries against our howitzer program have been delayed by our customer pending resolution of issues related to customer furnished materials. Sighting systems and other products are expected to be below our prior year levels for the remainder of the fiscal year as several previous contracts have completed or are nearing completion.

Applied Optics Center revenue increased by \$2.7 million or 92.1% for the six months ended April 3, 2022 as compared to the prior year period. The revenue increase is primarily attributable to increased customer demand across all product lines as compared to the prior year period. Based on our current backlog, we are anticipating an 18-23% increase in revenue for the six months ending October 2, 2022 as compared to the six months ended April 3, 2022. Day window revenues are projected at rates comparable to the year ended October 3, 2021, with the current orders expected to be completed in the first fiscal quarter of 2023. We anticipate additional orders for delivery in 2023.

Gross Margin. The gross margin during the six-month period ended April 3, 2022 was 16.2% of revenue as compared to a gross margin of 13.9% of revenue for the prior year period. The gross margin increased by \$0.3 million to \$1.5 million for the six months ended April 3, 2022 as compared to \$1.2 million for the prior year period. The increase in gross margin is primarily attributable to higher revenue at the Applied Optics Center segment combined with changes in mix between products and operating segments. Cost of sales increased to \$7.9 million for the six months ended April 3, 2022 as compared to the prior year period of \$7.5 million on higher period revenue.

G&A Expenses. During the six months ended April 3, 2022 and March 28, 2021, we recorded operating expenses of \$1.7 million and \$1.5 million, respectively. Operating expenses increased by 10.8% between the respective periods primarily due to increased office expenses, legal expenses, audit fees and selling expenses, partially offset by lower salary expenses.

Operating Loss. During the six months ended April 3, 2022, we recorded an operating loss of \$0.2 million, as compared to an operating loss of \$0.3 million during the six months ended March 28, 2021. The \$0.1 million decrease in operating loss is primarily due to increased gross margin, partially offset by higher general and administrative costs in the period ended April 3, 2022 as compared to the prior year period.

Other (Expense) Income. During the six months ended April 3, 2022, we did not recognize either a gain or a loss on the change in fair value of warrants, as the warrants had expired on August 26, 2021 in accordance with their terms. By comparison, during the six months ended March 28, 2021, we recognized a gain on the change in fair value of warrants of \$0.9 million. Further discussion regarding the changes in fair value of the warrants and the related warrant liability can be found in Item 1, "Consolidated Financial Statements, Note 6 - Warrant Liabilities".

Net (Loss) Income applicable to common shareholders. During the six months ended April 3, 2022, we recorded a net loss applicable to common shareholders of (\$0.1) million as compared to a net income applicable to common shareholders of \$0.3 during the six months ended March 28, 2021. Despite the decrease in operating loss and reduction in income tax expense, net income decreased by \$0.4 million, primarily due to the expiration of the warrants, which eliminated the fair value and deemed dividend impacts on net income for the current year period.

Liquidity and Capital Resources

As of April 3, 2022, the Company had working capital of \$12.6 million, as compared to \$12.9 million as of October 3, 2021. Some of our contracts may allow for government contract financing in the form of contract progress payments pursuant to Federal Acquisition Regulation 52.232-16, "Progress Payments." Subject to certain limitations, this clause provides for government payment of up to 90% of incurred program costs prior to product delivery for small businesses like us. To the extent any contracts allow for progress payments and the respective contracts would result in significant preproduction cash requirements for design, process development, tooling, material or other resources which could exceed our current working capital or line of credit availability, we intend to utilize this benefit to minimize any potential negative impact on working capital prior to receipt of payment for the associated contract deliveries.

Backlog as of April 3, 2022 has increased by \$0.9 million or 3.3% to \$28.2 million as compared to backlog of \$27.3 million as of October 3, 2021. Backlog has increased 76.3%, or \$12.2 million, from \$16.0 million as of March 28, 2021.

The Company has historically funded its operations through cash from operations, convertible notes, common and preferred stock offerings and bank debt. The Company's ability to generate positive cash flows depends on a variety of factors, including the continued development and successful marketing of the Company's products.

At April 3, 2022, the Company had \$4.9 million in cash and an outstanding payable balance of zero against its line of credit at that time.

On April 12, 2022, the Company and its subsidiary, Optex Systems, Inc. ("Optex", and with the Company, the "Borrowers"), entered into an Amended and Restated Loan Agreement (the "Loan Agreement") with PNC Bank, National Association, successor to BBVA USA (the "Lender"), pursuant to which the Borrowers' existing revolving line of credit facility was decreased from \$2.25 million to \$1.125 million, and the maturity date was extended from April 15, 2022 to April 15, 2023. Obligations outstanding under the credit facility will accrue interest at a rate equal to the Lender's prime rate minus 0.25%.

The Loan Agreement contains customary events of default and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes, investments, and restricted payments. The Loan Agreement also requires the Borrowers to maintain a fixed charge coverage ratio of at least 1.25:1. The credit facility is secured by substantially all of the operating assets of the Borrowers as collateral. The Borrowers' obligations under the credit facility are subject to acceleration upon the occurrence of an event of default as defined in the Loan Agreement. If adequate funds are not available on acceptable terms, or at all, we may be unable to finance our operations, develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures.

As of April 3, 2022, our outstanding accounts receivable balance was \$1.9 million. The Company currently expects to generate net income and positive cash flow from operating activities for fiscal year 2022. Based on firm customer orders, the Company anticipates a consolidated revenue increase of 30-35% for the six months ending October 2, 2022 as compared to the six months ended April 3, 2022 combined with increased operating profit and net income. To remain profitable, we need to maintain a level of revenue adequate to support the Company's cost structure. Management intends to manage operations commensurate with its level of working capital and line of credit during the next twelve months and beyond; however, uneven revenue levels driven by changes in customer delivery demands, first article inspection requirements or other program delays associated with the pandemic could create a working capital shortfall. In the event the Company does not successfully implement its ultimate business plan, certain assets may not be recoverable.

On September 22, 2021, the Company announced authorization of a \$1 million stock repurchase program. The shares authorized to be repurchased under this repurchase program may be purchased from time to time at prevailing market prices, through open market transactions or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC. During the three and six months ended April 3, 2022, 78,733 and 115,971 common shares, were repurchased under the September 2021 repurchase program at an aggregate cost of \$149 thousand and \$222 thousand, respectively. As of April 3, 2022, all of the shares repurchased under the September 2021 stock repurchase program have been canceled and there were zero shares held in Treasury.

On August 26, 2021, 3,936,391 outstanding warrants expired worthless, resulting in the elimination of the balance sheet warrant liability.

As of October 3, 2021, and April 3, 2022, there were no outstanding declared and unpaid dividends.

On January 11, 2021, the Company executed amendments for each of its leased facilities extending the terms for eighty-six (86) months, commencing at the end of the current lease agreements. The Richardson lease amendment commenced on April 1, 2021 for an eighty-six (86) month term ending on May 31, 2028. The Dallas lease amendment commenced on November 1, 2021 for an eighty-six (86) month term ending on December 31, 2028. Each of the leases include two full months of rent abatement at the beginning of the commencement term. The new lease agreements 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 as of the period ended June 27, 2021.

Cash Flows for the Period from October 3, 2021 through April 3, 2022

Cash and Cash Equivalents: As of April 3, 2022, and October 3, 2021, we had cash and cash equivalents of \$4.9 million and \$3.9 million, respectively.

Net Cash Provided by Operating Activities. Net cash provided by operating activities during the three months from October 3, 2021 to April 3, 2022 totaled \$1.3 million. The primary sources of cash during the period relate to decreases in accounts receivable of \$1.3 million, increased accounts payable of \$0.7 million, increased inventory of (\$0.8) million and other changes in working capital of \$0.1 million.

Net Cash Used in Investing Activities. In the three months ended April 3, 2022, cash used in investing activities was \$0.1 million for purchases of equipment and leasehold improvements.

Net Cash Used in Financing Activities. Net cash used in financing activities was \$0.2 million during the three months ended April 3, 2022 and relates to primarily to the repurchases of common stock of as part of our stock repurchase program.

Critical Accounting Estimates

A critical accounting estimate is an estimate that:

- is made in accordance with generally accepted accounting principles,
- involves a significant level of estimation uncertainty, and
- has had or is reasonably likely to have a material impact on the company's financial condition or results of operation.

Our significant accounting policies are fundamental to understanding our results of operations and financial condition. Some accounting policies require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. These policies are described in "Critical Policies and Accounting Pronouncements" and Note 2 (Accounting Policies) to consolidated financial statements in our Annual Report on Form 10-K for the year ended October 3, 2021.

Our critical accounting estimates include warranty costs, contract losses and the deferred tax asset valuation. 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. Our warranty covered sales primarily include the Applied Optics Center optical assemblies. While our warranty period is 12 months, our reserve balances assume a general 90-day return period for optical assemblies previously delivered plus any returned backlog in-house that has not yet been repaired or replaced to our customer. If our actual warranty returns should significantly exceed our historical rates on new customer products, significant production changes, or substantial customer changes to the 90-day turn-around times on returned goods, the impact could be material to our operating profit. We have not experienced any significant changes to our warranty trends in the preceding three years and do not anticipate any significant impacts in the near term. We monitor the actual warranty costs incurred to the expected values on a quarterly basis and adjust our estimates accordingly. As of April 3, 2022, the Company had accrued warranty costs of \$155 thousand, as compared to \$78 thousand as of October 3, 2021. The primary reason for the \$77 thousand increase in reserve balances relates to higher revenue on warrantied product being sold during the six months ended April 3, 2022, combined with an increase in customer returned backlog pending repair or replacement to our customer as compared to the warranty backlog as of October 3, 2021.

As of April 3, 2022 and October 3, 2021, we had \$43 thousand, and \$51 thousand, respectively, of contract loss reserves included in our balance sheet accrued expenses. These loss contracts are related to some of our older legacy periscope IDIQ contracts which were priced in 2018 through early 2020, prior to Covid-19 and the significant downturn in defense spending on ground system vehicles. Due to inflationary price increases on component parts and higher internal manufacturing costs (as a result of escalating labor costs and higher burden rates on reduced volume), some of these contracts are in a loss condition, or at marginal profit rates. These contracts are typically three-year IDIQ contracts with two optional award years, and as such, we are obligated to accept new task awards against these contracts until the contract expiration. Should contract costs continue to increase above the negotiated selling price, or in the event the customer should release substantial quantities against these existing loss contracts, the losses could be material. For contracts currently in a loss status based on the estimated per unit contract costs, losses are booked immediately on new task order awards. During the six months ended April 3, 2022, there was no significant change to the accrued contract losses. There is no way to reasonably estimate future inflationary impacts, or customer awards on the existing loss contracts.

As of April 3, 2022 and October 3, 2021, our deferred tax assets consisted of \$2.1 million, partially offset by a valuation reserve of \$0.8 million against those assets for a net deferred tax asset of \$1.3 million. The valuation allowance covers certain deferred tax assets where we believe we will be unlikely to recover those tax assets through future operations. The valuation reserve includes assumptions related to future taxable income which would be available to cover net operating loss carryforward amounts. Because of the uncertainties of future income forecasts combined with the complexity of some of the deferred assets, these forecasts are subject to change over time. While we believe our current estimate to be reasonable, changing market conditions and profitability, changes in equity structure and changes in tax regulations may impact our estimated reserves in future periods.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by our Quarterly Report on Form 10-Q for the quarter ended April 3, 2022, management performed, with the participation of our Principal Executive Officer and Principal Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the report we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's forms, and that such information is accumulated and communicated to our management including our Principal Executive Officer and our Principal Financial Officer, to allow timely decisions regarding required disclosures. Based upon the evaluation described above, our Principal Executive Officer and our Principal Financial Officer concluded that, as of April 3, 2022, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the three months ended April 3, 2022, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are not aware of any material litigation pending or threatened against us.

Item 1A. Risk Factors

There have been no material changes in risk factors since the risk factors set forth in the Form 10-K filed for the year ended October 3, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

The table below sets forth information with respect to purchases made by or on behalf of the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act) of its common shares during the three months ended April 3, 2022.

(Thousands, except number of shares and price data per share)

<u>Fiscal Period</u>	<u>Total number of shares purchased</u>	<u>Total purchase cost</u>	<u>Average price paid per share (with commission)</u>	<u>Maximum dollar value that may yet be purchased under the plan⁽¹⁾</u>
January 3, 2022 through January 30, 2022	15,585	\$ 30	\$ 1.89	\$ 827
January 31, 2022 through February 27, 2022	27,618	48	1.75	779
February 28, 2022 through April 3, 2022	35,530	70	1.98	709
Total shares repurchased for three months ended April 3, 2022	78,733	\$ 148	\$ 1.91	\$ 709

(1) On September 22, 2021 the Company announced authorization for an additional \$1 million stock repurchase program. As of April 3, 2022, there were 151,526 shares purchased and cancelled under the September 2021 stock repurchase program. As of April 3, 2022 there are zero shares held in Treasury. 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.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

Exhibit No.	Description
31.1 and 31.2	Certifications pursuant to Section 302 of Sarbanes Oxley Act of 2002
32.1 and 32.2	Certifications pursuant to Section 906 of Sarbanes Oxley Act of 2002
EX-101.INS	Inline XBRL Instance Document
EX-101.SCH	Inline XBRL Taxonomy Extension Schema Document
EX-101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
EX-101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
EX-101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
EX-101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OPTEX SYSTEMS HOLDINGS, INC.

Date: May 16, 2022

By: /s/ Danny Schoening

Danny Schoening
Principal Executive Officer

OPTEX SYSTEMS HOLDINGS, INC.

Date: May 16, 2022

By: /s/ Karen Hawkins

Karen Hawkins
Principal Financial Officer and
Principal Accounting Officer

**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-Q 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: May 16, 2022

**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-Q 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: May 16, 2022

**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 Quarterly Report of Optex Systems Holdings, Inc. (the "Company") on this Form 10-Q for the quarter ended April 3, 2022, 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: May 16, 2022

**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 Quarterly Report of Optex Systems Holdings, Inc. (the "Company") on this Form 10-Q for the quarter ended April 3, 2022, 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: May 16, 2022
