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 March 30, 2025

☐ **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	**001-41644**	**90-0609531**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1420 Presidential Drive, Richardson, TX	**75081-2439**
(Address of principal executive offices)	(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
Common Stock, $0.001 par value	OPXS	The Nasdaq Stock Market LLC

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 12, 2025: 6,912,919 shares of common stock.

OPTEX SYSTEMS HOLDINGS, INC.
FORM 10-Q

For the period ended March 30, 2025

INDEX

Part 1. Financial Information

Item 1. Unaudited Condensed Consolidated Financial Statements

OPTEX SYSTEMS HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Optex Systems Holdings, Inc.
Condensed Consolidated Balance Sheets

	(Thousands, except share and per share data)	
	March 30, 2025	September 29, 2024
	(Unaudited)	
ASSETS		
Cash and Cash Equivalents	$ 3,531	$ 1,009
Accounts Receivable, Net	4,238	3,764
Inventory, Net	13,922	14,863
Contract Asset	183	219
Prepaid Expenses	406	217
Current Assets	**22,280**	**20,072**
Property and Equipment, Net	**1,568**	**1,292**
Other Assets		
Deferred Tax Asset	752	947
Intangible Assets, Net	884	951
Right-of-use Asset	1,970	2,233
Security Deposits	23	23
Other Assets	**3,629**	**4,154**
Total Assets	**$ 27,477**	**$ 25,518**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$ 1,728	$ 1,177
Credit Facility	-	1,000
Operating Lease Liability	644	638
Federal Income Taxes Payable	-	74
Accrued Expenses	1,310	1,258
Accrued Selling Expense	224	237
Accrued Warranty Costs	106	52
Contract Loss Reserves	226	259
Customer Advance Deposits	168	255
Current Liabilities	**4,406**	**4,950**
Other Liabilities		
Operating Lease Liability, net of current portion	1,487	1,760
Other Liabilities	**1,487**	**1,760**
Total Liabilities	**5,893**	**6,710**
Commitments and Contingencies		
Stockholders' Equity		
Common Stock – ($0.001 par, 2,000,000,000 authorized, 6,896,738 and 6,873,938 shares issued and outstanding, respectively)	7	7
Additional Paid in Capital	21,629	21,465
Accumulated Deficit	(52)	(2,664)
Stockholders' Equity	**21,584**	**18,808**
Total Liabilities and Stockholders' Equity	**$ 27,477**	**$ 25,518**

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	
	March 30, 2025	March 31, 2024	March 30, 2025	March 31, 2024
Revenue	$ **10,730**	$ **8,523**	$ **18,928**	$ **15,492**
Cost of Sales	7,369	5,966	13,439	11,250
Gross Profit	**3,361**	**2,557**	**5,489**	**4,242**
General and Administrative Expense	1,124	1,201	2,336	2,333
Operating Income	**2,237**	**1,356**	**3,153**	**1,909**
Interest Income (Expense)	1	(9)	(12)	(16)
Income Before Taxes	**2,238**	**1,347**	**3,141**	**1,893**
Income Tax Expense, net	470	285	529	400
Net Income	$ **1,768**	$ **1,062**	$ **2,612**	$ **1,493**
Basic income per share	$ **0.26**	$ **0.16**	$ **0.38**	$ **0.22**
Weighted Average Common Shares Outstanding - basic	**6,871,960**	**6,768,236**	**6,842,949**	**6,717,592**
Diluted income per share	$ **0.26**	$ **0.16**	$ **0.38**	$ **0.22**
Weighted Average Common Shares Outstanding – diluted	**6,893,231**	**6,823,155**	**6,902,912**	**6,774,542**

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	
	March 30, 2025	**March 31, 2024**
Cash Flows from Operating Activities:		
Net Income	$ 2,612	$ 1,493
Adjustments to Reconcile Net Income to Net Cash provided by Operating Activities:		
Depreciation and Amortization	255	209
Stock Compensation Expense	164	270
Deferred Tax	196	47
Accounts Receivable	(475)	(56)
Inventory	941	(1,530)
Contract Asset	36	86
Prepaid Expenses	(190)	(185)
Leases	(4)	5
Accounts Payable and Accrued Expenses	602	1,063
Federal Income Taxes Payable	(74)	(247)
Accrued Warranty Costs	54	(6)
Accrued Selling Expense	(12)	(78)
Customer Advance Deposits	(87)	-
Estimated Contract Losses Accrued	(33)	(93)
Total Adjustments	**1,373**	**(515)**
Net Cash provided by Operating Activities	**3,985**	**978**
Cash Flows from Investing Activities		
Purchase of Intangible Assets	(10)	(1,030)
Purchases of Property and Equipment	(453)	(167)
Net Cash used in Investing Activities	**(463)**	**(1,197)**
Cash Flows from Financing Activities		
Borrowing from Credit Facility	-	500
Payments to Credit Facility	(1,000)	(1,000)
Cash Paid for Taxes Withheld on Net Settled Restricted Stock Unit Shares Issued	-	(164)
Net Cash used in Financing Activities	**(1,000)**	**(664)**
Net Increase (Decrease) in Cash and Cash Equivalents	2,522	(883)
Cash and Cash Equivalents at Beginning of Period	1,009	1,204
Cash and Cash Equivalents at End of Period	**$ 3,531**	**$ 321**
Supplemental Cash Flow Information:		
Cash Transactions:		
Cash Paid for Taxes	608	758
Cash Paid for Interest	12	12

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

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

	Three months ended March 30, 2025				
	Common Shares Issued	**Common Stock**	**Additional Paid in Capital**	**Accumulated Deficit**	**Total Stockholders Equity**
Balance at December 30, 2024	6,896,738	$ 7	$ 21,557	$ (1,820)	$ 19,744
Stock Compensation Expense	-	-	72	-	72
Net Income	-	-	-	1,768	1,768
Balance at March 30, 2025	**6,896,738**	**$ 7**	**$ 21,629**	**$ (52)**	**$ 21,584**

	Three months ended March 31, 2024				
	Common Shares Issued	**Common Stock**	**Additional Paid in Capital**	**Accumulated Deficit**	**Total Stockholders Equity**
Balance at January 1, 2024	6,823,693	$ 7	$ 21,371	$ (6,001)	$ 15,377
Stock Compensation Expense	-	-	157	-	157
Vested Restricted Stock Units Issued Net of Tax Withholding	20,669	-	(137)	-	(137)
Net Income	-	-	-	1,062	1,062
Balance at March 31, 2024	**6,844,362**	**$ 7**	**$ 21,391**	**$ (4,939)**	**$ 16,459**

	Six months ended March 30, 2025				
	Common Shares Issued	**Common Stock**	**Additional Paid in Capital**	**Accumulated Deficit**	**Total Stockholders Equity**
Balance at September 30, 2024	6,873,938	$ 7	$ 21,465	$ (2,664)	18,808
Stock Compensation Expense	-	-	164	-	164
Restricted Shares Issued*(1)*	22,800	-	-	-	-
Net Income	-	-	-	2,612	2,612
Balance at March 30, 2025	**6,896,738**	**$ 7**	**$ 21,629**	**$ (52)**	**$ 21,584**

	Six months ended March 31, 2024				
	Common Shares Issued	**Common Stock**	**Additional Paid in Capital**	**Accumulated Deficit**	**Total Stockholders Equity**
Balance at October 1, 2023	6,763,070	$ 7	$ 21,285	$ (6,432)	$ 14,860
Stock Compensation Expense	-	-	270	-	270
Vested Restricted Stock Units Issued Net of Tax Withholding	81,292	-	(164)	-	(164)
Net Income	-	-	-	1,493	1,493
Balance at March 31, 2024	**6,844,362**	**$ 7**	**$ 21,391**	**$ (4,939)**	**$ 16,459**

(1) Restricted share grant on November 5, 2024 to independent board members of 7,600 shares each, vesting on January 1, 2026.

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

Note 1 - Organization and Operations

Optex Systems Holdings, Inc. (together with its subsidiaries, the “Company,” “Optex Systems Holdings,” “we,” “us,” and “our”) 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 March 30, 2025 were derived from the U.S. government (32%), five major U.S. defense contractors (20%, 6%, 6%, 6% and 5%, respectively), one commercial customer (5%) and all other customers (20%). Approximately 94% of the total company revenue is generated from domestic customers and 6% is derived from foreign customers, primarily in Canada and Israel. Optex Systems Holdings’ operations are based in Dallas and Richardson, Texas in leased facilities comprising 93,967 square feet. As of March 30, 2025, Optex Systems Holdings operated with 141 full-time equivalent employees.

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 September 29, 2024 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 March 30, 2025 and September 29, 2024, inventory included:

	(Thousands)	
	March 30, 2025	**September 29, 2024**
Raw Material	$ 8,073	$ 9,460
Work in Process	6,207	5,954
Finished Goods	707	556
Gross Inventory	$ 14,987	$ 15,970
Less: Inventory Reserves	(1,065)	(1,107)
Net Inventory	**$ 13,922**	**$ 14,863**

Concentration of Credit Risk: The Company's accounts receivables as of March 30, 2025 consist of U.S. government agencies (28%), five major U.S. defense contractors (27%, 10%, 6%, 6%, and 5%, respectively) and all other customers (18%). 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: The Company 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 March 30, 2025, and September 29, 2024, the Company had warranty reserve balances of $106 and $52, respectively.

	(Thousands)			
	Three months ended		Six Months ended	
	March 30, 2025	March 31, 2024	March 30, 2025	March 31, 2024
Beginning balance	$ 22	$ 48	$ 52	$ 75
Incurred costs for warranties satisfied during the period	-	(5)	-	(37)
Warranty Expenses:				
Warranties reserved for new product shipped during the period*(1)*	13	26	25	64
Change in estimate for pre-existing warranty liabilities*(2)*	71	-	29	(33)
Warranty Expense	84	26	54	31
Ending balance	**$ 106**	**$ 69**	**$ 106**	**$ 69**

(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, accounts payable and accrued liabilities, are carried at, or approximate, fair value as of the reporting date because of their short-term nature. The credit facility is reported at fair value as it bears market rates of interest.

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.

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 relates to optimized weapon system support (OWSS) and includes ongoing program maintenance, repairs and spare inventory support for the customer's existing fleet units in service during the duration of the contract. Revenue recognition for this program has been recorded by the Company, and compensated by the customer, at fixed monthly increments over time, consistent with the defined contract maintenance period. During the three and six months ended March 30, 2025, we recognized $126 thousand and $252 thousand in service contract revenue. During the three and six months ended March 31, 2024, we recognized $115 thousand and $231 thousand in service contract revenue.

During the three and six-month periods ended March 30, 2025, we recognized revenue from customer deposit liabilities (deferred contract revenue) of $42 thousand and $87 thousand. During the three and six-month periods ended March 31, 2024, we recognized revenue from customer deposit liabilities (deferred contract revenue) of $1 thousand and $223 thousand. As of March 30, 2025 and September 29, 2024 we had $168 thousand and $255 thousand in customer deposit liabilities.

As of March 30, 2025 and September 29, 2024, there was $224 thousand and $237 thousand in accrued selling expenses and $183 thousand and $219 thousand in contract assets related to a contract booked in November 2022. The costs will be amortized against the revenue for the contract deliveries which began in the fourth quarter of fiscal year 2023 and extend into fiscal year 2026.

Contract Loss Reserves: The Company records loss provisions in the event that the current estimated total revenue against a contract and the total estimated cost remaining to fulfill the contract indicate a loss upon completion. When the estimated costs indicate a loss, we record the entire value of the loss against the contract loss reserve in the period the determination is made. The Company has several long-term fixed price contracts that are currently indicative of a loss condition due to recent inflationary pressures on material and labor, combined with increased manufacturing overhead costs. One of these long-term contracts has an option year ordering period ending in February 2025 with deliveries that may extend into February 2026. As of March 30, 2025 and September 29, 2024, the accrued contract loss reserves were $226 and $259 thousand, respectively. During the three and six months ended March 30, 2025, the Company recognized $11 thousand and $18 thousand in loss reserves on new contract awards, changes in estimates for the contract loss reserves of ($10) thousand and $4 thousand and applied reserves of $8 thousand and $47 thousand to cost of sales against revenues booked during the periods, respectively. During the three and six months ended March 31, 2024, the Company recognized a gain on changes in estimates for the contract loss reserves of $120 thousand and $30 thousand and applied reserves of $38 thousand and $63 thousand to cost of sales against revenues booked during the periods, respectively.

Income Tax/Deferred Tax: As of March 30, 2025 and September 29, 2024, the Company had a deferred tax asset valuation allowance of ($0.8) million against deferred tax assets of $1.6 million and $1.7 million, for a net deferred tax asset of $0.8 and $0.9 million, respectively. 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 cannot be fully recognized due to an IRS Section 382 limitation related to a change in control. During the six months ended March 30, 2025, our deferred tax assets decreased by $195 thousand related to temporary tax adjustments.

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

The Company has potentially dilutive securities outstanding, which include unvested restricted stock units and unvested shares of restricted stock. The Company uses the Treasury Stock Method to compute the dilutive effect of any dilutive shares. Unvested restricted stock units and shares of restricted stock that are anti-dilutive are excluded from the calculation of diluted earnings per common share.

For the three and six months ended March 30, 2025, 22,800 shares of unvested restricted stock and 59,000 unvested restricted stock units (which convert to an aggregate of 21,271 and 59,963 incremental shares), respectively, were included in the diluted earnings per share calculation. For the three and six months ended March 31, 2024, 60,000 shares of unvested restricted stock and 39,000 unvested restricted stock units (which convert to an aggregate of 54,919 and 56,950 incremental shares), respectively, were included in the diluted earnings per share calculation.

Note 3 - Segment Reporting

The Company's two reportable segments, Applied Optics Center and Optex Richardson, are strategic businesses offering similar products to similar markets and customers; however, they 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 management at the time of the acquisition was retained.

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 Richardson segment. Intersegment sales and transfers are accounted for at annually agreed to pricing rates based on estimated segment product cost, which include segment direct manufacturing and general and administrative costs but exclude profits that would apply to third party external customers.

Optex Richardson – Richardson, Texas

Optex Richardson revenues are primarily in support of prime and subcontracted military customers. Military sales to prime and subcontracted customers represented approximately 100% of the external segment revenue for the six months ended March 30, 2025. The Optex Richardson segment revenue is comprised of approximately 89% domestic military customers and 11% foreign military customers. For the six months ended March 30, 2025, Optex Richardson represented 51% of the Company's total consolidated revenue and consisted of revenue from the U.S. government (25%), two major U.S. defense contractors (16%) and (5%), and all other customers (5%).

Optex Richardson is located in Richardson Texas, with leased premises consisting of approximately 49,100 square feet. As of March 30, 2025, the Richardson facility operated with 91 full-time equivalent employees in a single shift operation. The facilities at Optex Richardson serve as the home office for both the Optex Richardson 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 represented approximately 6% and military sales to prime and subcontracted customers represented approximately 94% of the external segment revenue for the six months ended March 30, 2025. Approximately 94% of the AOC revenue was derived from external customers and approximately 6% was related to intersegment sales to Optex Richardson in support of military contracts. For the six months ended March 30, 2025, AOC represented 49% of the Company's total consolidated revenue and consisted of revenue from the U.S. Government (6%), four major defense contractors (6%), (6%), (6%) and (5%), one commercial customer (5%), and all other customers (15%).

The Applied Optics Center is located in Dallas, Texas with leased premises consisting of approximately 44,867 square feet of space. As of March 31, 2024, AOC operated with 50 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 March 30, 2025

	Optex Richardson		Applied Optics Center Dallas		Other (non-allocated costs and intersegment eliminations)		Consolidated Total	
Revenues from external customers	$	6,319	$	4,411	$	-	$	10,730
Intersegment revenues		-		322		(322)		-
Total revenue	$	6,319	$	4,733	$	(322)	$	10,730
Interest (income) expense	$	-	$	-	$	(1)	$	(1)
Depreciation and amortization	$	67	$	59	$	-	$	126
Income before taxes	$	1,111	$	1,198	$	(71)	$	2,238
Other significant noncash items:								
Allocated home office expense	$	(328)	$	328	$	-	$	-
Stock compensation expense	$	-	$	-	$	72	$	72
Warranty expense	$	-	$	84	$	-	$	84
Segment assets	$	19,313	$	8,164	$	-	$	27,477
Expenditures for segment assets	$	134	$	-	$	-	$	134

Reportable Segment Financial Information (thousands) As of and for the three months ended March 31, 2024

	Optex Richardson		Applied Optics Center Dallas		Other (non-allocated costs and intersegment eliminations)		Consolidated Total	
Revenues from external customers	$	4,274	$	4,249	$	-	$	8,523
Intersegment revenues		-		231		(231)		-
Total revenue	$	4,274	$	4,480	$	(231)	$	8,523
Interest expense	$	-	$	-	$	9	$	9
Depreciation and amortization	$	38	$	79	$	-	$	117
Income (loss) before taxes	$	393	$	1,120	$	(166)	$	1,347
Other significant noncash items:								
Allocated home office expense	$	(337)	$	337	$	-	$	-
Stock compensation expense	$	-	$	-	$	157	$	157
Warranty expense	$	-	$	26	$	-	$	26
Segment assets	$	15,155	$	8,643	$	-	$	23,798
Expenditures for segment assets	$	1,139	$	-	$	-	$	1,139

	Reportable Segment Financial Information (thousands) As of and for the six months ended March 30, 2025			
	Optex Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	$ 9,734	$ 9,194	$ -	$ 18,928
Intersegment revenues	-	593	(593)	-
Total revenue	$ 9,734	$ 9,787	$ (593)	$ 18,928
Interest expense	$ -	$ -	$ 12	$ 12
Depreciation and amortization	$ 131	$ 124	$ -	$ 255
Income before taxes	$ 826	$ 2,491	$ (176)	$ 3,141
Other significant noncash items:				
Allocated home office expense	$ (655)	$ 655	$ -	$ -
Stock compensation expense	$ -	$ -	$ 164	$ 164
Warranty expense	$ -	$ 54	$ -	$ 54
Segment assets	$ 19,313	$ 8,164	$ -	$ 27,477
Expenditures for segment assets	$ 218	$ 245	$ -	$ 463

	Reportable Segment Financial Information (thousands) As of and for the six months ended March 31, 2024			
	Optex Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	$ 7,669	$ 7,823	$ -	$ 15,492
Intersegment revenues	-	418	(418)	-
Total revenue	$ 7,669	$ 8,241	$ (418)	$ 15,492
Interest expense	$ -	$ -	$ 16	$ 16
Depreciation and amortization	$ 48	$ 161	$ -	$ 209
Income (loss) before taxes	$ 409	$ 1,770	$ (286)	$ 1,893
Other significant noncash items:				
Allocated home office expense	$ (680)	$ 680	$ -	$ -
Stock compensation expense	$ -	$ -	$ 270	$ 270
Warranty expense	$ 17	$ 14	$ -	$ 31
Segment assets	$ 15,155	$ 8,643	$ -	$ 23,798
Expenditures for segment assets	$ 1,172	$ 25	$ -	$ 1,197

Note 4 - Commitments and Contingencies

Non-cancellable Operating Leases

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

The leased facility under Optex Systems Inc. located at 1420 Presidential Drive, Richardson, Texas consists 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 two months of rent abatement for April and May of 2021. The monthly rent includes approximately $12 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 thousand standby letter of credit. The monthly rent includes approximately $9 thousand for additional CAM, to be adjusted annually based on actual expenses incurred by the landlord.

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.

As of March 30, 2025, the remaining minimum base lease and estimated common area maintenance (CAM) payments under the non-cancellable office equipment and facility space leases are as follows:

Non-cancellable Operating Leases Minimum Payments

	(Thousands)			Consolidated	
	Optex Richardson	Applied Optics Center	Office Equipment		
Fiscal Year	**Facility Lease Payments**	**Facility Lease Payments**	**Lease Payments**	**Total Lease Payments**	**Total Variable CAM Estimate**
2025 Base year lease	171	153	7	331	146
2026 Base year lease	346	313	4	663	293
2027 Base year lease	357	322	-	679	298
2028 Base year lease	241	330	-	571	213
2029 Base year lease	-	83	-	83	30
Total base lease payments	$ 1,115	$ 1,201	$ 11	$ 2,327	$ 980
Imputed interest on lease payments [(1)]	(87)	(109)	-	(196)	
Total Operating Lease Liability[(2)]	$ 1,028	$ 1,092	$ 11	$ 2,131	
Right-of-use Asset[(3)]	$ 944	$ 1,015	$ 11	$ 1,970	

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

(2) Short-term and Long-term portion of Operating Lease Liability is $644 thousand and $1,487 thousand, respectively.

(3) Includes $161 thousand of unamortized deferred rent.

Total expense under both facility lease agreements for the three months ended March 30, 2025 and March 31, 2024 was $245 and $241 thousand, respectively. Total office equipment rentals included in operating expenses was $7 and $8 thousand for the three months ended March 30, 2025 and March 31, 2024, respectively.

Total expense under both facility lease agreements for the six months ended March 30, 2025 and March 31, 2024 was $469 and $457 thousand, respectively. Total office equipment rentals included in operating expenses was $14 thousand and $13 thousand for the six months ended March 30, 2025 and March 31, 2024, respectively.

Note 5 - Debt Financing

Credit Facility — Texas Capital Bank

On March 22, 2023, the Company entered into a Business Loan Agreement (the "Loan Agreement") with Texas Capital Bank (the "Lender"), pursuant to which the Lender will make available to the Company a revolving line of credit in the principal amount of $3 million (the "Texas Capital Facility").

The commitment period for advances under the Texas Capital Facility is twenty-six months expiring on May 22, 2025. We refer to the expiration of that time period as the "Maturity Date." Outstanding advances under the Texas Capital Facility will accrue interest at a rate equal to the secured overnight financing rate (SOFR) plus a specified margin, subject to a specified floor interest rate. As of March 30, 2025 the interest rate was 7.07% per annum.

The Loan Agreement contains customary events of default (including a 25% change in ownership) and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes (including changes in management), investments, and restricted payments (including cash dividends). The Loan Agreement also requires the Company to maintain a fixed charge coverage ratio of at least 1.25:1 and a total leverage ratio of 3.00:1. The Texas Capital Facility is secured by substantially all of the operating assets of the Company as collateral. The Company's obligations under the Texas Capital Facility are subject to acceleration upon the occurrence of an event of default as defined in the Loan Agreement. The Loan Agreement further provides for a $125 thousand Letter of Credit sublimit. The Company was in compliance with all covenants as of March 30, 2025.

The outstanding balance under the Texas Capital Facility was zero as of March 30, 2025 and $1.0 million as of September 29, 2024.

For the three months and six months ended March 30, 2025, the total interest expense under the above facility was ($1) thousand and $12 thousand, respectively.

Note 6 -Stock Based Compensation

Restricted Stock, Restricted Stock Units and Performance Shares issued to Officers and Employees

The following table summarizes the status of Optex Systems Holdings' aggregate non-vested restricted stock and restricted stock units and performance shares:

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Restricted Shares	Weighted Average Grant Date Fair Value	Performance Shares	Weighted Average Grant Date Fair Value
Outstanding at October 1, 2023	**39,000**	**$ 3.06**	**120,000**	**$ 2.20**	**135,000**	**2.37**
Granted	40,500	7.17	-	-	-	-
Vested	(13,000)	3.06	(60,000)	2.20	(135,000)	2.37
Forfeited	-	-	-	-	-	-
Outstanding at September 29, 2024	**66,500**	**$ 5.56**	**60,000**	**$ 2.20**	**-**	**-**
Granted	-	-	22,800	8.10	-	-
Vested	-	-	(60,000)	2.20	-	-
Forfeited	(7,500)	5.19	-	-	-	-
Outstanding at March 30, 2025	**59,000**	**$ 5.61**	**22,800**	**$ 8.10**	**-**	**$ -**

Restricted Stock Units

On May 1, 2023, the Company granted an aggregate of 39,000 restricted stock units to eleven employees under its 2023 Equity Incentive Plan. As of the grant date, assuming a 23.1% forfeiture rate based on expected turnover across the three years, the aggregate value of the restricted stock units is $90 thousand which will be amortized across the three-year period on a straight-line basis. During the twelve months ended October 1, 2023, there were 3,000 restricted stock units forfeited. On August 14, 2023 there was an additional grant of 3,000 restricted stock units to one new employee with a fair value of $11 thousand. The restricted stock units will vest at a rate of 33.33% annually on the anniversary date of the grant and any unvested restricted stock units will be forfeited if employment terminates prior to the relevant vesting date.

On May 1, 2024, the Company granted an aggregate of 39,000 restricted stock units to eleven employees under its 2023 Equity Incentive Plan. As of the grant date, assuming a 7.7% forfeiture rate based on expected turnover across the three years, the aggregate value of the restricted stock units is $258 thousand which will be amortized across the three-year period on a straight-line basis. The restricted stock units will vest at a rate of 33.33% annually on the anniversary date of the grant and any unvested restricted stock units will be forfeited if employment terminates prior to the relevant vesting date. On June 4, 2024 there was an additional grant of 500 restricted stock units to one employee with a fair value of $4 thousand. The 500 restricted stock units will vest 100% on the anniversary date of the grant and will be forfeited if employment terminates prior to the relevant vesting date. On July 3, 2024 there was an additional grant of 1,000 restricted stock units to one employee with a fair value of $7 thousand. The 1,000 restricted stock units will vest 100% on the anniversary date of the grant and will be forfeited if employment terminates prior to the relevant vesting date.

On May 1, 2024, there were 12,000 shares vested under its 2023 Equity Incentive Plan for restricted stock units granted on May 1, 2023. On May 3, 2024, 8,446 shares were issued to ten employees, net of tax withheld of $26 thousand.

On August 14, 2024, there were 1,000 shares vested under its 2023 Equity Incentive Plan for restricted stock units granted on August 14, 2023. On August 20, 2024, 704 shares were issued to one employee, net of tax withheld of $2 thousand.

During the three months ended December 29, 2024, there were 7,500 restricted stock units forfeited on the resignation of two employees.

As of March 30, 2025, there were 59,000 unvested restricted stock units outstanding.

Restricted Shares

On April 30, 2020, the Board of Directors 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 shares of restricted stock to each independent director which vest at a rate of 20% per year (20,000 shares) each January 1st through January 1, 2025. The total fair value for the 300,000 shares was $525 thousand based on the stock price of $1.75 as of April 30, 2020. On each of January 1, 2021, January 1, 2022, and January 1, 2023, 60,000 of the restricted director shares vested. On February 16, 2023, 40,000 of the unvested restricted shares were forfeited and cancelled when one of the independent directors departed the Board. On May 9, 2023, the Board of Directors approved a grant of 40,000 shares of restricted stock to independent board member Dayton Judd. The shares vested 50% on each of December 31, 2023 and January 1, 2025. As of the grant date, the fair value of the shares was $124 thousand, to be amortized on a straight-line basis through December 31, 2024. The Company amortized the grant date fair value to stock compensation expense on a straight-line basis across the five-year and two-year vesting periods beginning on April 30, 2020 and May 9, 2023, respectively. On January 1, 2025 60,000 restricted shares were vested.

On November 5, 2024, the Board of Directors approved the following Board compensation for the three independent directors, effective January 1, 2025: (a) a cash retainer of $44,000, paid quarterly, and (b) $66,000 in restricted stock awarded under the 2023 Equity Incentive Plan, with 100% vesting on January 1, 2026, the share price calculated on the basis of the 10-day VWAP, and the number of shares rounded up to the nearest 100 shares. The restricted stock award was made on November 5, 2024 and consisted of 7,600 shares of restricted stock for each independent director. The total fair value for the 22,800 shares was $185 thousand based on the stock price of $8.10 as of November 5, 2024. As of March 30, 2025, there were 22,800 of such unvested restricted shares outstanding which will vest on January 1, 2026.

Performance Shares

On May 3, 2023, the Board of Directors approved a grant of 100,000 and 35,000 performance shares to Danny Schoening, CEO, and Karen Hawkins, CFO, respectively. Each performance share represents a contingent right to receive one share of common stock. The performance shares vest in five equal increments if, in each case and during a five-year performance period beginning on October 2, 2023, the average VWAP per share of common stock over a 30 consecutive trading day period equals or exceeds $3.70, $4.45, $5.35, $6.40, or $7.70. The fair value of the shares, as of the grant date, is $320 thousand and will be amortized through December 31, 2025 based on the derived service periods using a Monte Carlo simulation valuation model.

On October 2, 2023, 27,000 performance shares vested each date for reaching the 30-day VWAP for Tranche 1. The Company issued a total of 21,060 shares on October 24, 2023 in settlement of the vested shares, net of tax withheld of $27 thousand.

On December 22, 2023 and December 29, 2023, 27,000 performance shares vested each date for reaching the 30-day VWAP for Tranche 2 and Tranche 3. On January 8, 2024 the Company issued a total of 39,563 shares in settlement of the vested shares, net of tax withheld of $91 thousand.

On March 11, 2024, 27,000 performance shares vested each date for reaching the 30-day VWAP for Tranche 4. The Company issued a total of 20,669 shares on March 13, 2024 in settlement of the vested shares, net of tax withheld of $46 thousand.

On May 17, 2024, 27,000 performance shares vested for reaching the 30-day VWAP for Tranche 5. The Company issued a total of 20,426 shares on May 17, 2024 in settlement of the vested shares, net of tax withheld of $53 thousand.

As of March 30, 2025, there were no performance shares remaining to vest.

The assumptions and results for the Monte Carlo simulation employed for the performance shares are as follows:

	Assumptions
Performance Period Start	10/2/2023
Performance Period End	10/1/2028
Term of simulation *(1)*	5.42 years
Time steps in simulation	1,365
Time steps per year	252
Common share price at valuation date *(2)*	$ 3.04
Dividend yield *(3)*	0.0%
Volatility (annual) *(4)*	50.0%
Risk-free rate (annual) *(5)*	3.37%
Cost of equity *(6)*	11.5%

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Number of performance shares in the Tranche (1)	27,000	27,000	27,000	27,000	27,000
Derived Service Period (Years) (7)	0.71	1.13	1.60	2.06	2.48
Fair Value of One Performance share (7)	$ 2.75	$ 2.58	$ 2.39	$ 2.18	$ 1.93
Total Fair Value of Tranche	$ 74,345	$ 69,742	$ 64,446	$ 58,819	$ 52,238

(1) Based on the terms of the Performance Shares agreement issued by the Company on May 3, 2023.
(2) Closing price of OPXS shares on the Valuation Date, as obtained via S&P Capital IQ.
(3) Expected dividends provided by management.
(4) Based on historical volatility of OPXS and comparable public companies.
(5) Interest rate for US Treasury commensurate with the Performance Shares holding period, as of the Valuation Date, as obtained via S&P Capital IQ.
(6) Estimated cost of equity for OPXS as of the Valuation Date.
(7) Based on Monte Carlo simulation.

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 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**	
	March 30, 2025	**March 31, 2024**	**March 30, 2025**	**March 31, 2024**	**March 30, 2025**	**September 29, 2024**
Restricted Shares	$ 40	$ 33	$ 99	$ 73	$ 119	$ 33
Performance Shares	-	116	-	180	-	-
Restricted Stock Units	32	8	65	17	218	284
Total Stock Compensation	**$ 72**	**$ 157**	**$ 164**	**$ 270**	**$ 337**	**$ 317**

Note 7 – Asset Purchase of Intellectual Property

On January 18, 2024, Optex Systems Holdings, Inc., through its wholly owned subsidiary Optex Systems, Inc. (collectively, the "Company"), entered into an asset purchase agreement and a contract manufacturing agreement with RUB Aluminium s.r.o. ("RUB"). Under the agreements, the Company acquired certain intellectual property and technical and marketing information relating to the Speedtracker Mach product line, which is primarily used for firearm projectile speed detection, measuring and tracking. RUB may continue to manufacture Speedtracker Mach products on behalf of the Company. The Company acquired the assets using $1 million cash on hand, with potential additional future cash payments based on successful completion of defined milestones. The initial term of the contract manufacturing agreement is one year, subject to additional one-year renewal terms to which both parties must agree. Subsequent to the acquisition, the Company has determined it would be more economical to move the manufacturing operations in house and is no longer ordering assembled units against the contract manufacturing agreement.

The acquisition included transaction costs of $30 thousand for legal fees. Pursuant to the asset purchase agreement, the total earnout payment would have been $238 thousand only if the earnout revenue milestones were achieved during the earnout period, otherwise the earnout would be zero. As of January 18, 2024, the fair value of the contingent liability was $83 thousand. As of September 29, 2024, it was determined that the revenue milestones related to the earnout agreement would be unachievable within the earnout period and the fair value of the contingent liability related to the earnout was set to zero. The intangible asset for the Speedtracker product acquisition will be amortized on a straight-line basis over seven years.

Subsequent to the asset purchases, the Company invested an additional $30 thousand for software app development for the Speedtracker product. The software app development will be amortized on a straight-line basis over three years.

Unlike indefinite-lived intangible assets and goodwill, which are required to be tested for impairment at least annually, ASC 360-10 does not require annual impairment testing for long-lived assets that are held and used. Instead, a long-lived asset (asset group) that is held and used should be tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset group may not be recoverable regardless of whether such carrying amount is zero or negative. Due to delays in the Speedtracker product line launch during the twelve months ended September 29, 2024, the Company reviewed the recoverability of the intangible assets as of September 29, 2024 and found no impairment. We continue to monitor the recoverability of the asset as we launch the product in April 2025 and move to full production levels over the next six months.

As of March 30, 2025 and September 29, 2024 the value of intangible assets was:

	March 30, 2025	September 29, 2024
Intangible Assets – Intellectual Property Acquisition	$ 1,030	$ 1,030
Software App Development	30	20
Amortization of Intangible Assets	(176)	(99)
Net Intangible Assets	**$ 884**	$ 951

Note 8 - Stockholders' Equity

Dividends

No dividends were declared or paid during the three and six months ended March 30, 2025 or the twelve months ended September 29, 2024.

Common Stock

During the three and six months ended March 30, 2025 and March 31, 2024, there were zero common shares repurchased under the program.

During the three and six months ended March 31, 2024, the Company issued 20,669 and 81,292 shares to Danny Schoening and Karen Hawkins in settlement of 27,000 and 108,000 performance shares which vested during the three and six months, respectively. The shares were issued net of 6,331 and 26,708 shares withheld for taxes.

During the three and six months ended March 30, 2025, the Company issued 0 and 22,800 restricted shares to the three independent board members which will vest on January 1, 2026.

As of March 30, 2025, and September 29, 2024, the total outstanding common shares were 6,896,738 and 6,873,938, respectively.

Note 9 - Subsequent Events

On May 1, 2025, there were 23,000 shares vested under its 2023 Equity Incentive Plan for restricted stock units granted on May 1, 2023 and May 1, 2024 which resulted in 16,181 shares issued to ten employees, net of tax withheld of $43 thousand.

On May 1, 2025, the Company granted an aggregate of 39,000 restricted stock units to eleven employees under its 2023 Equity Incentive Plan. As of the grant date, assuming a 12.8% forfeiture rate based on expected turnover across the three years, the aggregate value of the restricted stock units is $216 thousand which will be amortized across the three-year period on a straight-line basis. The restricted stock units will vest at a rate of 33.33% annually on the anniversary date of the grant and any unvested restricted stock units will be forfeited if employment terminates prior to the relevant vesting date.

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 September 29, 2024 and our unaudited consolidated financial statements and notes thereto for the quarter ended March 30, 2025, 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 and financial condition (including revenue, net income, profit margins and working capital); orders and backlog; expected timing of contract deliveries to customers and corresponding revenue recognition; increases in the cost of materials and labor; costs remaining to fulfill contracts; contract loss reserves; labor shortages; follow-on orders; 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. Such risks and uncertainties include, but are not limited to, continued funding of defense programs and military spending, the timing of such funding, general economic and business conditions, including unforeseen weakness in the Company's markets, effects of continued geopolitical unrest and regional conflicts, competition, changes in technology and methods of marketing, delays in completing engineering and manufacturing programs, changes in customer order patterns, changes in product mix, continued success in technological advances and delivering technological innovations, changes in the U.S. Government's interpretation of federal procurement rules and regulations, changes in spending due to policy changes in any new federal presidential administration, market acceptance of the Company's products, shortages in components, production delays due to performance quality issues with outsourced components, inability to fully realize the expected benefits from acquisitions and restructurings or delays in realizing such benefits, challenges in integrating acquired businesses and achieving anticipated synergies, changes to export regulations, increases in tax rates, changes to generally accepted accounting principles, difficulties in retaining key employees and customers, unanticipated costs under fixed-price service and system integration engagements, changes in the market for microcap stocks regardless of growth and value and various other factors beyond our control. Some of these risks and uncertainties are identified in this Management's Discussion and Analysis of Financial Condition and Results of Operations and the section "Risk Factors" in 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 revenue is related to the resale of products substantially manufactured by others. In this case, the product would likely be a simple replacement part of a larger system previously produced by Optex Systems, Inc. (Delaware).

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

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.

Material Trends and Recent Developments

The Optex Richardson segment has numerous fixed price multi-year contracts covering delivery periods up to five years from the contract award. Approximately 7% of our Optex Richardson segment backlog are for items priced prior to 2021. Since the year 2021, we have experienced substantial increases in the costs of aluminum, steel and acrylic commodities, which has affected the Optex Richardson segment margins for deliveries against those orders during the three and six months ended March 30, 2025 and which are expected to continue to have a negative effect on the margins generated under several of our long-term fixed contracts through the first fiscal quarter of 2026. See also “*Item 1A. Risk Factors – Risks Related to Our Business - Certain of our products are dependent on specialized sources of supply potentially subject to disruption which could have a material, adverse impact on our business”* in our Annual Report on Form 10-K for the year ended September 29, 2024.

We experienced significant material shortages during the fiscal year ended October 1, 2023 into the first half of fiscal year ended September 29, 2024 from several significant suppliers of our periscope covers and housings. These shortages affected several of our periscope products at the Optex Richardson segment. The delays in key components, combined with labor shortages during the first half of the fiscal year ended September 29, 2024, negatively impacted our production levels and pushed expected delivery dates into fiscal year 2025. We have obtained an alternative source for one of our key components and expedited our other suppliers to support the increased production levels.

We have seen improvements in the local labor market since 2023 and increased our direct labor force and employee overtime in concert with improvements in our supplier delivery performance. Further, we have invested in additional machinery and equipment and other process improvements to increase production capacity and alleviate process bottlenecks. In the first six months of fiscal year 2025, we have increased our periscope production levels by 50% over the 2024 fiscal year level. While we are encouraged by improvements in supplier performance and available manpower for the Optex Richardson segment periscope line which yielded increased revenue performance during fiscal year 2024 and 2025, we have yet to ramp up deliveries sufficiently to keep pace with our current customer demands. As such, we cannot give any assurances that expected customer delivery dates for our periscope products will not experience further delays.

We currently do not anticipate any significant material risks as a result of the recent tariff uncertainties. Our defense products are primarily sourced domestically, but those which are imported are primarily duty free. We produce some commercial optical assemblies with selective components sourced from Taiwan; however, our existing customer backlog is covered with existing material in inventory. We anticipate any future orders for these commercial products will have updated pricing inclusive of any tariff impact.

We refer also to "*Item 1. Business – Market Opportunity: U.S. Military*" in our Annual Report on Form 10-K for the year ended September 29, 2024 for a description of current trends in U.S. government military spending and its potential impact on Optex, which may be material, including particularly the tables included in that section and disclosure on the significant reduction in spending for U.S ground system military programs, which has a direct impact on the Optex Systems Richardson segment revenue, all of which is incorporated herein by reference.

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 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 March 30, 2025 and March 31, 2024, 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	
	March 30, 2025	March 31, 2024	March 30, 2025	March 31, 2024
Net Income (GAAP)	$ 1,768	$ 1,062	$ 2,612	$ 1,493
Add:				
Federal Income Tax Expense	470	285	529	400
Depreciation and Amortization	126	117	255	209
Stock Compensation	72	157	164	270
Interest (Income) Expense	(1)	9	12	16
Adjusted EBITDA - Non GAAP	**$ 2,435**	**$ 1,630**	**$ 3,572**	**$ 2,388**

Our net income increased by $0.7 million to $1.8 million for the three months ended March 30, 2025, as compared to net income of $1.1 million for the prior year period. Our adjusted EBITDA increased by $0.8 million to $2.4 million for the three months ended March 30, 2025, as compared to adjusted EBITDA of $1.6 million for the prior year period.

Our net income increased by $1.1 million to $2.6 million for the six months ended March 30, 2025, as compared to net income of $1.5 million for the prior year period. Our adjusted EBITDA increased by $1.2 million to $3.6 million for the six months ended March 30, 2025, as compared to adjusted EBITDA of $2.4 million for the prior year period.

The increase in net income and adjusted EBITDA for the most recent three and six-month periods compared to the prior year periods is primarily driven by increased revenue and gross profit. Operating segment performance is discussed in greater detail throughout the following sections.

Results of Operations Selective Financial Information
(Thousands)
Three months ended

	March 30, 2025				**March 31, 2024**			
	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	$ 6,319	4,411	-	10,730	$ 4,274	$ 4,249	$ -	$ 8,523
Intersegment Revenues	-	322	(322)	-	-	231	(231)	-
Total Segment Revenue	**6,319**	**4,733**	**(322)**	**10,730**	**4,274**	**4,480**	**(231)**	**8,523**
Total Cost of Sales	4,667	3,024	(322)	7,369	3,346	2,851	(231)	5,966
Gross Profit	1,652	1,709	**-**	3,361	**928**	**1,629**	**-**	**2,557**
Gross Margin %	**26.1%**	**36.1%**	**-**	**31.3%**	***21.7%***	***36.4%***	**-**	***30.0%***
General and Administrative Expense	869	183	72	1,124	872	172	157	1,201
Segment Allocated G&A Expense	(328)	328	-	-	(337)	337	-	-
Net General & Administrative Expense	541	511	72	1,124	535	509	157	1,201
Operating Income	**1,111**	**1,198**	**(72)**	**2,237**	**393**	**1,120**	**(157)**	**1,356**
Operating Income %	**17.6%**	**25.3%**	**-**	**20.8%**	***9.2%***	***25.0%***	**-**	***15.9%***
Interest Income (Expense)	-	-	1	1	-	-	(9)	(9)
Net Income before taxes	**$ 1,111**	**1,198**	**(71)**	**2,238**	**$ 393**	**$ 1,120**	**$ (166)**	**$ 1,347**
Net Income%	**17.6%**	**25.3%**	**-**	**20.9%**	***9.2%***	***25.0%***	**-**	***15.8%***

Results of Operations Selected Financial Info by Segment
(Thousands)
Six months ended

	March 30, 2025				**March 31, 2024**			
	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	9,734	9,194	-	18,928	$ 7,669	$ 7,823	$ -	$ 15,492
Intersegment Revenues	-	593	(593)	-	-	418	(418)	-
Total Segment Revenue	**9,734**	**9,787**	**(593)**	**18,928**	**7,669**	**8,241**	**(418)**	**15,492**
Total Cost of Sales	7,555	6,277	(593)	13,439	6,187	5,481	(418)	11,250
Gross Profit	**1,979**	**3,510**	**-**	**5,489**	**1,482**	**2,760**	**-**	**4,242**
Gross Margin %	**20.3%**	**35.9%**	**-**	**29.0%**	***19.3%***	***33.5%***	**-**	***27.4%***
General and Administrative Expense	1,808	364	164	2,336	1,753	310	270	2,333
Segment Allocated G&A Expense	(655)	655	-	-	(680)	680	-	-
Net General & Administrative Expense	1,153	1,019	164	2,336	1,073	990	270	2,333
Operating Income	**826**	**2,491**	**(164)**	**3,153**	**409**	**1,770**	**(270)**	**1,909**
Operating Income %	**8.5%**	**25.5%**	**-**	**16.7%**	***5.3%***	***21.5%***	**-**	***12.3%***
Interest Expense	-	-	(12)	(12)	-	-	(16)	(16)
Income before taxes	**826**	**2,491**	**(176)**	**3,141**	**$ 409**	**$ 1,770**	**$ (286)**	**$ 1,893**
Income before taxes %	**8.5%**	**25.5%**	**-**	**16.6%**	***5.3%***	***21.5%***	**-**	***12.2%***

For the three months ended March 30, 2025, our total revenues increased by $2.2 million, or 25.9%, compared to the prior year period. The increase in revenue was primarily driven increased periscope production capacity at the Optex Richardson segment and higher customer demand for laser filters at the Applied Optics Center.

For the six months ended March 30, 2025, our total revenues increased by $3.4 million, or 22.2%, compared to the prior year period. The increase in revenue was primarily driven increased periscope production capacity at the Optex Richardson segment and higher customer demand for laser filters at the Applied Optics Center.

Consolidated gross profit for the three months ended March 30, 2025 increased by $0.8 million, or 31.4%, compared to the prior year period. Consolidated gross profit for the six months ended March 30, 2025 increased by $1.2 million, or 29.4%, compared to the prior year period.

The increase in the most recent three and six-month period gross margin was primarily attributable to increased revenue and higher absorption of fixed costs across the higher revenue base.

Our operating income for the three months ended March 30, 2025 increased by $0.9 million, or 65.0%, compared to the prior year period. The increase in operating income was primarily driven by higher revenue and gross profit combined with lower general and administrative costs.

Our operating income for the six months ended March 30, 2025 increased by $1.2 million, or 65.2%, compared to the prior year period. The increase in operating income was primarily driven by higher revenue and gross profit across both operating segments.

New Orders and Backlog

Product backlog represents the value of unfulfilled customer manufacturing orders yet to be recognized as revenue. While backlog is not a non-GAAP financial measure, it is also not defined by GAAP. Therefore, our methodology for calculating backlog may not be consistent with methodologies used by other companies. The booked backlog by period may also not be fully indicative of the predicted revenues for those periods as many of our orders provide for accelerated delivery without penalty and may additionally provide customers the option to adjust schedules to meet their most recent projected demand quantities. However, we provide customer order and backlog information as we believe it provides significant insight into forward demand, with some predictive power to short term future revenues.

During the six months ended March 30, 2025, the Company booked $15.7 million in new orders, representing a (12.3 %) decrease over the prior year period. The decrease in orders is primarily attributable to a (19.8%) decrease in the Optex Richardson segment orders over the prior year period. The Applied Optics Center orders remained flat as compared to the prior year period.

The following table depicts the new customer orders for the six months ending March 30, 2025 as compared to the prior year period in millions of dollars by segment and product line:

Product Line	Six months ended March 30, 2025 (Millions)	Six months ended March 31, 2024 (Millions)	Variance (Millions)	% Chg
Periscopes	$ 6.7	$ 8.7	$ (2.0)	(23.0)%
Sighting Systems	0.4	0.4	-	-%
Other	1.8	2.0	(0.2)	(10.0)%
Optex Richardson	**8.9**	**11.1**	**(2.2)**	**(19.8)%**
Optical Assemblies	0.7	1.0	(0.3)	(30.0)%
Laser Filters	4.3	4.6	(0.3)	(6.5)%
Day Windows	0.6	0.1	0.5	500.0%
Other	1.2	1.1	0.1	9.1%
Applied Optics Center	**6.8**	**6.8**	**-**	**-%**
Total Customer Orders	**$ 15.7**	**$ 17.9**	**$ (2.2)**	**(12.3)%**

During the current year six-month period, Optex Richardson orders decreased by $2.2 million, or (19.8%) as compared to the prior year period. The primary reason for the decrease relates to the timing of order releases against our periscope and other contracts. We have seen an increase in proposal requests over the last three months and expect additional orders to be forthcoming over the next three to six months.

Backlog as of March 30, 2025 was $41.1 million, compared to a backlog of $44.2 million as of March 31, 2024 and as of September 29, 2024, representing a decrease of ($3.1) million, or (7.0%). The following table depicts the current expected delivery by period of all contracts awarded as of March 30, 2025 in millions of dollars:

Product Line	Q3 2025	Q4 2025	2025 Delivery	2026+ Delivery	Total Backlog 3/30/2025	Total Backlog 3/31/2024	Variance	% Chg
Periscopes	$ 6.0	$ 5.8	$ 11.8	$ 9.3	$ 21.1	$ 18.9	$ 2.2	11.6%
Sighting Systems	0.3	0.3	0.6	2.9	3.5	4.5	(1.0)	(22.2)%
Howitzer	-	-	-	2.3	2.3	2.3	-	-%
Other	0.7	1.6	2.3	1.8	4.1	4.2	(0.1)	(2.4)%
Optex Richardson	**7.0**	**7.7**	**14.7**	**16.3**	**31.0**	**29.9**	**1.1**	**3.7%**
Optical Assemblies	0.3	0.1	0.4	-	0.4	1.5	(1.1)	(73.3)%
Laser Filters	2.7	2.5	5.2	2.1	7.3	10.2	(2.9)	(28.4)%
Day Windows	0.1	0.3	0.4	0.7	1.1	1.4	(0.3)	(21.4)%
Other	1.0	0.1	1.1	0.2	1.3	1.2	0.1	8.3%
Applied Optics Center	**4.1**	**3.0**	**7.1**	**3.0**	**10.1**	**14.3**	**(4.2)**	**(29.4)%**
Total Backlog	**$ 11.1**	**$ 10.7**	**$ 21.8**	**$ 19.3**	**$ 41.1**	**$ 44.2**	**$ (3.1)**	**(7.0)%**

Optex Richardson backlog as of March 30, 2025 was $31.0 million as compared to a backlog of $29.9 million as of March 31, 2024, representing an increase of $1.1 million or 3.7%.

Applied Optics Center backlog as of March 30, 2025, was $10.1 million as compared to a backlog of $14.3 million as of March 31, 2024, representing a decrease of ($4.2) million or (29.4%). Subsequent to the six-month period ended March 30, 2025, on April 9, 2025, the Company announced a $5.7 million award for laser filter units for the Applied Optics Center to be delivered between August 2025 and December 2026 which would bring Total Backlog to $46.8.

Please refer to "*Material Trends*" 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 March 30, 2025 Compared to the Three Months Ended March 31, 2024

Revenues. For the three months ended March 30, 2025, revenues increased by $2.2 million or 25.9 % compared to the prior year period as set forth in the table below:

	Three months ended (Thousands)			
Product Line	**March 30, 2025**	**March 31, 2024**	**Variance**	**% Change**
Periscopes	$ 5,432	$ 2,695	$ 2,737	101.6%
Sighting Systems	321	212	109	51.4%
Other	566	1,367	(801)	(58.6)%
Optex Richardson	**6,319**	**4,274**	**2,045**	**47.8%**
Optical Assemblies	504	1,063	(559)	(52.6)%
Laser Filters	2,951	2,429	522	21.5%
Day Windows	285	190	95	50.0%
Other	671	567	104	18.3%
Applied Optics Center - Dallas	**4,411**	**4,249**	**162**	**3.8%**
Total Revenue	**$ 10,730**	**$ 8,523**	**$ 2,207**	**25.9%**

Optex Richardson revenue increased by $2.0 million or 47.8% for the three months ended March 30, 2025 as compared to the prior year period on increased production volume on our periscope product line.

Applied Optics Center revenue increased by $0.2 million or 3.8% for the three months ended March 30, 2025 as compared to the prior year period. The revenue increase was primarily driven by increased customer demand for military products, partially offset by a reduction in our commercial optical assemblies.

Gross Profit. Gross margin during the three-month period ended March 30, 2025 was 31.3% of revenue as compared to a gross margin of 30.0% of revenue for the prior year period. Gross profit increased by $0.8 million to $3.4 million for the three months ended March 30, 2025 as compared to $2.6 million in the prior year three months. The increase in gross profit is primarily attributable to increased revenue and higher fixed costs absorption across both operating segments. Cost of sales increased to $7.4 million for the current period as compared to the prior year period of $6.0 million on higher revenue.

G&A Expenses. During the three months ended March 30, 2025 and March 31, 2024, we recorded operating expenses of $1.1 million and $1.2 million, respectively. Operating expenses decreased $0.1 million in the current year period as compared with the prior year period on lower stock compensation expenses.

Operating Income. During the three months ended March 30, 2025, we recorded operating income of $2.2 million, as compared to operating income of $1.4 million during the three months ended March 31, 2024. The $0.8 million increase in operating income for the current year period from the prior year period is primarily due to higher revenue and gross profit and lower general and administrative costs during the current year period.

Six Months Ended March 30, 2025 Compared to the Six Months Ended March 31, 2024

Revenues. For the six months ended March 30, 2025, revenues increased by $3.4 million or 22.2% compared to the prior year period as set forth in the table below:

	Six months ended (Thousands)			
Product Line	**March 30, 2025**	**March 31, 2024**	**Variance**	**% Change**
Periscopes	$ 8,335	$ 4,671	$ 3,664	78.4%
Sighting Systems	734	570	164	28.8%
Other	665	2,428	(1,763)	(72.6)%
Optex Richardson	**9,734**	**7,669**	**2,065**	**26.9%**
Optical Assemblies	978	2,289	(1,311)	(57.3)%
Laser Filters	6,554	4,266	2,288	53.6%
Day Windows	578	351	227	64.7%
Other	1,084	917	167	18.2%
Applied Optics Center - Dallas	**9,194**	**7,823**	**1,371**	**17.5%**
Total Revenue	**$ 18,928**	**$ 15,492**	**$ 3,436**	**22.2%**

Optex Richardson revenue increased by $2.1 million or 26.9% for the six months ended March 30, 2025 as compared to the prior year period primarily on increased periscope revenue, partially offset by lower revenue in other products including mirrors, beamsplitters, day cameras and objective lenses. We anticipate lower revenues for the balance of the fiscal year in other products, as compared to the prior year, offset by higher revenue in periscopes.

Applied Optics Center revenue increased by $1.4 million or 17.5% for the six months ended March 30, 2025 as compared to the prior year period. The revenue increase is primarily attributable to military products, primarily laser filters, partially offset by lower revenue on our commercial optical assemblies. We expect this trend to continue through the end of the fiscal year.

Gross Profit. The gross margin during the six-month period ended March 30, 2025 was 29.0% of revenue as compared to a gross margin of 27.4% of revenue for the prior year period. The gross profit increased by $1.3 million to $5.5 million for the six months ended March 30, 2025 as compared to $4.2 million for the prior year period. The increase in gross profit is primarily attributable to higher revenue, absorption of fixed cost across the higher revenue base and changes in mix between operating segments. Cost of sales increased to $13.4 million for the six months ended March 30, 2025 as compared to the prior year period of $11.3 million on higher period revenue.

G&A Expenses. During the six months ended March 30, 2025 and March 31, 2024, we recorded operating expenses of $2.3 million.

Operating Income. During the six months ended March 30, 2025, we recorded operating income of $3.2 million, as compared to operating income of $1.9 million during the six months ended March 31, 2024. The $1.3 million increase in operating income is primarily due to higher revenue and gross profit.

Liquidity and Capital Resources

As of March 30, 2025, Optex Systems Holdings had working capital of $17.9 million, as compared to $15.1 million as of September 29, 2024. During the six months ended March 30, 2025, we generated operating cash of $4.0 million, primarily driven by higher income of $2.6 million, use of inventory of $0.9 million, and other changes in working capital of $0.5 million. During the six months ended March 30, 2025, we paid $1.0 million against the credit facility and purchased capital assets of $0.5 million.

As of March 30, 2025, the Company had no outstanding capital commitments for the purchase of property and equipment. We anticipate additional capital projects forthcoming in the next three to six months.

Backlog as of March 30, 2025 was $41.1 million as compared to $44.2 million and $44.2 million as of September 29, 2024 and March 31, 2024, respectively. For further details, see "*Results of Operations – New Orders and Backlog*" above.

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 March 30, 2025, the Company had approximately $3.5 million in cash and no draws against its revolving credit line. As of March 30, 2025, our outstanding accounts receivable balance was $4.2 million to be collected during the third quarter of fiscal 2025.

We refer to the disclosure above under "*Material Trends and Recent Developments"* with respect to recent supply chain disruptions and material shortages, which disclosure is incorporated herein by reference.

In the short term, the Company plans to utilize its current cash, available line of credit and operating cash flow to fund inventory purchases in support of the backlog growth and higher anticipated revenue during the next twelve months. Short term cash in excess of our working capital needs may be also be used to fund the purchase of product lines and other assets. We may also repurchase common stock against our current stock repurchase plan. Longer term, excess cash beyond our operating needs may be used to fund new product development, company, product line or other asset acquisitions, or additional stock purchases as attractive opportunities present themselves.

On January 18, 2024, the Company acquired certain intellectual property and technical and marketing information relating to the Speedtracker Mach product line and entered into an asset purchase agreement and a contract manufacturing agreement with RUB Aluminium s.r.o. ("RUB"). The Company acquired the assets using $1 million cash on hand, with potential additional future cash payments based on successful completion of defined milestones. The initial term of the contract manufacturing agreement was one year, subject to additional one-year renewal terms. After the acquisition, the Company determined it would be more economical to move the manufacturing operations in house and is no longer ordering assembled units under the original contract manufacturing agreement. RUB will continue to provide the Company with purchased kit parts for the manufacture of the Speedtracker Mach products.

The acquisition included transaction costs of $30 thousand. Pursuant to the asset purchase agreement, the total earnout payment will be $238 thousand only if the earnout revenue milestone is achieved during the earnout period, otherwise the earnout will be zero. As of September 29, 2024, it was determined that the earnout revenue milestone was unlikely to be achieved during the earnout period and the fair value of the contingent liability was zero. The asset will be amortized on a straight-line basis over a seven-year period.

We refer to "*Note 5 – Commitments and Contingencies – Non-cancellable Operating Leases*" for a tabular depiction of our remaining minimum lease and estimated Common Area Maintenance ("CAM") payments under such leases as of December 29, 2024, which disclosure is incorporated herein by reference.

The Company expects to generate net income and positive cash flow from operating activities over the next twelve months. To remain profitable, we need to maintain a level of revenue adequate to support our cost structure. Management intends to manage operations commensurate with its level of working capital and line of credit facility 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 March 22, 2023, the Company and its subsidiary, Optex Systems, Inc. ("Optex", and with the Company, the "Borrowers"), entered into a Business Loan Agreement (the "Loan Agreement") with Texas Capital Bank (the "Lender"), pursuant to which the Lender will make available to the Borrowers a revolving line of credit in the principal amount of $3 million (the "Credit Facility"). The commitment period for advances under the Credit Facility is twenty-six months expiring on May 22, 2025. We refer to the expiration of that time period as the "Maturity Date." Outstanding advances under the Credit Facility will accrue interest at a rate equal to the secured overnight financing rate (SOFR) plus a specified margin, subject to a specified floor interest rate. As of March 30, 2025, the interest rate was 7.07% per annum. We are currently in process of renewing the Credit Facility and expect renewal to be completed prior to the Maturity Date.

The Loan Agreement contains customary events of default (including a 25% change in ownership) and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes (including changes in management), investments, and restricted payments (including cash dividends). The Loan Agreement also requires the Borrowers to maintain a fixed charge coverage ratio of at least 1.25:1 and a total leverage ratio of 3.00:1. 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. The Loan Agreement further provides for a $125,000 Letter of Credit sublimit. As of March 30, 2025, there was zero borrowed under the Credit Facility. As of March 30, 2025, the Company was in compliance with all covenants under the Credit Facility.

The Credit Facility replaced the prior $2 million line of credit with PNC Bank, National Association.

During the three months ended March 30, 2025 the Company declared and paid no dividends. As of Mach 30, 2025, there are no outstanding declared and unpaid dividends.

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 September 29, 2024.

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 March 30, 2025, the Company had accrued warranty costs of $106 thousand, as compared to $52 thousand as of September 29, 2024. The primary reason for the $54 thousand increase in reserve balances relates to accrual related to a potential warranty issue on our Applied Optics Day Windows of $83 thousand, offset by lower shipments and reduced warranties on our commercial optical assemblies.

As of March 30, 2025 and September 29, 2024, we had $226 thousand, and $259 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 three and six months ended March 30, 2025, the Company recognized $11 thousand and $18 thousand in loss reserves on new contract awards, changes in estimates for the contract loss reserves of ($10) thousand and $4 thousand and applied reserves of $8 thousand and $47 thousand to cost of sales against revenues booked during the periods, respectively.

As of March 30, 2025 and September 29, 2024, the Company had a deferred tax asset valuation allowance of ($0.8) million against deferred tax assets of $1.6 million and $1.7 million, for a net deferred tax asset of $0.8 million and $0.9 million, respectively. 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. 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 March 30, 2025, 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 reports 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 March 30, 2025, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the three months ended March 30, 2025, 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 September 29, 2024.

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

Issuer Purchases of Equity Securities

There were no purchases made by or on behalf of the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) of its common stock under the Exchange Act) during the three months ended March 30, 2025.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable**.**

Item 5. Other Information.

On February 19, 2025, our Chief Executive Officer, Danny Schoening, adopted a written plan for the sale of Company common stock intended to satisfy the affirmative defense conditions of Rule 10b5-1. The plan provides for the sale of up to 42,000 shares if the pricing terms of the plan are met during the period beginning May 21, 2025 and terminating no later than December 31, 2025. No sales were made under Mr. Schoening’s previous 10b5-1 plan adopted on September 24, 2024.

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 13, 2025	By: */s/ Danny Schoening*
	Danny Schoening
	Principal Executive Officer
	OPTEX SYSTEMS HOLDINGS, INC.
Date: May 13, 2025	By: */s/ Karen Hawkins*
	Karen Hawkins
	Principal Financial Officer and
	Principal Accounting Officer

Exhibit 31.1

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

I, Danny Schoening, certify that:

1. I have reviewed this Form 10-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 13, 2025

Exhibit 31.2

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

I, Karen Hawkins, certify that:

1. I have reviewed this Form 10-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 13, 2025

Exhibit 32.1

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

In connection with this Quarterly Report of Optex Systems Holdings, Inc. (the “Company”) on this Form 10-Q for the quarter ended March 30, 2025, 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 13, 2025

Exhibit 32.2

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

In connection with this Quarterly Report of Optex Systems Holdings, Inc. (the "Company") on this Form 10-Q for the quarter ended March 30, 2025, 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 13, 2025