

**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 June 29, 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
(State or other jurisdiction
of incorporation)

001-41644
(Commission
File Number)

90-0609531
(IRS Employer
Identification No.)

1420 Presidential Drive, Richardson, TX
(Address of principal executive offices)

75081-2439
(Zip Code)

Registrant's telephone number, including area code: **(972) 764-5700**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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 August 12, 2025: 6,913,623 shares of common stock.

OPTEX SYSTEMS HOLDINGS, INC.
FORM 10-Q

For the period ended June 29, 2025

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Part 1. Financial Information

Item 1. Unaudited Condensed Consolidated Financial Statements

OPTEX SYSTEMS HOLDINGS, INC.
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Optex Systems Holdings, Inc.
Condensed Consolidated Balance Sheets

	(Thousands, except share and per share data)	
	June 29, 2025	September 29, 2024
	(Unaudited)	
ASSETS		
Cash and Cash Equivalents	\$ 4,871	\$ 1,009
Accounts Receivable, Net	4,140	3,764
Inventory, Net	14,514	14,863
Contract Asset	155	219
Prepaid Expenses	469	217
Current Assets	24,149	20,072
Property and Equipment, Net	1,475	1,292
Other Assets		
Deferred Tax Asset	852	947
Intangible Assets, Net	845	951
Right-of-use Asset	1,836	2,233
Security Deposits	23	23
Other Assets	3,556	4,154
Total Assets	\$ 29,180	\$ 25,518
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 1,778	\$ 1,177
Credit Facility	-	1,000
Operating Lease Liability	645	638
Federal Income Taxes Payable	-	74
Accrued Expenses	1,227	1,258
Accrued Selling Expense	169	237
Accrued Warranty Costs	173	52
Contract Loss Reserves	423	259
Customer Advance Deposits	285	255
Current Liabilities	4,700	4,950
Other Liabilities		
Operating Lease Liability, net of current portion	1,346	1,760
Other Liabilities	1,346	1,760
Total Liabilities	6,046	6,710
Commitments and Contingencies		
Stockholders' Equity		
Common Stock – (\$0.001 par, 2,000,000,000 authorized, 6,912,919 and 6,873,938 shares issued and outstanding, respectively)	7	7
Additional Paid in Capital	21,669	21,465
Retained Earnings (Accumulated Deficit)	1,458	(2,664)
Stockholders' Equity	23,134	18,808
Total Liabilities and Stockholders' Equity	\$ 29,180	\$ 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		Nine months ended	
	June 29, 2025	June 30, 2024	June 29, 2025	June 30, 2024
Revenue	\$ 11,110	\$ 9,060	\$ 30,038	\$ 24,552
Cost of Sales	7,942	6,179	21,380	17,430
Gross Profit	3,168	2,881	8,658	7,122
General and Administrative Expense	1,257	1,266	3,593	3,599
Operating Income	1,911	1,615	5,065	3,523
Interest Expense	-	17	12	32
Income Before Taxes	1,911	1,598	5,053	3,491
Income Tax Expense, net	401	337	931	737
Net Income	\$ 1,510	\$ 1,261	\$ 4,122	\$ 2,754
Basic income per share	\$ 0.22	\$ 0.19	\$ 0.60	\$ 0.41
Weighted Average Common Shares Outstanding - basic	6,884,429	6,799,807	6,856,776	6,744,997
Diluted income per share	\$ 0.22	\$ 0.18	\$ 0.60	\$ 0.40
Weighted Average Common Shares Outstanding – diluted	6,929,625	6,888,208	6,911,817	6,812,431

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)	
	Nine months ended	
	June 29, 2025	June 30, 2024
Cash Flows from Operating Activities:		
Net Income	\$ 4,122	\$ 2,754
Adjustments to Reconcile Net Income to Net Cash provided by Operating Activities:		
Depreciation and Amortization	386	341
Stock Compensation Expense	247	360
Deferred Tax	95	84
Accounts Receivable	(381)	303
Allowance for Doubtful Accounts	4	-
Inventory	350	(2,965)
Contract Asset	64	100
Prepaid Expenses	(252)	(97)
Leases	(10)	4
Accounts Payable and Accrued Expenses	570	820
Federal Income Taxes Payable	(74)	(247)
Accrued Warranty Costs	121	(39)
Accrued Selling Expense	(67)	(86)
Customer Advance Deposits	30	(161)
Contract Loss Reserves	163	(143)
Total Adjustments	1,246	(1,726)
Net Cash provided by Operating Activities	5,368	1,028
Cash Flows from Investing Activities		
Purchase of Intangible Assets	(10)	(1,030)
Purchases of Property and Equipment	(453)	(473)
Net Cash used in Investing Activities	(463)	(1,503)
Cash Flows from Financing Activities		
Borrowing from Credit Facility	-	1,000
Payments to Credit Facility	(1,000)	(1,000)
Cash Paid for Taxes Withheld on Net Settled Restricted Stock Unit Shares Issued	(43)	(243)
Net Cash used in Financing Activities	(1,043)	(243)
Net Increase (Decrease) in Cash and Cash Equivalents	3,862	(718)
Cash and Cash Equivalents at Beginning of Period	1,009	1,204
Cash and Cash Equivalents at End of Period	\$ 4,871	\$ 486
Supplemental Cash Flow Information:		
Cash Transactions:		
Cash Paid for Taxes	997	994
Cash Paid for Interest	12	26

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 June 29, 2025					
	Common Shares Issued	Common Stock	Additional Paid in Capital	(Accumulated Deficit) Retained Earnings	Total Stockholders Equity
Balance at March 30, 2025	6,896,738	\$ 7	\$ 21,629	\$ (52)	\$ 21,584
Vested Restricted Stock Units Issued Net of Tax Withholding	16,181	-	(43)	-	(43)
Stock Compensation Expense	-	-	83	-	83
Net Income	-	-	-	1,510	1,510
Balance at June 29, 2025	6,912,919	\$ 7	\$ 21,669	\$ 1,458	\$ 23,134
Three months ended June 30, 2024					
	Common Shares Issued	Common Stock	Additional Paid in Capital	Accumulated Deficit	Total Stockholders Equity
Balance at March 31, 2024	6,844,362	\$ 7	\$ 21,391	\$ (4,939)	\$ 16,459
Stock Compensation Expense	-	-	90	-	90
Vested restricted stock units issued net of tax withholding	28,872	-	(79)	-	(79)
Net Income	-	-	-	1,261	1,261
Balance at June 30, 2024	6,873,234	\$ 7	\$ 21,402	\$ (3,678)	\$ 17,731
Nine months ended June 29, 2025					
	Common Shares Issued	Common Stock	Additional Paid in Capital	(Accumulated Deficit) Retained Earnings	Total Stockholders Equity
Balance at September 29, 2024	6,873,938	\$ 7	\$ 21,465	\$ (2,664)	\$ 18,808
Stock Compensation Expense	-	-	247	-	247
Restricted Shares Issued ⁽¹⁾	22,800	-	-	-	-
Vested Restricted Stock Units Issued Net of Tax Withholding	16,181	-	(43)	-	(43)
Net Income	-	-	-	4,122	4,122
Balance at June 29, 2025	6,912,919	\$ 7	\$ 21,669	\$ 1,458	\$ 23,134
Nine months ended June 30, 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	-	-	360	-	360
Vested restricted stock units issued net of tax withholding	110,164	-	(243)	-	(243)
Net Income	-	-	-	2,754	2,754
Balance at June 30, 2024	6,873,234	\$ 7	\$ 21,402	\$ (3,678)	\$ 17,731

(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. Our 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 nine months ended June 29, 2025 were derived from the U.S. government (32%), four major U.S. defense contractors (18%, 7%, 6% and 5%, respectively) and all other customers (32%). 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 June 29, 2025, Optex Systems Holdings operated with 140 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. (“Optex”). All significant intercompany 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 June 29, 2025 and September 29, 2024, inventory included:

	(Thousands)	
	June 29, 2025	September 29, 2024
Raw Material	\$ 7,536	\$ 9,460
Work in Process	7,577	5,954
Finished Goods	466	556
Gross Inventory	\$ 15,579	\$ 15,970
Less: Inventory Reserves	(1,065)	(1,107)
Net Inventory	<u>\$ 14,514</u>	<u>\$ 14,863</u>

Concentration of Credit Risk: The Company’s accounts receivables as of June 29, 2025 consist of U.S. government agencies (17%), five major U.S. defense contractors (26%, 14%, 13%, 5%, and 5%, respectively) and all other customers (20%). 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 June 29, 2025, and September 29, 2024, the Company had warranty reserve balances of \$173 and \$52, respectively.

	(Thousands)			
	Three months ended		Nine Months ended	
	June 29, 2025	June 30, 2024	June 29, 2025	June 30, 2024
Beginning balance	\$ 105	\$ 69	\$ 52	\$ 75
Incurred costs for warranties satisfied during the period	-	(15)	-	(52)
Warranty Expenses:				
Warranties reserved for new product shipped during the period ⁽¹⁾	7	26	32	90
Change in estimate for pre-existing warranty liabilities ⁽²⁾	61	(44)	89	(77)
Warranty Expense	68	(18)	121	13
Ending balance	\$ 173	\$ 36	\$ 173	\$ 36

(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 nine months ended June 29, 2025, we recognized \$133 thousand and \$385 thousand in service contract revenue. During the three and nine months ended June 20, 2024, we recognized \$126 thousand and \$357 thousand in service contract revenue.

During the three and nine-month periods ended June 29, 2025, we recognized revenue from customer deposit liabilities (deferred contract revenue) of \$45 thousand and \$132 thousand. During the three and nine-month periods ended June 20, 2024, we recognized revenue from customer deposit liabilities (deferred contract revenue) of \$161 thousand. As of June 29, 2025 and September 29, 2024 we had \$285 thousand and \$255 thousand in customer deposit liabilities.

As of June 29, 2025 and September 29, 2024, there was \$169 thousand and \$237 thousand in accrued selling expenses and \$155 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 June 29, 2025 and September 29, 2024, the accrued contract loss reserves were \$423 and \$259 thousand, respectively. During the three and nine months ended June 29, 2025, the Company recognized \$32 thousand and \$101 thousand in loss reserves on new contract awards, changes in estimates for the contract loss reserves of \$184 thousand and \$134 thousand and applied reserves of (\$19) thousand and (\$71) thousand to cost of sales against revenues booked during the periods, respectively. Estimated loss reserves increased during the period as a result of higher rework and labor inefficiencies as we have ramped up to the higher production levels and trained new employees on the periscope line. During the three and nine months ended June 30, 2024, the Company recognized a gain on changes in estimates for the contract loss reserves of (\$16) thousand and (\$45) thousand and applied reserves of (\$34) thousand and (\$97) thousand to cost of sales against revenues booked during the periods, respectively.

Income Tax/Deferred Tax: As of June 29, 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 \$0.9 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 nine months ended June 29, 2025, our deferred tax assets decreased by \$0.1 million 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 nine months ended June 29, 2025, 22,800 shares of unvested restricted stock and 75,000 unvested restricted stock units (which convert to an aggregate of 45,196 and 55,041 incremental shares), respectively, were included in the diluted earnings per share calculation. For the three and nine months ended June 30, 2024, 60,000 shares of unvested restricted stock and 66,500 unvested restricted stock units (which convert to an aggregate of 88,401 and 67,434 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 nine months ended June 29, 2025. The Optex Richardson segment revenue is comprised of approximately 89% domestic military customers and 11% foreign military customers. For the nine months ended June 29, 2025, Optex Richardson represented 55% of the Company's total consolidated revenue and consisted of revenue from the U.S. government (25%), two major U.S. defense contractors (11%) and (9%), and all other customers (10%).

Optex Richardson is located in Richardson Texas, with leased premises consisting of approximately 49,100 square feet. As of June 29, 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 11% and military sales to prime and subcontracted customers represented approximately 89% of the external segment revenue for the nine months ended June 29, 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 nine months ended June 29, 2025, AOC represented 45% of the Company's total consolidated revenue and consisted of revenue from the U.S. Government (7%), three major defense contractors (7%), (6%), and (4%), and all other customers (21%).

The Applied Optics Center is located in Dallas, Texas with leased premises consisting of approximately 44,867 square feet of space. As of June 29, 2025, AOC operated with 49 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 June 29, 2025				
	Optex Richardson	Applied Optics Center Dallas	Other (non- allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	\$ 6,838	\$ 4,272	\$ -	\$ 11,110
Intersegment revenues	-	325	(325)	-
Total revenue	\$ 6,838	\$ 4,597	\$ (325)	\$ 11,110
Interest (income) expense	\$ -	\$ -	\$ -	\$ -
Depreciation and amortization	\$ 72	\$ 59	\$ -	\$ 131
Income before taxes	\$ 1,103	\$ 891	\$ (83)	\$ 1,911
Other significant noncash items:				
Allocated home office expense	\$ (328)	\$ 328	\$ -	\$ -
Stock compensation expense	\$ -	\$ -	\$ 83	\$ 83
Warranty expense	\$ -	\$ 68	\$ -	\$ 68
Segment assets	\$ 20,626	\$ 8,554	\$ -	\$ 29,180
Expenditures for segment assets	\$ -	\$ -	\$ -	\$ -

Reportable Segment Financial Information (thousands)				
As of and for the three months ended June 30, 2024				
	Optex Richardson	Applied Optics Center Dallas	Other (non- allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	\$ 4,675	\$ 4,385	\$ -	\$ 9,060
Intersegment revenues	-	282	(282)	-
Total revenue	\$ 4,675	\$ 4,667	\$ (282)	\$ 9,060
Interest expense	\$ -	\$ -	\$ 17	\$ 17
Depreciation and amortization	\$ 54	\$ 78	\$ -	\$ 132
Income (loss) before taxes	\$ 442	\$ 1,263	\$ (107)	\$ 1,598
Other significant noncash items:				
Allocated home office expense	\$ (339)	\$ 339	\$ -	\$ -
Stock compensation expense	\$ -	\$ -	\$ 90	\$ 90
Warranty expense	\$ -	\$ (18)	\$ -	\$ (18)
Segment assets	\$ 16,449	\$ 8,413	\$ -	\$ 24,862
Expenditures for segment assets	\$ 159	\$ 147	\$ -	\$ 306

Reportable Segment Financial Information
(thousands)

As of and for the nine months ended June 29, 2025

	Optex Richardson	Applied Optics Center Dallas	Other (non- allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	\$ 16,572	\$ 13,466	\$ -	\$ 30,038
Intersegment revenues	-	917	(917)	-
Total revenue	\$ 16,572	\$ 14,383	\$ (917)	\$ 30,038
Interest expense	\$ -	\$ -	\$ 12	\$ 12
Depreciation and amortization	\$ 203	\$ 183	\$ -	\$ 386
Income before taxes	\$ 1,930	\$ 3,382	\$ (259)	\$ 5,053
Other significant noncash items:				
Allocated home office expense	\$ (983)	\$ 983	\$ -	\$ -
Stock compensation expense	\$ -	\$ -	\$ 247	\$ 247
Warranty expense	\$ -	\$ 121	\$ -	\$ 121
Segment assets	\$ 20,626	\$ 8,554	\$ -	\$ 29,180
Expenditures for segment assets	\$ 218	\$ 245	\$ -	\$ 463

Reportable Segment Financial Information
(thousands)

As of and for the nine months ended June 30, 2024

	Optex Richardson	Applied Optics Center Dallas	Other (non- allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	\$ 12,344	\$ 12,208	\$ -	\$ 24,552
Intersegment revenues	-	700	(700)	-
Total revenue	\$ 12,344	\$ 12,908	\$ (700)	\$ 24,552
Interest expense	\$ -	\$ -	\$ 32	\$ 32
Depreciation and amortization	\$ 103	\$ 238	\$ -	\$ 341
Income (loss) before taxes	\$ 850	\$ 3,033	\$ (392)	\$ 3,491
Other significant noncash items:				
Allocated home office expense	\$ (1,019)	\$ 1,019	\$ -	\$ -
Stock compensation expense	\$ -	\$ -	\$ 360	\$ 360
Warranty expense	\$ 17	\$ (4)	\$ -	\$ 13
Segment assets	\$ 16,449	\$ 8,413	\$ -	\$ 24,862
Expenditures for segment assets	\$ 1,331	\$ 172	\$ -	\$ 1,503

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 June 29, 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

Fiscal Year	(Thousands)				
	Optex Richardson Facility Lease Payments	Applied Optics Center Facility Lease Payments	Office Equipment Lease Payments	Consolidated Total Lease Payments	Total Variable CAM Estimate
2025 Base year lease	\$ 85	\$ 77	\$ 3	\$ 165	\$ 73
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	\$ 1,029	\$ 1,125	\$ 7	\$ 2,161	\$ 907
Imputed interest on lease payments ⁽¹⁾	(73)	(97)	-	(170)	
Total Operating Lease Liability⁽²⁾	\$ 956	\$ 1,028	\$ 7	\$ 1,991	
Right-of-use Asset⁽³⁾	\$ 875	\$ 954	\$ 7	\$ 1,836	

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

(2) Short-term and Long-term portion of Operating Lease Liability is \$645 thousand and \$1,346 thousand, respectively.

(3) Includes \$155 thousand of unamortized deferred rent.

Total expense under both facility lease agreements for the three months ended June 29, 2025 and June 30, 2024 was \$233 and \$223 thousand, respectively. Total office equipment rentals included in operating expenses was \$6 and \$6 thousand for the three months ended June 29, 2025 and June 30, 2024, respectively.

Total expense under both facility lease agreements for the nine months ended June 29, 2025 and June 30, 2024 was \$703 and \$681 thousand, respectively. Total office equipment rentals included in operating expenses was \$20 thousand and \$19 thousand for the nine months ended June 29, 2025 and June 30, 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 commitment period for advances under the facility expired on May 22, 2025. Outstanding advances under the facility accrued interest at a rate equal to the secured overnight financing rate (SOFR) plus a specified margin, subject to a specified floor interest rate. The related agreement provided for a \$125 thousand Letter of Credit sublimit.

On May 21, 2025, the Company and Optex renewed their existing credit facility with the Lender by entering into a new Business Loan Agreement (the “Loan Agreement”) effective May 22, 2025, pursuant to which the Lender will continue to make available 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-four months expiring on May 22, 2027 (the “Maturity Date”). Outstanding advances under the Texas Capital Facility will accrue interest at a variable rate equal to the secured overnight financing rate (SOFR) plus a specified margin. The interest rate is currently at 7.10% per annum.

The Loan Agreement contains customary events of default and negative covenants, including but not limited to those governing capital expenditures (limited to \$1 million per year), indebtedness and liens, affiliate transactions, fundamental changes (including change in management), investments, and restricted payments (including 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 3:1. The Texas Capital Facility is secured by substantially all of the operating assets of the borrowers as collateral. The 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 \$125,000 Letter of Credit sublimit.

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

For the three months and nine months ended June 29, 2025, the total interest expense under the facility was zero 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	39,000	6.35	22,800	8.10	-	-
Vested	(23,000)	5.17	(60,000)	2.20	-	-
Forfeited	(7,500)	5.19	-	-	-	-
Outstanding at June 29, 2025	75,000	\$ 6.13	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.

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.

As of June 29, 2025, there were 75,000 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 June 29, 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 June 29, 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		Nine months ended		As of period ended	
	June 29, 2025	June 30, 2024	June 29, 2025	June 30, 2024	June 29, 2025	September 29, 2024
Restricted Shares	\$ 39	\$ 33	\$ 138	\$ 107	\$ 79	\$ 33
Performance Shares	-	33	-	212	-	-
Restricted Stock Units	44	24	109	41	391	284
Total Stock Compensation	\$ 83	\$ 90	\$ 247	\$ 360	\$ 470	\$ 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 launched the product in April 2025 and are in current production.

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

	<u>June 29, 2025</u>	<u>September 29, 2024</u>
Intangible Assets – Intellectual Property Acquisition	\$ 1,030	\$ 1,030
Software App Development	30	20
Amortization of Intangible Assets	(215)	(99)
Net Intangible Assets	<u>\$ 845</u>	<u>\$ 951</u>

Note 8 - Stockholders' Equity

Dividends

No dividends were declared or paid during the three and nine months ended June 29, 2025 or the twelve months ended September 29, 2024.

Common Stock

During the three and nine months ended June 29, 2025 and June 30, 2024, there were zero common shares repurchased.

During the three and nine months ended June 30, 2024, the Company issued 20,426 and 101,718 shares to Danny Schoening and Karen Hawkins in settlement of 27,000 and 135,000 performance shares which vested during the three and nine months, respectively. The shares were issued net of 6,574 and 33,282 shares withheld for taxes.

During the three and nine months ended June 30, 2024, the Company issued 8,446 shares to ten employees in settlement of 12,000 restricted stock units, which vested during the three and nine months. The shares were issued net of 3,554 shares withheld for taxes.

During the three and nine months ended June 29, 2025, the Company issued 16,181 and 38,981 shares for vesting of restricted stock units as of May 1, 2025 and restricted shares issued to the three independent board members which will vest on January 1, 2026.

As of June 29, 2025, and September 29, 2024, the total outstanding common shares were 6,912,919 and 6,873,938, respectively.

Note 9 - Subsequent Events

Effective August 10, 2025, the Board of Directors of the Company amended the Company's Bylaws to, among other things, (i) create a new Chief Executive Officer position, allowing for the offices of Chief Executive Officer and President to be held by different individuals, with the Chief Executive Officer being the principal executive officer of the Company, (ii) add deadlines and procedural requirements for shareholders to follow in making (A) proposals for consideration at an annual meeting, (B) nominations for directors to be elected at an annual meeting, and (C) nominations for directors to be elected at a special meeting, (iii) add a new article to provide for indemnification of directors and officers to the fullest extent permitted by Delaware law, and (iv) add a forum selection clause.

Effective August 11, 2025, the Board of Directors of the Company appointed Chad George as the Company's new President. Danny Schoening will continue to serve in the position of Chairman and Chief Executive Officer.

In connection with the appointment, the Company entered into an employment agreement with Mr. George effective August 11, 2025. Pursuant to the agreement, Mr. George will serve as the Company's President through July 1, 2028. Thereafter, the term of the agreement will automatically extend for successive additional 12-month periods unless Mr. George or the Company provides written notice of termination at least 90 days prior to the end of the term then in effect. Mr. George's initial annual base salary under the new agreement is \$300,000. Mr. George's base salary will be increased at 3.5% annually in accordance with the then-current Company policy.

Mr. George will be eligible for a performance bonus based upon a one-year operating plan adopted by the Company's Board. The bonus will be based on financial and/or operating metrics decided annually by the Board or the Compensation Committee and tied to such one-year plan. The target bonus will equate to 30% of Mr. George's base salary. The Board will have discretion in good faith to alter the performance bonus upward or downward by 20%. Mr. George is entitled to 200 hours paid vacation and paid time off (PTO) each year and all other benefits accorded to our other senior executives.

The employment agreement may be terminated by either party upon written notice. Other events of termination consist of: (i) death or permanent disability of Mr. George; (ii) termination by the Company for cause (including in connection with the conviction of a felony, commission of fraudulent, illegal or dishonest acts, certain willful misconduct or gross negligence, continued failure to perform material duties or cure material breach after written notice, violation of securities laws and material breach of the employment agreement), (iii) termination by the Company without cause and (iv) termination by Mr. George for good reason (including continued breach by the Company of its material obligations under the agreement after written notice, the requirement for Mr. George to move more than 100 miles away for his employment without consent, and merger or consolidation that results in more than 66% of the combined voting power of the Company's then outstanding securities or those of its successor changing ownership or a sale of all or substantially all of its assets, without the surviving entity assuming the obligations under the agreement). For a termination by the Company for cause or upon death or permanent disability of Mr. George, Mr. George will be paid accrued and unpaid salary and any bonus earned through the date of termination. For a termination by the Company without cause or by Mr. George with good reason, Mr. George will also be paid six months' base salary in effect.

In connection with Mr. George's appointment, the Board granted him 10,000 shares of restricted stock under an exemption from registration effective August 11, 2025, which will vest on January 1, 2026.

Effective August 11, 2025, the Board of Directors of the Company approved amendments of the charters of the Nominating and Corporate Governance Committee, Audit Committee and Compensation Committee.

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 June 29, 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

Our wholly-owned subsidiary, Optex Systems, Inc., manufactures optical sighting systems and assemblies, primarily for Department of Defense applications. Its products are installed on various types of U.S. military land vehicles, such as the Abrams and Bradley fighting vehicles, light armored and armored security vehicles and have been selected for installation on the Stryker family of vehicles. Optex Systems, Inc. also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Optex Systems, Inc. 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.

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 nine months ended June 29, 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 nine months of fiscal year 2025, we have increased our periscope production levels by 74% over the corresponding period in fiscal year 2024. 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 nine-month operating results for the periods ended June 29, 2025 and June 30, 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		Nine months ended	
	June 29, 2025	June 30, 2024	June 29, 2025	June 30, 2024
Net Income (GAAP)	\$ 1,510	\$ 1,261	\$ 4,122	\$ 2,754
Add:				
Federal Income Tax Expense	401	337	931	737
Depreciation and Amortization	131	132	386	341
Stock Compensation	83	90	247	360
Interest (Income) Expense	-	17	12	32
Adjusted EBITDA - Non GAAP	\$ 2,125	\$ 1,837	\$ 5,698	\$ 4,224

Our net income increased by \$0.2 million to \$1.5 million for the three months ended June 29, 2025, as compared to net income of \$1.3 million for the prior year period. Our adjusted EBITDA increased by \$0.3 million to \$2.1 million for the three months ended June 29, 2025, as compared to adjusted EBITDA of \$1.8 million for the prior year period.

Our net income increased by \$1.3 million to \$4.1 million for the nine months ended June 29, 2025, as compared to net income of \$2.8 million for the prior year period. Our adjusted EBITDA increased by \$1.5 million to \$5.7 million for the nine months ended June 29, 2025, as compared to adjusted EBITDA of \$4.2 million for the prior year period.

The increase in net income and adjusted EBITDA for the most recent three and nine-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							
	June 29, 2025				June 30, 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	\$ 6,838	4,272	-	11,110	\$ 4,675	4,385	-	9,060
Intersegment Revenues	-	325	(325)	-	-	282	(282)	-
Total Segment Revenue	6,838	4,597	(325)	11,110	4,675	4,667	(282)	9,060
Total Cost of Sales	5,081	3,186	(325)	7,942	3,575	2,886	(282)	6,179
Gross Profit	1,757	1,411	-	3,168	1,100	1,781	-	2,881
Gross Margin %	25.7%	30.7%	-	28.5%	23.5%	38.2%	-	31.8%
General and Administrative Expense	982	192	83	1,257	997	179	90	1,266
Segment Allocated G&A Expense	(328)	328	-	-	(339)	339	-	-
Net General & Administrative Expense	654	520	83	1,257	658	518	90	1,266
Operating Income	1,103	891	(83)	1,911	442	1,263	(90)	1,615
Operating Income %	16.1%	19.4%	-	17.2%	9.5%	27.1%	-	17.8%
Interest Expense	-	-	-	-	-	-	17	17
Net Income before taxes	\$ 1,103	891	(83)	1,911	\$ 442	1,263	(107)	1,598
Net Income %	16.1%	19.4%	-	17.2%	9.5%	27.1%	-	17.6%

Results of Operations Selected Financial Info by Segment
(Thousands)

Nine months ended

	June 29, 2025				June 30, 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	16,572	13,466	-	30,038	\$ 12,344	12,208	-	24,552
Intersegment Revenues	-	917	(917)	-	-	700	(700)	-
Total Segment Revenue	16,572	14,383	(917)	30,038	12,344	12,908	(700)	24,552
Total Cost of Sales	12,836	9,461	(917)	21,380	9,763	8,367	(700)	17,430
Gross Profit	3,736	4,922	-	8,658	2,581	4,541	-	7,122
Gross Margin %	22.5%	34.2%	-	28.8%	20.9%	35.2%	-	29.0%
General and Administrative Expense	2,789	557	247	3,593	2,750	489	360	3,599
Segment Allocated G&A Expense	(983)	983	-	-	(1,019)	1,019	-	-
Net General & Administrative Expense	1,806	1,540	247	3,593	1,731	1,508	360	3,599
Operating Income	1,930	3,382	(247)	5,065	850	3,033	(360)	3,523
Operating Income %	11.6%	23.5%	-	16.9%	6.9%	23.5%	-	14.3%
Interest Expense	-	-	12	12	-	-	32	32
Income before taxes	1,930	3,382	(259)	5,053	\$ 850	3,033	(392)	3,491
Income (Loss) before taxes %	11.6%	23.5%	-	16.8%	6.9%	23.5%	-	14.2%

For the three months ended June 29, 2025, our total revenues increased by \$2.1 million, or 22.6%, compared to the prior year period. The increase in revenue was primarily driven by increased customer demand at the Company's Optex Richardson segment.

For the nine months ended June 29, 2025, our total revenues increased by \$5.5 million, or 22.3%, compared to the prior year period. The increase in revenue was primarily driven by increased customer demand across both the Optex Richardson and the Applied Optics operating segments.

Consolidated gross profit for the three months ended June 29, 2025 increased by \$0.3 million, or 10.0%, compared to the prior year period. Consolidated gross profit for the nine months ended June 29, 2025 increased by \$1.5 million, or 21.6%, compared to the prior year period.

The increase in the most recent three and nine-month period gross margin was primarily attributable to increased revenue and changes in product mix.

Our operating income for the three months ended June 29, 2025 increased by \$0.3 million, or 18.3%, compared to the prior year period. The increase in operating income was primarily driven by higher revenue and gross profit.

Our operating income for the nine months ended June 29, 2025 increased by \$1.5 million, or 43.8%, compared to the prior year period. The increase in operating income was primarily driven by higher revenue and gross profit.

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 nine months ended June 29, 2025, the Company booked \$24.1 million in new orders, representing a 14.8% decrease over the prior year period. The decrease in orders was primarily attributable to a 43.2% decrease in the Optex Richardson segment orders, which was partially offset by increases of 38.8% at the Applied Optics Center, over the prior year period.

The following table depicts the new customer orders for the nine months ending June 29, 2025 as compared to the prior year period in millions of dollars by segment and product line:

Product Line	(Millions)			
	Nine months ended June 29, 2025	Nine months ended June 30, 2024	Variance	% Chg
Periscopes	\$ 8.1	\$ 15.9	\$ (7.8)	(49.1)%
Sighting Systems	0.5	0.3	0.2	66.7%
Other	1.9	2.3	(0.4)	(17.4)%
Optex Richardson	10.5	18.5	(8.0)	(43.2)%
Optical Assemblies	1.1	1.8	(0.7)	(38.9)%
Laser Filters	10.2	6.5	3.7	56.9%
Day Windows	0.8	0.1	0.7	700.0%
Other	1.5	1.4	0.1	7.1%
Applied Optics Center	13.6	9.8	3.8	38.8%
Total Customer Orders	\$ 24.1	\$ 28.3	\$ (4.2)	(14.8)%

During the current year nine-month period, Optex Richardson orders decreased by (\$8.0) million, or (43.2%) as compared to the prior year period. The primary reason for the decrease relates to lower orders in our periscope product line. We have seen an increase in proposal requests over the last three months and expect additional orders to be forthcoming over the next three months. On July 7, 2025 the Company announced a \$2.8 million order from a major prime contractor in support of the XM30 combat vehicle and on July 22, 2025, the Company announced the award of a five-year requirement-type contract by the Army Contracting Command for Abrams based optical sighting systems. We anticipate the initial year task award against this contract within the fiscal year.

Backlog as of June 29, 2025 was \$38.3 million, compared to a backlog of \$45.6 million as of June 30, 2024 and \$44.2 million as of September 29, 2024, representing a decrease of (\$7.3) million, or (16.0%) from the prior year June period. The following table depicts the current expected delivery by period of all contracts awarded as of June 29, 2025 in millions of dollars:

Product Line	Q4 2025 Delivery	2026+ Delivery	Total Backlog 6/29/2025	Total Backlog 6/30/2024	Variance	% Chg
Periscopes	\$ 5.6	\$ 11.3	\$ 16.9	\$ 23.0	\$ (6.1)	(26.5)%
Sighting Systems	0.4	2.7	3.1	4.0	(0.9)	(22.5)%
Howitzer	-	2.3	2.3	2.3	-	-%
Other	1.2	2.2	3.4	3.4	-	-%
Optex Richardson	7.2	18.5	25.7	32.7	(7.0)	(21.4)%
Optical Assemblies	0.3	0.2	0.5	1.3	(0.8)	(61.5)%
Laser Filters	3.0	7.2	10.2	9.2	1.0	10.9%
Day Windows	0.2	0.9	1.1	1.3	(0.2)	(15.4)%
Other	0.4	0.4	0.8	1.1	(0.3)	(27.3)%
Applied Optics Center	3.9	8.7	12.6	12.9	(0.3)	(2.3)%
Total Backlog	\$ 11.1	\$ 27.2	\$ 38.3	\$ 45.6	\$ (7.3)	(16.0)%

Optex Richardson backlog as of June 29, 2025 was \$25.7 million as compared to a backlog of \$32.7 million as of June 30, 2024, representing a decrease of (\$7.0) million or (21.4%).

Applied Optics Center backlog as of June 29, 2025, was \$12.6 million as compared to a backlog of \$12.9 million as of June 30, 2024, representing a decrease of (\$0.3) million or (2.3%).

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 June 29, 2025 Compared to the Three Months Ended June 30, 2024

Revenues. For the three months ended June 29, 2025, revenues increased by \$2.1 million or 22.6% compared to the prior year period as set forth in the table below:

Product Line	Three months ended (Thousands)			
	June 29, 2025	June 30, 2024	Variance	% Change
Periscopes	\$ 5,526	\$ 3,171	\$ 2,355	74.3%
Sighting Systems	431	432	(1)	(0.2)%
Other	881	1,072	(191)	(17.8)%
Optex Richardson	6,838	4,675	2,163	46.3%
Optical Assemblies	277	963	(686)	(71.2)%
Laser Filters	2,982	2,941	41	1.4%
Day Windows	229	109	120	110.1%
Other	784	372	412	110.8%
Applied Optics Center - Dallas	4,272	4,385	(113)	(2.6)%
Total Revenue	\$ 11,110	\$ 9,060	\$ 2,050	22.6%

Optex Richardson revenue increased by \$2.2 million or 46.3% for the three months ended June 29, 2025 as compared to the prior year period on increased periscope production levels.

Applied Optics Center revenue decreased by (\$0.1) million or (2.6%) for the three months ended June 29, 2025 as compared to the prior year period. The revenue decrease was primarily driven by lower customer demand for optical assemblies, partially offset by increased demand on filters, day windows and other.

Gross Profit. Gross margin during the three-month period ended June 29, 2025 was 28.5% of revenue as compared to a gross margin of 31.8% of revenue for the prior year period. The decrease in gross margin was primarily a result of shifts in revenue between segments and product groups as compared to the prior year period. Gross profit increased by \$0.3 million to \$3.2 million for the three months ended June 29, 2025 as compared to \$2.9 million in the prior year three months. The increase in gross profit is primarily attributable to higher revenue. Cost of sales increased to \$7.9 million for the current period as compared to the prior year period of \$6.2 million on increased revenue and changes in product mix.

G&A Expenses. During the three months ended June 29, 2025 and June 30, 2024, we recorded operating expenses of \$1.3 million. Operating expenses remained flat in the current year period as compared with the prior year period.

Operating Income. During the three months ended June 29, 2025, we recorded operating income of \$1.9 million, as compared to operating income of \$1.6 million during the three months ended June 30, 2024. The \$0.3 million increase in operating income for the current year period from the prior year period is primarily due to increased revenue and gross profit.

Nine Months Ended June 29, 2025 Compared to the Nine Months Ended June 30, 2024

Revenues. For the nine months ended June 29, 2025, revenues increased by \$5.5 million or 22.3% compared to the prior year period as set forth in the table below:

Product Line	Nine months ended (Thousands)			
	June 29, 2025	June 30, 2024	Variance	% Change
Periscopes	\$ 13,862	\$ 7,842	\$ 6,020	76.8%
Sighting Systems	1,165	1,003	162	16.2%
Other	1,545	3,499	(1,954)	(55.8)%
Optex Richardson	16,572	12,344	4,228	34.3%
Optical Assemblies	1,255	3,252	(1,997)	(61.4)%
Laser Filters	9,535	7,208	2,327	32.3%
Day Windows	807	460	347	75.4%
Other	1,869	1,288	581	45.1%
Applied Optics Center - Dallas	13,466	12,208	1,258	10.3%
Total Revenue	\$ 30,038	\$ 24,552	\$ 5,486	22.3%

Optex Richardson revenue increased by \$4.2 million or 34.3% for the nine months ended June 29, 2025 as compared to the prior year period primarily on increased periscope production, partially offset by reductions in customer demand for other products. 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 \$1.3 million or 10.3% for the nine months ended June 29, 2025 as compared to the prior year period. The revenue increase is primarily attributable to increased customer demand for military filters, day windows and other products, partially offset by lower customer demand for commercial optical assemblies. We expect this trend to continue through the balance of the fiscal year and into the first half of fiscal year 2026.

Gross Profit. The gross margin during the nine-month period ended June 29, 2025 was 28.8% of revenue as compared to a gross margin of 29.0% of revenue for the prior year period. The gross profit increased by \$1.5 million to \$8.7 million for the nine months ended June 29, 2025 as compared to \$7.1 million for the prior year period. The increase in gross profit is primarily attributable to increased revenue. Cost of sales increased to \$21.4 million for the nine months ended June 29, 2025 as compared to the prior year period of \$17.4 million on higher period revenue.

G&A Expenses. During the nine months ended June 29, 2025 and June 30, 2024, we recorded operating expenses of \$3.6 million.

Operating Income. During the nine months ended June 29, 2025, we recorded operating income of \$5.1 million, as compared to operating income of \$3.5 million during the nine months ended June 30, 2024. The \$1.6 million increase in operating income is primarily due to higher revenue and gross profit.

Liquidity and Capital Resources

As of June 29, 2025, Optex Systems Holdings had working capital of \$19.4 million, as compared to \$15.1 million as of September 29, 2024. During the nine months ended June 29, 2025, we generated operating cash of \$5.4 million, primarily driven by increased net income, reductions in inventory and increased accounts payable. During the nine months ended June 29, 2025, we paid \$1.0 million against the credit facility and purchased capital assets of \$0.5 million.

As of June 29, 2025, the Company had no outstanding capital commitments for the purchase of property and equipment. We anticipate additional capital projects forthcoming in the next six months.

Backlog as of June 29, 2025 was \$38.3 million as compared to \$44.2 million and \$45.6 million as of September 29, 2024 and June 30, 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 June 29, 2025, the Company had approximately \$4.9 million in cash and no draws against its revolving credit line. As of June 29, 2025, our outstanding accounts receivable balance was \$4.1 million to be collected during the fourth 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 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 commitment period for advances under the facility expired on May 22, 2025. Outstanding advances under the facility accrued interest at a rate equal to the secured overnight financing rate (SOFR) plus a specified margin, subject to a specified floor interest rate. The related agreement provided for a \$125 thousand Letter of Credit sublimit.

On May 21, 2025, the Company and Optex renewed their existing credit facility with the Lender by entering into a new Business Loan Agreement (the “Loan Agreement”) effective May 22, 2025, pursuant to which the Lender will continue to make available 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-four months expiring on May 22, 2027 (the “Maturity Date”). Outstanding advances under the Texas Capital Facility will accrue interest at a variable rate equal to the secured overnight financing rate (SOFR) plus a specified margin. The interest rate is currently at 7.10% per annum.

The Loan Agreement contains customary events of default and negative covenants, including but not limited to those governing capital expenditures (limited to \$1 million per year), indebtedness and liens, affiliate transactions, fundamental changes (including change in management), investments, and restricted payments (including 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 3:1. The Texas Capital Facility is secured by substantially all of the operating assets of the borrowers as collateral. The 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 \$125,000 Letter of Credit sublimit.

The outstanding balance under the Texas Capital Facility was \$0 as of June 29, 2025 and \$1.0 million as of September 29, 2024.

For the three months and nine months ended June 29, 2025, the total interest expense under the facility was \$0 thousand and \$12 thousand, respectively.

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 June 29, 2025, the Company had accrued warranty costs of \$173 thousand, as compared to \$52 thousand as of September 29, 2024. The primary reason for the \$121 thousand increase in reserve balances relates to accrual related to a potential warranty issue on our Applied Optics Day Windows of \$143 thousand, offset by lower shipments and reduced revenue and warranties on our commercial optical assemblies.

As of June 29, 2025 and September 29, 2024, we had \$423 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 nine months ended June 29, 2025, the Company recognized \$32 thousand and \$101 thousand in loss reserves on new contract awards, changes in estimates for the contract loss reserves of \$184 thousand and \$134 thousand and applied reserves of (\$19) thousand and (\$71) thousand to cost of sales against revenues booked during the periods, respectively. Estimated loss reserves increased during the period as a result of higher rework and labor inefficiencies as we have ramped up to the higher production levels and trained new employees on the periscope line. During the three and nine months ended June 30, 2025, the Company recognized a gain on changes in estimates for the contract loss reserves of \$16 thousand and \$45 thousand and applied reserves of (\$34) thousand and (\$97) thousand to cost of sales against revenues booked during the periods, respectively.

As of June 29, 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 \$0.9 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 June 29, 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 June 29, 2025, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the three months ended June 29, 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 June 29, 2025.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits

Exhibit No.	Description
10.1	Business Loan Agreement effective as of May 22, 2025 by and among Optex Systems Holdings, Inc, Optex Systems, Inc., and Texas Capital Bank (including Note)
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: August 12, 2025

By: /s/ Danny Schoening

Danny Schoening
Principal Executive Officer

OPTEX SYSTEMS HOLDINGS, INC.

Date: August 12, 2025

By: /s/ Karen Hawkins

Karen Hawkins
Principal Financial Officer and
Principal Accounting Officer

BUSINESS LOAN AGREEMENT

Borrower: OPTEX SYSTEMS HOLDINGS, INC.
OPTEX SYSTEMS, INC.
1420 PRESIDENTIAL DR
RICHARDSON, TX 75081

Lender: Texas Capital Bank
McKinney Office, Middle Market Banking
2000 McKinney Ave., Suite 700
Dallas, TX 75201
(214) 932-6600

THIS BUSINESS LOAN AGREEMENT dated May 22, 2025, is made and executed between OPTEX SYSTEMS HOLDINGS, INC.; and OPTEX SYSTEMS, INC. ("Borrower") and Texas Capital Bank ("Lender") on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans or other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement. Borrower understands and agrees that: (A) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements as set forth in this Agreement; (B) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (C) all such Loans shall be and remain subject to the terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of May 22, 2025, and shall continue in full force and effect until such time as all of Borrower's Loans in favor of Lender have been paid in full, including principal, interest, costs, expenses, attorneys' fees, and other fees and charges, or until such time as the parties may agree in writing to terminate this Agreement.

LINE OF CREDIT. The Indebtedness includes a revolving line of credit. Advances under the Indebtedness, as well as directions for payment from Borrower's accounts, may be requested only in writing by Borrower or as provided in the "Advance Authority" section below. Borrower agrees to be liable for all sums either: (A) advanced in accordance with the instructions of an authorized person as described in the "Advance Authority" section below or (B) credited to any of Borrower's accounts with Lender.

ADVANCE AUTHORITY. The following person or persons are authorized, except as provided in this paragraph, to request advances and authorize payments under the line of credit until Lender receives from Borrower, at Lender's address shown above, written notice of revocation of such authority: **DANNY R. SCHOENING**, Chief Executive Officer of OPTEX SYSTEMS HOLDINGS, INC.; **KAREN L. HAWKINS**, Chief Financial officer of OPTEX SYSTEMS HOLDINGS, INC.; **DANNY R. SCHOENING**, Chief Executive Officer of OPTEX SYSTEMS, INC.; and **KAREN L. HAWKINS**, Chief Financial Officer of OPTEX SYSTEMS, INC. Interest will be charged from the date of each advancement on the amount of each advancement. All scheduled interest payments shall be current prior to advances being made; and upon lending officer's approval.

CONDITIONS PRECEDENT TO EACH ADVANCE. Lender's obligation to make the initial Advance and each subsequent Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

Loan Documents. Borrower shall provide to Lender the following documents for the Loan: (1) the Note; (2) Security Agreements granting to Lender security interests in the Collateral; (3) financing statements and all other documents perfecting Lender's Security Interests; (4) evidence of insurance as required below; (5) together with all such Related Documents as Lender may require for the Loan; all in form and substance satisfactory to Lender and Lender's counsel.

Borrower's Authorization. Borrower shall have provided in form and substance satisfactory to Lender properly certified resolutions, duly authorizing the execution and delivery of this Agreement, the Note and the Related Documents. In addition, Borrower shall have provided such other resolutions, authorizations, documents and instruments as Lender or its counsel, may require.

Payment of Fees and Expenses. Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

Representations and Warranties. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

No Event of Default. There shall not exist at the time of any Advance a condition which would constitute an Event of Default under this Agreement or under any Related Document.

MULTIPLE BORROWERS. This Agreement has been executed by multiple obligors who are referred to in this Agreement individually, collectively and interchangeably as "Borrower." Unless specifically stated to the contrary, the word "Borrower" as used in this Agreement, including without limitation all representations, warranties and covenants, shall include all Borrowers. Borrower understands and agrees that, with or without notice to any one Borrower, Lender may (A) make one or more additional secured or unsecured loans or otherwise extend additional credit with respect to any other Borrower; (B) with respect to any other Borrower alter, compromise, renew, extend, accelerate, or otherwise change one or more times the time for payment or other terms of any indebtedness, including increases and decreases of the rate of interest on the indebtedness; (C) exchange, enforce, waive, subordinate, fail or decide not to perfect, and release any security, with or without the substitution of new collateral; (D) release, substitute, agree not to sue, or deal with any one or more of Borrower's or any other Borrower's sureties, endorser, or other guarantors on any terms or in any manner Lender may choose; (E) determine how, when and what application of payments and credits shall be made on any indebtedness; (F) apply such security and direct the order or manner of sale of any Collateral, including without limitation, any non-judicial sale permitted by the terms of the controlling security agreement or deed of trust, as Lender in its discretion may determine; (G) sell, transfer, assign or grant participations in all or any part of the Loan; (H) exercise or refrain from exercising any rights against Borrower or others, or otherwise act or refrain from acting; (I) settle or compromise any indebtedness; and (J) subordinate the payment of all or any part of any of Borrower's indebtedness to Lender to the payment of any liabilities which may be due Lender or others.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

Organization. OPTEX SYSTEMS HOLDINGS, INC. is a limited liability company which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the State of Texas. OPTEX SYSTEMS HOLDINGS, INC. is duly authorized to transact business in all other states in which OPTEX SYSTEMS HOLDINGS, INC. is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which OPTEX SYSTEMS HOLDINGS, INC. is doing business. Specifically, OPTEX SYSTEMS HOLDINGS, INC. is, and at all times shall be, duly qualified as a foreign limited liability company in all states in which the failure to so qualify would have a material adverse effect on its business or financial condition. OPTEX SYSTEMS HOLDINGS, INC. has the full power and authority to own its properties and to transact the business in which it is presently engaged or presently proposes to engage. OPTEX SYSTEMS HOLDINGS, INC. maintains an office at 1420 PRESIDENTIAL DR, RICHARDSON, TX 75081. Unless OPTEX SYSTEMS HOLDINGS, INC. has designated otherwise in writing, the principal office is the office at which OPTEX SYSTEMS HOLDINGS, INC. keeps its books and records including its records concerning the Collateral. OPTEX SYSTEMS HOLDINGS, INC. will notify Lender prior to any change in the location of OPTEX SYSTEMS HOLDINGS, INC.'s state of organization or any change in OPTEX SYSTEMS HOLDINGS, INC.'s name. OPTEX SYSTEMS HOLDINGS, INC. shall do all things necessary to preserve and to keep in full force and effect its existence, rights and privileges, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or

**BUSINESS LOAN AGREEMENT
(Continued)****Page 2**

quasi-governmental authority or court applicable to OPTEX SYSTEMS HOLDINGS, INC. and OPTEX SYSTEMS HOLDINGS, INC.'s business activities.

OPTEX SYSTEMS, INC. is a limited liability company which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the State of Texas. OPTEX SYSTEMS, INC. is duly authorized to transact business in all other states in which OPTEX SYSTEMS, INC. is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which OPTEX SYSTEMS, INC. is doing business. Specifically, OPTEX SYSTEMS, INC. is, and at all times shall be, duly qualified as a foreign limited liability company in all states in which the failure to so qualify would have a material adverse effect on its business or financial condition. OPTEX SYSTEMS, INC. has the full power and authority to own its properties and to transact the business in which it is presently engaged or presently proposes to engage. OPTEX SYSTEMS, INC. maintains an office at 1420 PRESIDENTIAL DR, RICHARDSON, TX 75081. Unless OPTEX SYSTEMS, INC. has designated otherwise in writing, the principal office is the office at which OPTEX SYSTEMS, INC. keeps its books and records including its records concerning the Collateral. OPTEX SYSTEMS, INC. will notify Lender prior to any change in the location of OPTEX SYSTEMS, INC.'s state of organization or any change in OPTEX SYSTEMS, INC.'s name. OPTEX SYSTEMS, INC. shall do all things necessary to preserve and to keep in full force and effect its existence, rights and privileges, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to OPTEX SYSTEMS, INC. and OPTEX SYSTEMS, INC.'s business activities.

Assumed Business Names. Borrower has filed or recorded all documents or filings required by law relating to all assumed business names used by Borrower. Excluding the name of Borrower, the following is a complete list of all assumed business names under which Borrower does business: **None.**

Authorization. Borrower's execution, delivery, and performance of this Agreement and all the Related Documents have been duly authorized by all necessary action by Borrower and do not conflict with, result in a violation of, or constitute a default under (1) any provision of (a) Borrower's articles of organization or membership agreements, or (b) any agreement or other instrument binding upon Borrower or (2) any law, governmental regulation, court decree, or order applicable to Borrower or to Borrower's properties.

Financial Information. Each of Borrower's financial statements supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

Legal Effect. This Agreement constitutes, and any instrument or agreement Borrower is required to give under this Agreement when delivered will constitute legal, valid, and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

Properties. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used or filed a financing statement under any other name for at least the last five (5) years.

Hazardous Substances. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (1) During the period of Borrower's ownership of the Collateral, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance by any person on, under, about or from any of the Collateral. (2) Borrower has no knowledge of, or reason to believe that there has been (a) any breach or violation of any Environmental Laws; (b) any use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance on, under, about or from the Collateral by any prior owners or occupants of any of the Collateral; or (c) any actual or threatened litigation or claims of any kind by any person relating to such matters. (3) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the Collateral shall use, generate, manufacture, store, treat, dispose of or release any Hazardous Substance on, under, about or from any of the Collateral; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation all Environmental Laws. Borrower authorizes Lender and its agents to enter upon the Collateral to make such inspections and tests as Lender may deem appropriate to determine compliance of the Collateral with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the Collateral for hazardous waste and Hazardous Substances. Borrower hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or substance on the Collateral. The provisions of this section of the Agreement, including the obligation to indemnify and defend, shall survive the payment of the Indebtedness and the termination, expiration or satisfaction of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the Collateral, whether by foreclosure or otherwise.

Litigation and Claims. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

Taxes. To the best of Borrower's knowledge, all of Borrower's tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

Lien Priority. Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security Interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

Binding Effect. This Agreement, the Note, all Security Agreements (if any), and all Related Documents are binding upon the signers thereof, as well as upon their successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower will:

Notices of Claims and Litigation. Promptly inform Lender in writing of (1) all material adverse changes in Borrower's financial condition,

BUSINESS LOAN AGREEMENT (Continued)

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and (2) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

Financial Records. Maintain its books and records in accordance with GAAP, or an OCBOA acceptable to Lender, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

Financial Statements. Furnish Lender with the following:

Additional Requirements.

Annual Statements. As soon as available, but in no event later than one-hundred-twenty (120) days after the end of each fiscal year, OPTEX SYSTEMS HOLDINGS, INC. balance sheet and income statement for the year ended, audited by a certified public accountant satisfactory to Lender.

Tax Returns. As soon as available, but in no event later than thirty (30) days after the applicable filing date for the tax reporting period ended, OPTEX SYSTEMS HOLDINGS, INC. Federal and other governmental tax returns, prepared by OPTEX SYSTEMS HOLDINGS, INC.

Interim Statements. As soon as available, but in no event later than forty five (45) days after the fiscal quarter end, OPTEX SYSTEMS HOLDINGS, INC. consolidated balance sheet and income statement, together with a statement of contingent liabilities, for the period ended, prepared by OPTEX SYSTEMS HOLDINGS, INC.

Accounts Receivable Aging Report. Deliver to Lender an aging and listing of all accounts receivable in accordance with the generally accepted accounting principles itemizing total amounts payable to OPTEX SYSTEMS HOLDINGS, INC. This report is to be delivered quarterly within forty five (45) days of prior period end.

Inventory Listing. Concurrently with the execution and delivery of this Agreement, OPTEX SYSTEMS HOLDINGS, INC. shall execute and deliver to Lender Inventory Listings and Eligible Inventory Listings, in form and substance satisfactory to the Lender. Supplemental listings shall be delivered according to the following schedule: quarterly within forty-five (45) days of prior period end.

Backlog Reports. OPTEX SYSTEMS HOLDINGS, INC. to provide Lender within forty five (45) days after the end of each quarter with Backlog Reports.

All financial reports required to be provided under this Agreement shall be prepared in accordance with GAAP, or an OCBOA acceptable to Lender, applied on a consistent basis, and certified by Borrower as being true and correct.

Additional Information. Furnish such additional information and statements, as Lender may request from time to time.

Additional Requirements.

Maintain Basic Business. Maintain the current business activities in which Borrower is presently engaged.

Actual Or Contingent Liabilities. Inform Lender of actual or contingent liabilities.

Depository Relationship. Establish and maintain its primary operating account(s) with Texas Capital Bank within 60 days of closing.

Fixed Charge Coverage Ratio. Borrower further covenants and agrees with Lender that, while this Agreement is in effect, OPTEX SYSTEMS HOLDINGS, INC. & OPTEX SYSTEMS, INC. will comply at all times with the following ratio: Maintain as of each Test Period, a Fixed Charge Coverage Ratio greater than or equal to 1.25 to 1.00, to be tested quarterly. "Fixed Charge Coverage Ratio" means (a) the difference of (i) earnings before interest, taxes, depreciation and amortization, minus (ii) income Taxes actually paid in cash, minus (iii) Permitted Tax Distributions, minus (iv) the sum of all Restricted Payments, and non-financed Capital Expenditures, in each case, for the most recently completed Test Period to (b) Debt Service for the most recently completed Test Period. "Debt Service" means, for any Person for any period, the sum of (a) all regularly scheduled principal payments and (b) all Cash Interest Expense that are paid or payable during such period in respect of all Debt of such Person (other than scheduled payments of principal on Debt which pay such Debt in full, but only to the extent such final payment is greater than the scheduled principal payment immediately preceding such final payment).

Total Leverage Ratio: Borrower further covenants and agrees with Lender that, while this Agreement is in effect, Borrower will comply at all times with the following ratio: Borrower shall not permit, for any Test Period, the Total Leverage Ratio as of the last day of such Test Period, to exceed 3.00 to 1.00, to be tested quarterly. Total Leverage Ratio means, as of any date of determination, the ratio of (a) Total Debt, for the most recently completed Test Period to (b) earnings before interest, taxes, depreciation and amortization for the most recently completed Test Period.

Test Period. At any time, the four (4) consecutive fiscal quarters of Borrower then last ended (in each case taken as one (1) accounting period) for which financial statements have been or are required to be delivered pursuant to this Agreement.

Insurance. Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, and coverages reasonably acceptable to Lender and by insurance companies authorized to transact business in Texas. **BORROWER MAY FURNISH THE INSURANCE REQUIRED BY THIS AGREEMENT WHETHER THROUGH EXISTING POLICIES OWNED OR CONTROLLED BY BORROWER OR THROUGH EQUIVALENT COVERAGE FROM ANY INSURANCE COMPANY AUTHORIZED TO TRANSACT BUSINESS IN TEXAS.** Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such lender's loss payable or other endorsements as Lender may require.

Insurance Reports. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the properties insured; (5) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (6) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrower.

Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

Loan Proceeds. Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

Taxes, Charges and Liens. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments,

BUSINESS LOAN AGREEMENT (Continued)

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taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (1) the legality of the same shall be contested in good faith by appropriate proceedings, and (2) Borrower shall have established on Borrower's books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP or an OBOA acceptable to Lender.

Performance. Perform and comply, in a timely manner, with all terms, conditions, and provisions set forth in this Agreement, in the Related Documents, and in all other instruments and agreements between Borrower and Lender. Borrower shall notify Lender immediately in writing of any default in connection with any agreement.

Operations. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner.

Environmental Studies. Promptly conduct and complete, at Borrower's expense, all such investigations, studies, samplings and testings as may be requested by Lender or any governmental authority relative to any substance, or any waste or by-product of any substance defined as toxic or a hazardous substance under applicable federal, state, or local law, rule, regulation, order or directive, at or affecting any property or any facility owned, leased or used by Borrower.

Compliance with Governmental Requirements. Comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the conduct of Borrower's properties, businesses and operations, and to the use or occupancy of the Collateral, including without limitation, the Americans With Disabilities Act. Borrower may contest in good faith any such law, ordinance, or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Borrower has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interests in the Collateral are not jeopardized. Lender may require Borrower to post adequate security or a surety bond, reasonably satisfactory to Lender, to protect Lender's interest.

Beneficial Ownership Information. Comply with all beneficial ownership information reporting requirements of the Corporate Transparency Act and its implementing regulations (collectively the CTA), if applicable to any Borrower. Any Borrower that is or becomes a reporting company as defined in the CTA: (1) has filed, or will file within required timeframes a complete and accurate report of its beneficial ownership information with the Financial Crimes Enforcement Network (FinCEN) as required by the CTA; (2) will update or correct its beneficial ownership information with FinCEN within required timeframes upon any change in its beneficial ownership information; (3) will provide Lender with a copy of its beneficial ownership information report filed with FinCEN upon request; (4) consents to allow Lender to obtain from FinCEN beneficial ownership information filed by Borrower; and (5) will notify Lender in writing of any change in its beneficial ownership information within 30 days of such change.

Inspection. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

Compliance Certificates. Unless waived in writing by Lender, provide Lender within forty-five (45) days after the end of each fiscal quarter, with a certificate executed by Borrower's chief financial officer, or other officer or person acceptable to Lender, certifying that the representations and warranties set forth in this Agreement are true and correct as of the date of the certificate and further certifying that, as of the date of the certificate, no Event of Default exists under this Agreement.

Environmental Compliance and Reports. Borrower shall comply in all respects with any and all Environmental Laws; not cause or permit to exist, as a result of an intentional or unintentional action or omission on Borrower's part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

Additional Assurances. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, assignments, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Borrower fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Borrower's failure to discharge or pay when due any amounts Borrower is required to discharge or pay under this Agreement or any Related Documents, Lender on Borrower's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on any Collateral and paying all costs for insuring, maintaining and preserving any Collateral. All such expenditures paid by Lender for such purposes will then bear interest at the Note rate from the date paid by Lender to the date of repayment by Borrower. To the extent permitted by applicable law, all such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

Capital Expenditures. Make or contract to make capital expenditures, including leasehold improvements, in any fiscal year in excess of **\$1,000,000.00** or incur liability for rentals of property (including both real and personal property) in an amount which, together with capital expenditures, shall in any fiscal year exceed such sum.

Indebtedness and Liens. (1) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume additional indebtedness for borrowed money, including finance leases, in excess of the aggregate amount of **\$500,000.00**, (2) sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets (except as allowed as Permitted Liens), or (3) sell with recourse any of Borrower's accounts receivable, except to Lender.

Additional Financial Restrictions.

BUSINESS LOAN AGREEMENT (Continued)

Transfer Of Assets. Transfer, sell or otherwise dispose of any of Borrower's assets to another entity.

Change In Management. Permit a change in the senior executive or management personnel of Borrower or permit any other change in the senior executive or management personnel of Borrower.

Liens. Incur or assume any liens other than permitted purchase money indebtedness

Affiliates. Enter into any transaction, including, without limitation, the purchase, sale, or exchange of property or the rendering of any service, with any Affiliate of Borrower, except in the ordinary course of and pursuant to the reasonable requirements of Borrower's business and upon fair and reasonable terms no less favorable than would be obtained in a comparable arm's length transaction with a person or entity not an Affiliate of Borrower. As used herein, the term "Affiliate" means any individual or entity directly or indirectly controlling, controlled by or under common control with, another entity or individual.

Continuity of Operations. (1) Engage in any business activities substantially different than those in which Borrower is presently engaged, (2) cease operations, liquidate, merge or restructure as a legal entity (whether by division or otherwise), consolidate with or acquire any other entity, change its name, convert to another type of entity or redomesticate, dissolve or transfer or sell Collateral out of the ordinary course of business, or (3) make any distribution with respect to any capital account, whether by reduction of capital or otherwise.

Loans, Acquisitions and Guaranties. (1) Loan, invest in or advance money or assets to any other person, enterprise or entity, (2) purchase, create or acquire any interest in any other enterprise or entity, or (3) incur any obligation as surety or guarantor other than in the ordinary course of business.

Agreements. Enter into any agreement containing any provisions which would be violated or breached by the performance of Borrower's obligations under this Agreement or in connection herewith.

CESSATION OF ADVANCES. If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan Advances or to disburse Loan proceeds if: (A) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (B) Borrower or any Guarantor dies, becomes incompetent or becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (C) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (D) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender; or (E) Lender in good faith deems itself insecure, even though no Event of Default shall have occurred.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the Indebtedness against any and all such accounts.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Borrower fails to make any payment when due under the Loan.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's or any Grantor's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death or Insolvency. The dissolution of Borrower (regardless of whether election to continue is made), any member withdraws from Borrower, or any other termination of Borrower's existence as a going business or the death of any member, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the Loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Loan is impaired.

Insecurity. Lender in good faith believes itself insecure.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make further Loan Advances or disbursements), and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not

BUSINESS LOAN AGREEMENT (Continued)

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exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

\$125,000.00 LETTER OF CREDIT SUBMIT. Subject to the availability under the Revolving Line of Credit, and in reliance on the representations and warranties of Borrower set forth herein, at any time and from time to time from the date hereof through the Business Day immediately prior to the Revolving Maturity Date, Bank shall issue for the account of Borrower such Letters of Credit as Borrower may request by delivering to Bank a duly executed letter of credit application on Bank's standard form; provided, however, that the outstanding and undrawn amounts under all such Letters of Credit (i) shall not at any time exceed the Letter of Credit Sublimit, and (ii) shall be deemed to constitute Advances for the purpose of calculating availability under the Revolving Line of Credit. All Letters of Credit shall be in form and substance acceptable to Bank in its sole discretion and shall be subject to the terms and conditions of Bank's form application and letter of credit agreement. Borrower will pay any standard issuance and other fees that Bank notifies Borrower it will charge for issuing and processing Letters of Credit. Any letters of credit will need to be cash secured when the revolving line of credit expires.

CROSS DEFAULT. In addition to the other Events of Default defined herein, any continuing event of default under any note, loan agreement or other instrument, now existing or hereafter executed, evidencing loans or commitments to lend by Lender to OPTEX SYSTEMS HOLDINGS, INC and OPTEX SYSTEMS, INC. shall also constitute an Event of Default under this Agreement between Lender and Borrower.

NON-FINANCED CAPITAL EXPENDITURES. Make or contract to make non-financed capital expenditures, including leasehold improvements, in any fiscal year in excess \$1,000,000.00 or incur liability for rental of property (including both real and personal property) in an amount which, together with and non-financed capital expenditures, shall in any fiscal year exceed such sum.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. Borrower agrees to pay upon demand all of Lender's costs and expenses, including Lender's reasonable attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Borrower shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's reasonable attorneys' fees and legal expenses whether or not there is a lawsuit, including Lender's reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Consent to Loan Participation. Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation interests in the Loan to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy Borrower may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loan and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loan irrespective of the failure or insolvency of any holder of any interest in the Loan. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Texas without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the State of Texas.

Joint and Several Liability. All obligations of Borrower under this Agreement shall be joint and several, and all references to Borrower shall mean each and every Borrower. This means that each Borrower signing below is responsible for all obligations in this Agreement. Where any one or more of the parties is a corporation, partnership, limited liability company or similar entity, it is not necessary for Lender to inquire into the powers of any of the officers, directors, partners, members, or other agents acting or purporting to act on the entity's behalf, and any obligations made or created in reliance upon the professed exercise of such powers shall be guaranteed under this Agreement.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any of Borrower's or any Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current address. Unless otherwise provided or required by law, if there is more than one Borrower, any notice given by Lender to any Borrower is deemed to be notice given to all Borrowers.

Payment of Interest and Fees. Notwithstanding any other provision of this Agreement or any provision of any Related Document, Borrower does not agree or intend to pay, and Lender does not agree or intend to charge, collect, take, reserve or receive (collectively referred to herein as "charge or collect"), any amount in the nature of interest or in the nature of a fee for the Loan which would in any way or event (including demand, prepayment, or acceleration) cause Lender to contract for, charge or collect more for the Loan than the maximum Lender would be permitted to charge or collect by any applicable federal or Texas state law. Any such excess interest or unauthorized fee will, instead of anything stated to the contrary, be applied first to reduce the unpaid principal balance of the Loan, and when the principal

BUSINESS LOAN AGREEMENT (Continued)

has been paid in full, be refunded to Borrower.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any person or circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other person or circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Subsidiaries and Affiliates of Borrower. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used in this Agreement shall include all of Borrower's subsidiaries and affiliates. Notwithstanding the foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any of Borrower's subsidiaries or affiliates.

Successors and Assigns. All covenants and agreements by or on behalf of Borrower contained in this Agreement or any Related Documents shall bind Borrower's successors and assigns and shall inure to the benefit of Lender and its successors and assigns. Borrower shall not, however, have the right to assign Borrower's rights under this Agreement or any interest therein, without the prior written consent of Lender.

Survival of Representations and Warranties. Borrower understands and agrees that in extending Loan Advances, Lender is relying on all representations, warranties, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement or the Related Documents. Borrower further agrees that regardless of any investigation made by Lender, all such representations, warranties and covenants will survive the extension of Loan Advances and delivery to Lender of the Related Documents, shall be continuing in nature, shall be deemed made and redated by Borrower at the time each Loan Advance is made, and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waive Jury. All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. Accounting words and terms not otherwise defined in this Agreement shall have the meanings assigned to them in accordance with generally accepted accounting principles as in effect on the date of this Agreement:

Advance. The word "Advance" means a disbursement of Loan funds made, or to be made, to Borrower or on Borrower's behalf on a line of credit or multiple advance basis under the terms and conditions of this Agreement.

Agreement. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

Borrower. The word "Borrower" means OPTEX SYSTEMS HOLDINGS, INC.; and OPTEX SYSTEMS, INC. and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, collateral mortgage, deed of trust, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

GAAP. The word "GAAP" means generally accepted accounting principles.

Grantor. The word "Grantor" means each and all of the persons or entities granting a Security Interest in any Collateral for the Loan, including without limitation all Borrowers granting such a Security Interest.

Guarantor. The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Loan.

Guaranty. The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Borrower is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means Texas Capital Bank, its successors and assigns.

Loan. The word "Loan" means any and all loans and financial accommodations from Lender to Borrower whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on

BUSINESS LOAN AGREEMENT (Continued)

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any exhibit or schedule attached to this Agreement from time to time.

Note. The word "Note" means Promissory Note from Borrower to Lender dated March 22, 2023 in the original amount of Three Million and no/100 dollars (\$3,000,000.00) .

OCBOA. The term "OCBOA" means Other Comprehensive Basis of Accounting, as designated by Lender in writing as an acceptable alternative to GAAP.

Permitted Liens. The words "Permitted Liens" mean (1) liens and security interests securing Indebtedness owed by Borrower to Lender; (2) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (3) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (4) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (5) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (6) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Loan.

Security Agreement. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

Security Interest. The words "Security Interest" mean, without limitation, any and all types of collateral security, present and future, whether in the form of a lien, charge, encumbrance, mortgage, deed of trust, security deed, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever whether created by law, contract, or otherwise.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT AND BORROWER AGREES TO ITS TERMS. THIS BUSINESS LOAN AGREEMENT IS DATED MAY 22, 2025.

BORROWER:

OPTEX SYSTEMS HOLDINGS, INC.

By: Danny R. Schoening
DANNY R. SCHOENING, Chief Executive Officer of
OPTEX SYSTEMS HOLDINGS, INC.

DocuSigned by:

By: Karen L. Hawkins
KAREN L. HAWKINS, Chief Financial officer of
OPTEX SYSTEMS HOLDINGS, INC.

OPTEX SYSTEMS, INC.

By: Danny R. Schoening
DANNY R. SCHOENING, Chief Executive Officer of
OPTEX SYSTEMS, INC.

DocuSigned by:

By: Karen L. Hawkins
KAREN L. HAWKINS, Chief Financial Officer of
OPTEX SYSTEMS, INC.

LENDER:

TEXAS CAPITAL BANK

By: Eric Flores
ERIC FLORES, Vice President

PROMISSORY NOTE

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$3,000,000.00	05-22-2025	05-22-2027				ESF	
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "*****" has been omitted due to text length limitations.							

Borrower: OPTEX SYSTEMS HOLDINGS, INC.
OPTEX SYSTEMS, INC.
1420 PRESIDENTIAL DR
RICHARDSON, TX 75081

Lender: Texas Capital Bank
McKinney Office, Middle Market Banking
2000 McKinney Ave., Suite 700
Dallas, TX 75201
(214) 932-6600

Principal Amount: \$3,000,000.00

Date of Note: May 22, 2025

PROMISE TO PAY. OPTEX SYSTEMS HOLDINGS, INC.; and OPTEX SYSTEMS, INC. ("Borrower") jointly and severally promise to pay to Texas Capital Bank ("Lender"), or order, in lawful money of the United States of America, the principal amount of Three Million & 00/100 Dollars (\$3,000,000.00) or so much as may be outstanding, together with interest on the unpaid outstanding principal balance of each advance. Interest shall be calculated from the date of each advance until repayment of each advance or maturity, whichever occurs first.

CHOICE OF USURY CEILING AND INTEREST RATE. The interest rate on this Note has been implemented under the "Weekly Ceiling" as referred to in Sections 303.002 and 303.003 of the Texas Finance Code.

PAYMENT. Borrower will pay this loan in one payment of all outstanding principal plus all accrued unpaid interest on May 22, 2027. In addition, Borrower will pay regular monthly payments of all accrued unpaid interest due as of each payment date, beginning June 22, 2025, with all subsequent interest payments to be due on the same day of each month after that. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; and then to any unpaid collection costs. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Notwithstanding any other provision of this Note, Lender will not charge interest on any undisbursed loan proceeds. No scheduled payment, whether of principal or interest or both, will be due unless sufficient loan funds have been disbursed by the scheduled payment date to justify the payment.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an index which is the rate, per annum and adjusted as described herein, equal to the Secured Overnight Financing Rate for such business day published by the SOFR Administrator on the SOFR Administrators website (or any successor source identified by the SOFR administrator or designated by Lender) at approximately 8:00 a.m. (New York City time) on the immediately succeeding business day (the "Index"). The Index is not necessarily the lowest rate charged by Lender on its loans and is set by Lender in its sole discretion. Lender will tell Borrower the current Index rate upon Borrower's request. The interest rate change will not occur more often than each month, if Term SOFR shall be less than 0%, then such rate shall be deemed 0% for the purposes of calculating the Index. Borrower understands that Lender may make loans based on other rates as well. Interest prior to maturity on the unpaid principal balance of this Note will be calculated as described in the "INTEREST CALCULATION METHOD" paragraph using a rate of 2.750 percentage points over the Index (the "Margin"). For each interest rate change, the new interest rate will be determined using the most recent Index figure available as of 2 days before the date of the scheduled interest rate change.

"Adjusted Term SOFR" means the rate equal to Term SOFR plus the Margin.

"Interest Period" means a period of one month. The first day of the interest period must be a business day. The last day of the interest period and the actual number of days during the interest period will be determined by the Lender after giving consideration to prevailing market convention.

"Term SOFR" means, for the applicable Interest Period as of the time determined by Lender in its reasonable discretion, the forward-looking term rate based on SOFR that has been selected or recommended by the Relevant Governmental Body. If at any time Term SOFR as determined in accordance with the foregoing provisions of this definition would otherwise be less than zero, then Term SOFR shall be deemed zero for purposes of this Note. NOTICE: Under no circumstances will the interest rate on this Note be less than 0.000% per annum or more than the maximum rate allowed by applicable law. For purposes of this Note, the "maximum rate allowed by applicable law" means the greater of (A) the maximum rate of interest permitted under federal or other law applicable to the indebtedness evidenced by this Note, or (B) the "Weekly Ceiling" as referred to in Sections 303.002 and 303.003 of the Texas Finance Code.

INTEREST CALCULATION METHOD. Interest on this Note is computed on a 365/360 basis; that is, by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding, unless such calculation would result in a usurious rate, in which case interest shall be calculated on a per diem basis of a year of 365 or 366 days, as the case may be. All interest payable under this Note is computed using this method. This calculation method results in a higher effective interest rate than the numeric interest rate stated in this Note.

PREPAYMENT. Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Prepayment in full shall consist of payment of the remaining unpaid principal balance together with all accrued and unpaid interest and all other amounts, costs and expenses for which Borrower is responsible under this Note or any other agreement with Lender pertaining to this loan, and in no event will Borrower ever be required to pay any unearned interest. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest. Rather, early payments will reduce the principal balance due. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: Texas Capital Bank, 1001 E. Lookout Dr., Tower A, Suite 400 Richardson, TX 75082.

INTEREST AFTER DEFAULT. Upon default, or if this Note is not paid at final maturity, Lender, at Lender's option, may add any unpaid accrued interest to principal and such sum will bear interest therefrom until paid, at the Post Maturity Rate provided in this Note. Upon default, the interest rate on this Note shall be increased by adding an additional 4.000 percentage point margin ("Default Rate Margin"). The additional Default Rate Margin shall also apply to each succeeding interest rate change that would have applied had there been no default. However, in no event will the interest rate exceed the maximum interest rate limitations under applicable law.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or

PROMISSORY NOTE (Continued)

Page 2

sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay this Note or perform Borrower's obligations under this Note or any of the related documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death or Insolvency. The dissolution of Borrower (regardless of whether election to continue is made), any member withdraws from Borrower, or any other termination of Borrower's existence as a going business or the death of any member, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Insecurity. Lender in good faith believes itself insecure.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

LENDER'S RIGHTS. Upon default, Lender may declare the entire indebtedness, including the unpaid principal balance under this Note, all accrued unpaid interest, and all other amounts, costs and expenses for which Borrower is responsible under this Note or any other agreement with Lender pertaining to this loan, immediately due, without notice, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire an attorney to help collect this Note if Borrower does not pay, and Borrower will pay Lender's reasonable attorneys' fees. Borrower also will pay Lender all other amounts Lender actually incurs as court costs, lawful fees for filing, recording, releasing to any public office any instrument securing this Note; the reasonable cost actually expended for repossessing, storing, preparing for sale, and selling any security; and fees for noting a lien on or transferring a certificate of title to any motor vehicle offered as security for this Note, or premiums or identifiable charges received in connection with the sale of authorized insurance.

JURY WAIVER. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

GOVERNING LAW. This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Texas without regard to its conflicts of law provisions. This Note has been accepted by Lender in the State of Texas.

DISHONORED CHECK CHARGE. Borrower will pay a processing fee of \$25.00 if any check given by Borrower to Lender as a payment on this loan is dishonored.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts.

COLLATERAL. Borrower acknowledges this Note is secured by Commercial Security Agreement dated March 22, 2023.

LINE OF CREDIT. This Note evidences a revolving line of credit. Advances under this Note may be requested only in writing by Borrower or as provided in this paragraph. All communications, instructions, or directions by telephone or otherwise to Lender are to be directed to Lender's office shown above. The following person or persons are authorized, except as provided in this paragraph, to request advances and authorize payments under the line of credit until Lender receives from Borrower, at Lender's address shown above, written notice of revocation of such authority: **DANNY R. SCHOENING**, Chief Executive Officer of **OPTEX SYSTEMS HOLDINGS, INC.**; **KAREN L. HAWKINS**, Chief Financial officer of **OPTEX SYSTEMS HOLDINGS, INC.**; **DANNY R. SCHOENING**, Chief Executive Officer of **OPTEX SYSTEMS, INC.**; and **KAREN L. HAWKINS**, Chief Financial Officer of **OPTEX SYSTEMS, INC.** Interest will be charged from the date of each advancement on the amount of each advancement. All scheduled interest payments shall be current prior to advances being made; and upon lending officer's approval. Borrower agrees to be liable for all sums either: (A) advanced in accordance with the instructions of an authorized person or (B) credited to any of Borrower's accounts with Lender. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. **This revolving line of credit shall not be subject to Ch. 346 of the Texas Finance Code.**

LATE CHARGE. If a payment remains unpaid after 15 days or more from the date such payment is due, Lender may charge a late charge equal to 5% of the delinquent payment, subject to the General Provisions.

RENEWAL AND EXTENSION. This Note is given in renewal and extension and not in novation of the following described indebtedness: Promissory Note from Borrower to Lender dated March 22, 2023 in the original amount of Three Million and no/100 dollars (\$3,000,000.00).

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

GENERAL PROVISIONS. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Borrower does not agree or intend to pay, and Lender does not agree or intend to contract for, charge, collect, take, reserve or receive (collectively referred to herein as "charge or collect"), any amount in the nature of interest or in the nature of a fee for this loan, which would in any way or event (including demand, prepayment, or acceleration) cause Lender to charge or collect more for this loan than the maximum Lender would be permitted to charge or collect by federal law or the law of the State of Texas (as applicable). Any such excess interest or unauthorized fee shall, instead of anything stated to the contrary, be applied first to reduce the principal balance of this loan, and when the principal has been paid in full, be refunded to Borrower. The right to accelerate maturity of sums due under this Note does not include the right to accelerate any interest which has not otherwise accrued on the date of such acceleration, and Lender does not intend to charge or collect any unearned interest in the event of acceleration. All sums paid or agreed to be paid to Lender for the use, forbearance or detention of sums due hereunder shall, to the extent

**PROMISSORY NOTE
(Continued)****Page 3**

permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of the loan evidenced by this Note until payment in full so that the rate or amount of interest on account of the loan evidenced hereby does not exceed the applicable usury ceiling. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Each Borrower understands and agrees that, with or without notice to Borrower, Lender may with respect to any other Borrower (a) make one or more additional secured or unsecured loans or otherwise extend additional credit; (b) alter, compromise, renew, extend, accelerate, or otherwise change one or more times the time for payment or other terms of any indebtedness, including increases and decreases of the rate of interest on the indebtedness; (c) exchange, enforce, waive, subordinate, fail or decide not to perfect, and release any security, with or without the substitution of new collateral; (d) apply such security and direct the order or manner of sale thereof, including without limitation, any non-judicial sale permitted by the terms of the controlling security agreements, as Lender in its discretion may determine; (e) release, substitute, agree not to sue, or deal with any one or more of Borrower's sureties, endorser, or other guarantors on any terms or in any manner Lender may choose; and (f) determine how, when and what application of payments and credits shall be made on any other indebtedness owing by such other Borrower. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, notice of dishonor, notice of intent to accelerate the maturity of this Note, and notice of acceleration of the maturity of this Note. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, EACH BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. EACH BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

OPTEX SYSTEMS HOLDINGS, INC.

By: 

**DANNY R. SCHOENING, Chief Executive Officer of
OPTEX SYSTEMS HOLDINGS, INC.**

DocuSigned by:

By: 

**KAREN L. HAWKINS, Chief Financial officer of
OPTEX SYSTEMS HOLDINGS, INC.**

OPTEX SYSTEMS, INC.

By: 

**DANNY R. SCHOENING, Chief Executive Officer of
OPTEX SYSTEMS, INC.**

DocuSigned by:

By: 

**KAREN L. HAWKINS, Chief Financial Officer of
OPTEX SYSTEMS, INC.**

NOTICE OF FINAL AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$3,000,000.00	05-22-2025	05-22-2027				ESF	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "*****" has been omitted due to text length limitations.

Borrower: OPTEX SYSTEMS HOLDINGS, INC.
OPTEX SYSTEMS, INC.
1420 PRESIDENTIAL DR
RICHARDSON, TX 75081

Lender: Texas Capital Bank
McKinney Office, Middle Market Banking
2000 McKinney Ave., Suite 700
Dallas, TX 75201
(214) 932-6600

THE WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

As used in this Notice, the following terms have the following meanings:

Loan. The term "Loan" means the following described loan: a non-precomputed Variable Rate Nondisclosable Revolving Line of Credit Loan to two Limited Liability Companies for \$3,000,000.00 due on May 22, 2027.

Loan Agreement. The term "Loan Agreement" means one or more promises, promissory notes, agreements, undertakings, security agreements, deeds of trust or other documents, or commitments, or any combination of those actions or documents, relating to the Loan, including without limitation the following:

LOAN DOCUMENTS

- Business Loan Agreement
- TX Commercial Security Agreement: Collateral owned by OPTEX SYSTEMS HOLDINGS, INC. and OPTEX SYSTEMS, INC.
- National UCC Addendum Instructions 07/01/23
- Disbursement Request and Authorization
- Promissory Note
- TX National UCC Financing Statement (Rev. 07/01/23): Collateral owned by OPTEX SYSTEMS HOLDINGS, INC. and OPTEX SYSTEMS, INC.
- National UCC Instructions 07/01/23
- Notice of Final Agreement

Parties. The term "Parties" means Texas Capital Bank and any and all entities or individuals who are obligated to repay the loan or have pledged property as security for the Loan, including without limitation the following:

Borrower: OPTEX SYSTEMS HOLDINGS, INC.; and OPTEX SYSTEMS, INC.
Grantor(s): OPTEX SYSTEMS HOLDINGS, INC.; and OPTEX SYSTEMS, INC.

This Notice of Final Agreement is given by Texas Capital Bank pursuant to Section 26.02 of the Texas Business and Commerce Code. Each Party who signs below, other than Texas Capital Bank, acknowledges, represents, and warrants to Texas Capital Bank that it has received, read and understood this Notice of Final Agreement. This Notice is dated May 22, 2025.

BORROWER:

OPTEX SYSTEMS HOLDINGS, INC.

By: Danny R. Schoening
DANNY R. SCHOENING, Chief Executive Officer of
OPTEX SYSTEMS HOLDINGS, INC.

DocuSigned by:

By: Karen L. Hawkins
KAREN L. HAWKINS, Chief Financial officer of
OPTEX SYSTEMS HOLDINGS, INC.

OPTEX SYSTEMS, INC.

By: Danny R. Schoening
DANNY R. SCHOENING, Chief Executive Officer of
OPTEX SYSTEMS, INC.

DocuSigned by:

By: Karen L. Hawkins
KAREN L. HAWKINS, Chief Financial Officer of
OPTEX SYSTEMS, INC.

LENDER:

TEXAS CAPITAL BANK

DocuSigned by:
Eric Flores
X DE07B54E0C564DB
ERIC FLORES, Vice President

NOTICE OF FINAL AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$3,000,000.00	05-22-2025	05-22-2027				ESF	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "*****" has been omitted due to text length limitations.

Borrower: OPTEX SYSTEMS HOLDINGS, INC.
OPTEX SYSTEMS, INC.
1420 PRESIDENTIAL DR
RICHARDSON, TX 75081

Lender: Texas Capital Bank
McKinney Office, Middle Market Banking
2000 McKinney Ave., Suite 700
Dallas, TX 75201
(214) 932-6600

THE WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

As used in this Notice, the following terms have the following meanings:

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LOAN DOCUMENTS

- Business Loan Agreement
- TX Commercial Security Agreement: Collateral owned by OPTEX SYSTEMS HOLDINGS, INC. and OPTEX SYSTEMS, INC.
- National UCC Addendum Instructions 07/01/23
- Disbursement Request and Authorization
- Promissory Note
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- National UCC Instructions 07/01/23
- Notice of Final Agreement

Parties. The term "Parties" means Texas Capital Bank and any and all entities or individuals who are obligated to repay the loan or have pledged property as security for the Loan, including without limitation the following:

Borrower: OPTEX SYSTEMS HOLDINGS, INC.; and OPTEX SYSTEMS, INC.
Grantor(s): OPTEX SYSTEMS HOLDINGS, INC.; and OPTEX SYSTEMS, INC.

This Notice of Final Agreement is given by Texas Capital Bank pursuant to Section 26.02 of the Texas Business and Commerce Code. Each Party who signs below, other than Texas Capital Bank, acknowledges, represents, and warrants to Texas Capital Bank that it has received, read and understood this Notice of Final Agreement. This Notice is dated May 22, 2025.

BORROWER:

OPTEX SYSTEMS HOLDINGS, INC.

By: Danny R. Schoening
DANNY R. SCHOENING, Chief Executive Officer of
OPTEX SYSTEMS HOLDINGS, INC.

DocuSigned by:

By: Karen L. Hawkins
KAREN L. HAWKINS, Chief Financial officer of
OPTEX SYSTEMS HOLDINGS, INC.

OPTEX SYSTEMS, INC.

By: Danny R. Schoening
DANNY R. SCHOENING, Chief Executive Officer of
OPTEX SYSTEMS, INC.

DocuSigned by:

By: Karen L. Hawkins
KAREN L. HAWKINS, Chief Financial Officer of
OPTEX SYSTEMS, INC.

LENDER:

TEXAS CAPITAL BANK

DocuSigned by:
X Eric Flores
ERIC FLORES, Vice President

**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: August 12, 2025

**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: August 12, 2025

**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 June 29, 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: August 12, 2025

**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 June 29, 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: August 12, 2025
