

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

FORM 10-K

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

For the fiscal year ended October 3, 2021

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

For the transition period from ___ until ___

Commission File Number 000-54114

OPTEX SYSTEMS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation organization)

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

90-0609531
(I.R.S. Employer
Identification No.)

75081-2439
(Zip Code)

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

Securities Registered under Section 12(b) of the Act
None

Securities Registered under Section 12(g) of the Act
Common Stock, par value \$.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Title of Class	Shares Outstanding December 17, 2021
Common Stock	8,460,270

None.

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Cautionary Note Regarding Forward-Looking Information

This Annual Report on Form 10-K by Optex Systems Holdings, Inc. (“Optex Systems Holdings,” the “Company,” “we,” “us,” or “our”), in particular Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Any statements contained in this Report on Form 10-K that are not statements of historical fact may be deemed to be forward-looking statements. When used in this Report on Form 10-K and other reports, statements, and information we have filed with the Securities and Exchange Commission (“Commission” or “SEC”), in our press releases, presentations to securities analysts or investors, 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 our assumptions about financial performance; backlog; follow-on orders; the impact of the COVID-19 pandemic; supply chain challenges; the continuation of historical trends; the sufficiency of our cash balances for future liquidity and capital resource needs; the expected impact of changes in accounting policies on our results of operations, financial condition or cash flows; anticipated problems and our plans for future operations; and the economy in general or the future of the defense industry.

We caution that these statements by their nature involve risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors. Some of these risks and uncertainties are identified in “*Item 1A Risk Factors*” in this Annual Report on Form 10-K and you are urged to review that section. 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 Annual Report on Form 10-K.

PART I

Item 1 Description of Business

Background

Current Line of Business

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

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

Recent Events

Amended and Restated Employment Agreement for Danny Schoening

The Company entered into an amended and restated employment agreement with Danny Schoening dated December 1, 2021. The term of the agreement commenced as of December 1, 2021 and the current term ends on November 30, 2022. Mr. Schoening's base salary is \$296,031 per annum. Mr. Schoening will be eligible for a performance bonus based upon a rolling three-year operating plan adopted by the Company's Board of Directors (the "Board"). The bonus will be based on operating metrics decided annually by our Board and tied to such three-year plan. The target bonus equates to 30% of Mr. Schoening's base salary. Our Board will have discretion in good faith to alter the performance bonus upward or downward by 20%. The amended and restated employment agreement also served to amend Mr. Schoening's Restricted Stock Unit ("RSU") Agreement, dated January 2, 2019, by changing the third and final vesting date for the restricted stock units granted under such agreement. For additional information on the amended and restated employment agreement, please see "Item 11. Executive Compensation – Employment Agreements - Danny Schoening," which disclosure is incorporated by reference herein.

Renewal of Employment Agreement for Karen Hawkins

On February 1, 2021, the employment agreement for Karen Hawkins, CFO, auto-renewed for an additional 18-month period, expiring on June 30, 2022. The contract automatically renews for subsequent 18-month periods unless Ms. Hawkins or the Company give notice of termination at least 90 days before the end of the term then in effect.

Stock & Warrant Repurchases

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

On September 22, 2021 the Company announced authorization for an additional \$1 million stock repurchase program.

During the twelve months ended October 3, 2021, there were 449,088 common shares repurchased through the repurchase programs at a cost of \$869 thousand. As of October 3, 2021, there were 35,555 shares held in treasury purchased under the September 2021 stock repurchase program. The shares authorized to be repurchased under the repurchase program may be purchased from time to time at prevailing market prices, through open market or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC.

July 2021 Ransomware Attack

On July 13, 2021, the Company experienced a ransomware attack. Information regarding the attack was communicated to the appropriate U.S. government officials. The Company isolated the source of the attack and restored normal operations with no material day-to-day impact to the Company or the Company's ability to access its data. As part of our normal disaster recovery procedures, we were able to restore our systems with clean back-ups. Sensitive data may have been breached, but we did not uncover any evidence of comprised data. We did not communicate with the attackers and engaged a third-party recovery and monitoring service to assist with the investigation and prevention of future attacks. Subsequent to the event, we have enhanced our IT security to minimize future occurrences.

Recent Orders

- On January 11, 2021, the Company announced a contract for Laser Protected Periscopes for a base period of three years plus two one-year option years, not to exceed \$14.4 million pursuant to an Indefinite Delivery - Indefinite Quantity (IDIQ) contract.
- On August 2, 2021, the Company announced a contract award of \$8.4 million as part of a twenty-four-month purchase order for laser filters manufactured at the (AOC) Division of Optex Systems, Inc.

- On September 21, 2021, the Company announced a \$3 million order to be delivered over the next twelve months as part of a multi-year strategic supplier agreement with a domestic commercial manufacturer of premium optical devices. The products will be manufactured at the (AOC) Division of Optex Systems, Inc.
- On September 27, 2021, the Company announced an initial \$1.4 million order against a 5 Year Indefinite Delivery Indefinite Quantity contract for laser protected periscopes from a U.S. Defense agency customer with deliveries starting in 2022 and concluding in 2023 for this initial release.

Products

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

On August 31, 2020, the Company announced it is now offering mil-spec quality High Efficiency Anti-Reflective Coatings for Infrared applications in both the military and commercial markets. These coatings are manufactured at the Applied Optics Center (AOC) Division of Optex Systems, Inc. in Dallas, Texas. During the twelve months ended October 3, 2021, AOC booked new orders of \$199 thousand for the new products and an additional order of \$52 thousand during October 2021. We anticipate continued revenue growth from the new offering in the current fiscal year.

We deliver high volume products, under multi-year contracts, to large defense contractors and government customers. Increased emphasis in the past several years has been on new opportunities to promote and deliver our products in foreign military sales, where U.S.-manufactured, combat and wheeled vehicles, are supplied (and upgraded) in cooperation with the U.S. Department of Defense. We have a reputation for quality and credibility with our customers as a strategic supplier. We also anticipate the opportunity to integrate some of our night vision and optical sights products into commercial applications.

Specific product categories by product line include:

<u>Product Line</u>	<u>Product Category</u>
Periscopes	Laser & Non-Laser Protected Plastic & Glass Periscopes, Electronic M17 Day/Thermal Periscopes, Vision Blocks
Sighting Systems	Back Up Sights, Digital Day and Night Sighting Systems (DDAN), M36 Thermal Periscope, Unity Mirrors, Optical Weapon System Support and Maintenance, Commander Weapon Station Sight (CWSS)
Howitzers	M137 Telescope, M187 Mount, M119 Aiming Device, XM10 Aiming Circle
Other	Muzzle Reference Systems (MRS), Binoculars, Collimators, Optical Lenses & Elements, Windows
Applied Optics Center	Laser Interference Filter, Optical Assemblies, Laser Filter Units, Day Windows, Binoculars, Specialty Thin Film Coatings.

Contracts

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

Our government contracts allow for Federal Acquisition Regulation 52.243-1 which entitles the contractor to an “equitable adjustment” for contract or statement of work changes effecting cost or time of performance. In essence, an equitable price adjustment request is a request for a contract price modification (generally an increase) that allows for the contractor to be “made whole” for additional costs incurred which were necessitated by some modification of the contract effort. This modification may come from an overt change in U.S. Government requirements or scope, or it may come from a change in the conditions surrounding the contract (e.g., differing site conditions or late delivery of U.S. Government-furnished property) which result in statement of work additions, deletions, part substitutions, schedule or other changes to the contract which impact the contractor’s overall cost to complete.

Each contract with our customers has specific quantities of material that need to be purchased, assembled, and then shipped. Prior to bidding for a contract, we contact potential sources of material and receive qualified quotations for each material. In some cases, the entire volume is given to a single supplier and in other cases, the volume might be split between several suppliers. If a contract has a single source supplier and that supplier fails to meet their obligations (e.g., quality, delivery), then we would attempt to find an acceptable alternate supplier, and if successful, we would then renegotiate contractual deliverables (e.g., specifications, delivery or price). As of November 22, 2021, approximately 1% of our material requirements are single-sourced across 9 suppliers representing approximately 8% of our active supplier order values. Single-sourced component requirements span across all of our major product lines. Of these single sourced components, we have material contracts (purchase orders) with firm pricing and delivery schedules in place with each of the suppliers to supply the parts necessary to satisfy our current contractual needs. See “Item 1.A. Risk Factors – Risks Relating 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” for a description of certain supplier risks we face, which description is incorporated herein by reference.

Approximately 83% of our contracts contain termination clauses for convenience. In the event these clauses should be invoked by our customer, future revenues against these contracts could be affected, however these clauses allow for a full recovery of any incurred contract costs plus a reasonable fee up through and as a result of the contract termination. We are currently unaware of any pending terminations on our existing contracts.

In some cases, contract awards may be issued that are subject to renegotiation at a date (up to 180 days) subsequent to the initial award date. Generally, these subsequent negotiations have had an immaterial impact (zero to 5%) on the contract price of the affected contracts. Currently, none of our awarded contracts are subject to renegotiation.

We are subject to, and must comply with, various governmental regulations that impact, among other things, our revenue, operating costs, profit margins and the internal organization and operation of our business. The material regulations affecting our U.S. government business are summarized in the table below.

Regulation	Summary
Federal Acquisition Regulation (FAR)	The principal set of rules in the Federal Acquisition Regulation System. This system consists of sets of regulations issued by agencies of the federal government of the United States to govern what is called the “acquisition process,” which is the process through which the government acquires goods and services. That process consists of three phases: (1) need recognition and acquisition planning, (2) contract formation, and (3) contract administration. This system regulates the activities of government personnel in carrying out that process. It does not regulate the purchasing activities of private sector firms, except to the extent that those activities involve government solicitations and contracts by reference.

International Traffic in Arms Regulations (ITAR)

United States government regulations that control the export and import of defense-related articles and services on the United States Munitions List. These regulations implement the provisions of the Arms Export Control Act.

Truth in Negotiations Act (TINA)

A public law enacted for the purpose of providing for full and fair disclosure by contractors in the conduct of negotiations with the government. The most significant provision included is the requirement that contractors submit certified cost and pricing data for negotiated procurements above a defined threshold of \$2 million for contracts entered into after June, 30, 2018. The law requires contractors to provide the government with an extremely broad range of cost or pricing information relevant to the expected costs of contract performance, and it requires contractors and subcontractors to submit cost or pricing data to the government and to certify that, to the best of their knowledge and belief, the data are current, accurate, and complete. A contracting officer may still request cost or price data, if necessary, without certification, to determine whether the proposed cost or price is fair and reasonable for contracts which are below the threshold.

We are responsible for full compliance with the Federal Acquisition Regulation (FAR). Upon award, the contract may identify certain regulations that we need to meet. For example, a contract may allow progress billing pursuant to specific FAR clauses incorporated into the contract. Other contracts may call for specific first article acceptance and testing requirements. The FAR will identify the specific regulations that we must follow based on the type of contract awarded and contains guidelines and regulations for managing a contract after award, including conditions under which contracts may be terminated, in whole or in part, at the government's convenience or for default. These regulations also subject us to financial audits and other reviews by the government of our costs, performance, accounting and general business practices relating to our government contracts, which may result in adjustment of our contract-related costs and fees and, among other things and impose accounting rules that define allowable and unallowable costs governing our right to reimbursement under certain contracts.

First Article Testing and Acceptance requirements consist of specific steps which could be comprehensive and time consuming. The dimensions and material specifications of each piece of the assembly must be verified, and some products may have in excess of 100 assembled parts. Once the individual piece parts are verified to be compliant to the specification, the assembly processes are documented and verified. A sample of the production (typically three units) is verified to meet final performance specifications. Once the units meet the final performance specification, they are then subjected to accelerated life testing, a series of tests which simulate the lifetime use of the product in the field. This consists of exposing the units to thermal extremes, humidity, mechanical shock, vibration, and other physical exposure tests. Once completed, the units undergo a final verification process to ensure that no damage has occurred as a result of the testing and that they continue to meet the performance specification. All of the information and data is recorded into a final first article inspection and test report and submitted to the customer along with the test units for final approval. First Article Acceptance and Testing is generally required on new contracts/product awards but may also be required on existing products or contracts where there has been a significant gap in production, or where the product has undergone significant manufacturing process, material, tooling, equipment or product configuration changes.

We are also subject to laws, regulations and executive orders restricting the use and dissemination of information deemed classified for national security purposes and the exportation of certain products and technical data as covered by the International Traffic in Arms Regulation (ITAR). In order to import or export items listed on the U.S. Munitions List, we are required to be registered with the Directorate of Defense Trade Controls office. The registration is valid for one year, and the registration fees are established based on the number of license applications submitted the previous year. We currently have an approved and current registration on file with the Directorate of Defense Trade Controls office. Once the registration is approved, each import/export license must be filed separately. License approval requires the company to provide proof of need, such as a valid contract or purchase order requirement for the specific product or technical data requested on the license and requires a detailed listing of the items requested for export/import, the end-user, the end-user statement, the value of the items, consignees/freight forwarders and a copy of a valid contract or purchase order from the end-user. The approval process for the license can vary from several weeks to six months or more. The licenses we currently use are the Department of State licenses: DSP-5 (permanent export), DSP-6 (license revisions) and DSP-73 (temporary export) and Department of Commerce: BIS-711 (export).

The aforementioned licenses are valid for 48 months from date that each license is issued. A summary of our active ITAR licenses is presented below (updated as of November 17, 2021):

<u>Active ITAR Licenses</u>	<u>Fiscal Year of Expiration</u>	<u>Number of Licenses</u>	<u>Total Contract Value of Licenses</u>
DSP-5			
Issued 2018	2022	8	2,742,658
Issued 2019	2023	4	20,934,845
Issued 2020	2024	3	51,365
Issued 2021	2025	3	232,630
Total DSP-5 Licenses		<u>18</u>	<u>\$ 23,961,498</u>
DSP-6 (no active licenses)	N/A	—	\$ —
DSP-73			
Issued in 2019	2023	1	\$ 4,000
Total DSP-73 Licenses		<u>1</u>	<u>\$ 4,000</u>
BIS-711			
Issued in 2018	2022	4	\$ 113,907
Issued in 2019	2023	4	3,416
Issued in 2020	2024	5	92,554
Issued in 2021	2025	4	323,911
Total BIS-711 Licenses		<u>17</u>	<u>\$ 533,788</u>
Total All Licenses		<u>36</u>	<u>\$ 24,499,286</u>

These licenses are subject to termination if a licensee is found to be in violation of the Arms Export Control Act or the ITAR requirements. If a licensee is found to be in violation, in addition to a termination of its licenses, it can be subject to fines and penalties by the government.

Our contracts may also be governed by the Truth in Negotiation Act (TINA) requirements where certain of our contracts or proposals exceed the TINA threshold (\$2 million for awards after June 30, 2018), and/or are deemed as sole source, or non-competitive awards, covered under this act. For these contracts, we must provide a vast array of cost and pricing data in addition to certification that our pricing data and disclosure materials are current, accurate and complete upon conclusion of the negotiation. Due to the additional disclosure and certification requirements, if a post contract award audit were to uncover that the pricing data provided was in any way not current, accurate or complete as of the certification date, we could be subjected to a defective pricing claim adjustment with accrued interest. We have no history of defective pricing claim adjustments and have no outstanding defective pricing claims pending. Additionally, as a result of this requirement, contract price negotiations may span from two to six months and can result in undefinitized or not to exceed ceiling priced contracts subject to future downward negotiations and price adjustments. Currently, we do not have any undefinitized contracts subject to further price negotiation.

Our failure to comply with applicable regulations, rules and approvals or misconduct by any of our employees could result in the imposition of fines and penalties, the loss of security clearances, the loss of our U.S. government contracts or our suspension or debarment from contracting with the U.S. government generally, any of which could have a material adverse effect our business, financial condition, results of operations and cash flows. We are currently in compliance with all applicable regulations and do not have any pending claims as a result of noncompliance.

The terms of our material contracts as of November 17, 2021, are as follows:

Customer	Customer PO/Contract	Contract Type⁽¹⁾	Total Award Value⁽²⁾ (millions)	Remaining Value⁽³⁾ (millions)	Delivery Period
US Prime Contractor ⁽¹⁾ Periscopes	Subcontract PO 35506523	FFPQ	\$ 1.6	\$ 0.1	Dec 2017- Feb 2022
US Prime Contractor ⁽²⁾ Sighting Systems	Subcontract PO 35515590	FFPQ	\$ 3	\$ 1.1	Oct 2017- Mar 2024
DLA Land and Maritime ⁽³⁾ Periscopes	Prime SPE7LX-18-D-0108	IDIQ	\$ 0.9	\$ 0.4	Feb 2020 - Jun 2022
US Prime Contractor ⁽⁴⁾ Day Windows (AOC)	Subcontract PO 40269398	FFPQ	\$ 2.6	\$ 0.3	Aug 2017- Feb 2022
DLA Land and Maritime ⁽⁵⁾ Periscopes	Prime SPE7LX-19-D-0089	IDIQ	\$ 0.2	\$ 0.1	Feb 2021 - Apr 2022
DLA Land and Maritime ⁽⁶⁾ Periscopes	Prime SPE7LX-20-D-0020	IDIQ	\$ 0.6	\$ 0.4	Dec 2021 - July 2022
DLA Land and Maritime ⁽⁷⁾ Glass Periscopes	Prime/Shared SPE7MX-20-D-0012	IDIQ	\$ -	\$ -	No task awards have been released
DLA Land and Maritime ⁽⁸⁾ Periscopes	Prime SPE7MX-20-D-0028	IDIQ	\$ -	\$ -	No task awards as of current date
DLA Land and Maritime ⁽⁹⁾ Periscopes	Prime SPE7MX-20-D-0032	IDIQ	\$ -	\$ -	No task awards as of current date
U.S. Prime Contractor ⁽¹⁰⁾ XM10 Aiming Circles	Subcontract PO 63659	FFPQ	\$ 2.3	\$ 2.3	Jul 2021- Oct 2023
DLA Land and Maritime ⁽¹¹⁾ Periscopes	Prime SPE7LX-21-D-0057	IDIQ	\$ 0.8	\$ 0.4	Sept 2021 - Jan 2022
U.S. Prime Contractor ⁽¹²⁾ Laser Filter Units (AOC)	Subcontract PO 631537	FFPQ	\$ 8.4	\$ 8.3	Aug 2021 - Oct 2023
Commercial Customer ⁽¹³⁾ Optical Assemblies (AOC)	Subcontract PO26071, 26077	FFPQ	\$ 3	\$ 3	Dec 2021 - June 2022
US Prime Contractor ⁽¹⁴⁾ Periscopes	Subcontract PO 40389248,40389250	FFPQ	\$ 1.4	\$ 1.4	Feb 2022 - Mar 2023

(1) Contract quantity awarded on December 2, 2016 for laser protected periscopes installed on Light Armored Vehicles in the Middle East.

- (2) *The original three-year contract was awarded on September 11, 2017 to provide LAV 6.0 optimized weapon system support for Optex's Commander Sighting System. The contract includes option years to extend the period of performance through 2035 if awarded. The current contract option extends the in-service support through March 2024 for their existing fleet of Light Armored Vehicles.*
- (3) *Contract awarded September 5, 2018. This is a long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years.*
- (4) *Contract awarded February 6, 2017 with an additional quantity executed on January 24, 2019. This is a Firm Fixed Price order for Day Windows manufactured at the Applied Optics Center for delivery through March 2022.*
- (5) *Contract awarded March 4, 2019. This is a long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years.*
- (6) *Contract awarded on November 12, 2019. This is a long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years for periscopes valued up to \$2.3 million.*
- (7) *Contract awarded on December 5, 2019. This is a shared long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years and a maximum of value \$35 million for Improved Commander Weapon System (ICWS) periscopes. As of October 3, 2021, there have been no task orders released against the base contract award.*
- (8) *Contract awarded on January 24, 2020. This is a long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years for periscopes valued up to \$3.6 million. As of October 3, 2021, there have been no task orders released against the base contract award.*
- (9) *Contract awarded on February 12, 2020. This is a long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years for periscopes valued up to \$9.2 million. As of October 3, 2021, there have been no task orders released against the base contract award.*
- (10) *Purchase Order by a U.S. prime contractor in support of government contract W15QKN-16-D-0055 for Aiming Circle optical subassemblies. The purchase order was awarded on July 30, 2020 for \$2 million and amended to \$2.3 million on 9/14/2020 and includes non-recurring engineering and first article testing during fiscal year 2021, with production deliveries from November 2021 through October 2023.*
- (11) *Contract awarded on January 6, 2021. This is a long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years for periscopes valued up to \$14.4 million.*
- (12) *Purchase Order awarded August 3, 2021 by a U.S. prime contractor in support of U.S. government contracts. Award includes first article inspection in August 2021 and production deliveries commencing in September 2021 through October 2023.*
- (13) *Purchase Orders awarded September 8, 2021 and September 21, 2021 by a commercial customer.*
- (14) *Purchase Orders awarded September 24, 2021 by a U.S. prime contractor in support of U.S. government contracts.*

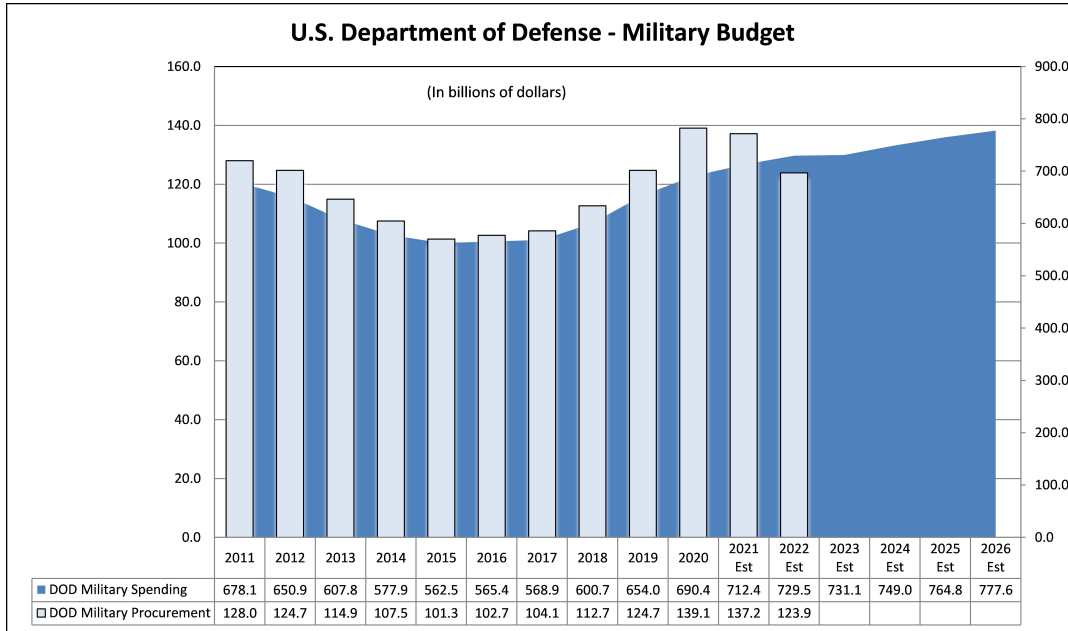
Market Opportunity — U.S. Military

During the twelve months ended October 3, 2021, approximately 86% of our business was in support of U.S. military products. The chart below was derived from public government spending sources and depicts total U.S. military spending from 2011 through 2020 and estimated spending through 2026. The purpose of including this chart is to provide the reader with historical trend data and projected U.S. military defense and procurement spending over time. For fiscal year 2022, the total projected military spending is estimated at \$729.5 billion, an overall increase of 1.7% over estimated 2021 spending. The chart below also depicts increased spending through 2026 of 9.0% from the current estimated fiscal year 2021 level. Military procurement spending, a subset of total military spending, depicts an overall decline of 13.3 billion, or 9.7% in fiscal year 2022 as compared to the estimated spending in fiscal year 2021.

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

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

As of December 14, 2021, the National Defense Authorization Act for Fiscal Year 2022 (2022 NDAA) has not yet been passed by Congress. The Chart below depicts the estimated funding levels from the U.S. Department of Defense based on the FY2022 budget request.



Source: Government Publishing Office, U.S. Budget Historical Tables, FY 2022, Table 3.2 Outlays by function and sub function, 1962-2026.

The table below depicts the U.S. Department of Defense budget request for fiscal year 2022 for major ground system programs. The total fiscal year 2022 budget request for major ground system programs decreased by 14.2% from the fiscal year 2021 levels and by 16.3% from the fiscal year 2020 levels. Although it is difficult to directly tie the budget request to specific components provided by Optex Systems, we provide periscopes, collimator assemblies, vision blocks and laser interface filters to the U.S. armed forces on almost all of the ground system platforms categorized below.

Major Weapon System Summary

(\$ in Millions)		FY 2020	FY 2021	FY 2022
Ground Systems - Joint Service				
JLTV	Joint Light Tactical Vehicle	\$ 1,716.5	\$ 1,401.9	\$ 1,055.3
Ground Systems - USA				
M-1	Abrams Tank Modification/Upgrades	2,186.0	1,404.2	1,031.7
AMPV	Armored Multi-Purpose Vehicle	525.2	139.1	140.3
PIM	Paladin Integrated Management	744.5	681.4	659.7
FMTV	Family of Medium Tactical Vehicles	141.4	207.8	54.1
FHTV	Family Of Heavy Tactical Vehicles	50.8	28.8	95.9
NGSW	Next Generation Squad Weapon	86.2	124.4	165.0
Stryker	Stryker	953.2	1,186.3	1,036.0
Ground Systems - USMC				
ACV	Amphibious Combat Vehicle	349.3	478.6	613.1
Total Ground System Vehicles		\$ 6,753.1	\$ 5,652.5	\$ 4,851.1

Source: Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, "Program Acquisition Cost by Weapon System, United States Department of Defense, Fiscal Year 2022 Budget Request", May 2021.

The 2022 Department of Defense Budget indicates an overall decrease in ground system vehicle program spending in the fiscal year 2021 and the 2022 appropriation budget years. There is generally a six to eighteen-month delay between U.S. defense budget requests and program delivery orders related to our products from government agencies and our prime defense customers. In addition, DoD budget requests are often changed throughout the congressional NDAA Budgeting and Budget appropriations process. The DoD budget requests exclude any foreign military sales as they are funded separately from the annual NDAA budgets. We are carefully watching the projected trends in both DoD military spending and FMS as defense allocation priorities change, as well as challenges which are presented from the current pandemic, global recession, and changes in political climate to ascertain any potential impact to the company's future revenue.

The Applied Optics Center supports numerous other military platforms outside of the ground system vehicles budget such as infantry rifle scopes, night vision monoculars, infantry and navy binoculars, night goggles, and infrared aircraft filters. The Applied Optics Center has seen a substantial increase in orders from new and existing customers in support of the other platforms, which we expect to offset the impact of the ground systems reductions to their base revenue.

Market Opportunity — Foreign Military

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

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

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

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

Market Opportunity — Commercial

Our products are currently sold to military and related government markets. We believe there may be opportunities to commercialize various products we presently manufacture to address other markets. Our initial focus will be directed in three product areas.

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

Customer Base

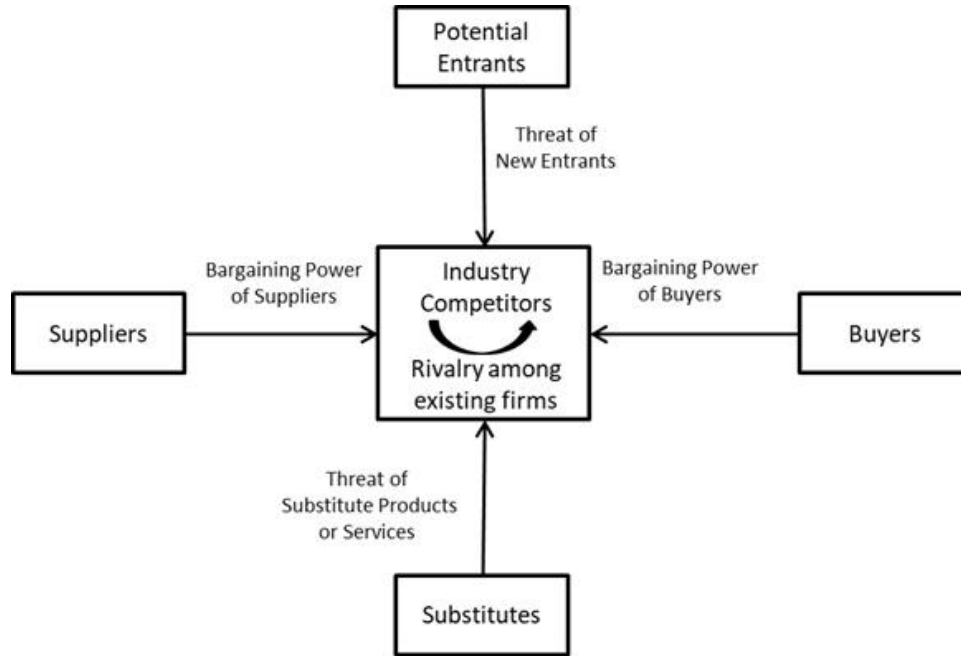
We serve customers in four primary categories: as prime defense contractor (Defense Logistics Agency (DLA) Land and Maritime, DLA Warren, DLA Aviation, U.S. Army, Navy and Marine Corps), as defense subcontractor (General Dynamics, L-3 Communications, Elbit Systems, BAE, Sig Sauer, and ADS Inc.), as a military supplier to foreign governments (Israel, Australia, South America and Canada) and also as a commercial optical assembly supplier (Nightforce Optics, Cabela's, Amazon). During the twelve months ended October 3, 2021, we derived approximately 86% of our gross business revenue from six major customers: U.S. government agencies (28%), four major defense contractors, (27%, 11%, 5%, and 5%), and one commercial customer (10%). We have approximately 98 discrete contracts for items that are utilized in vehicles, optical product lines and as spare parts. Due to the high percentage of prime and subcontracted U.S. defense revenues, large customer size and the fact that there are multiple contracts with each entity, which are not interdependent, we are of the opinion that this provides us with a fairly well diversified revenue pool.

Marketing Plan

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

- Product reliability — failure can cost lives
- Speed to delivery and adherence to delivery schedule
- System life cycle extension

- Low cost/best value
- Visual aids for successful execution of mission objectives
- Mission critical products specifically related to soldier safety.



Potential Entrants — Low Risk to us. In order to enter this market, potential competitors must overcome several barriers to entry. The first hurdle is that an entrant would need to prove to the government agency in question the existence of a government approved accounting system for larger contracts. Second, the entrant would need to develop the processes required to produce the product. Third, the entrant would then need to produce the product and submit successful test requirements (many of which require lengthy government consultation for completion). Finally, in many cases, the customer has an immediate need and therefore cannot wait for this qualification cycle and therefore must issue the contracts to existing suppliers. Given the expense of development and qualification testing, the barrier to entry is high for new competitors.

Buyers — Medium Risk to us. In most cases the buyers (usually government agencies or defense contractors) have two fairly strong suppliers. It is in their best interest to keep at least two, and therefore, in some cases, the contracts are split between suppliers. In the case of larger contracts, the customer can request an open book policy on costs and expects a reasonable margin to have been applied.

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

Suppliers — Low to Medium Risk to Optex Systems Holdings. The suppliers of standard processes (e.g., casting, machining and plating) need to be very competitive to gain and/or maintain contracts. Those suppliers of products that use top secret clearance processes have a slight advantage; however, there continues to be multiple avenues of supply and therefore only moderate power.

Consistent with our marketing plan and business model, the AOC acquisition strengthened our overall position by decreasing the bargaining power of their suppliers through the backwards integration of a key supplier and created additional barriers of entry for potential competitors.

The following matrix reflects the current focus of our four basic approaches for sales and development:

- 1) Sell existing products to existing customers.
- 2) Sell existing products to new customers.
- 3) Develop new products to meet the needs of our existing customers.
- 4) Develop new products to meet the needs of new customers.

	<u>Existing Customers</u>	<u>New Customers</u>
New Products	<u>USACC</u> Binoculars <u>GDLs</u> DDAN, OWSS <u>Commercial</u> Optical Lens	<u>Chile</u> M17 Day/Thermal <u>Brazil</u> M17 Day/Thermal <u>Israel</u> M17 Day/Thermal, OWSS U.S. Prime Contractor - XM10 Aiming Circle <u>Commercial</u> : Optical Lens, Spotting Scopes, Monocular Lens
Existing Products	<u>USACC</u> Periscopes, Back Up Sights, Binoculars, Vision Blocks, Laser Filter Units <u>GDLs</u> Periscopes, Collimators <u>BAE</u> Periscopes <u>L3</u> - Laser Interface Filters <u>DLA</u> Optical Elements	<u>Marines</u> Sighting Systems <u>Commercial</u> : Optical Lens, Spotting Scopes, Monocular Lens U.S. Prime Contractor – Laser Filter Units

Operations Plan

Our operations plan can be broken down into three distinct areas: material management, manufacturing space planning and efficiencies associated with economies of scale.

Materials Management

The largest portion of our costs is materials. We have completed the following activities in order to demonstrate continuous improvement:

- Successful completion of annual surveillance audit for ISO 9001:2008 certificate, with no major nonconformance issues
- Weekly cycle counts on inventory items
- Weekly material review board meeting on non-moving piece parts
- Kanban kitting on products with consistent ship weekly ship quantities
- Daily cross functional floor meetings focused on delivery, yields and labor savings
- Redesigned floor layout using tenant improvement funds
- Daily review of yields and product velocity
- Bill of material reviews prior to work order release

Future continuous improvement opportunities include installation and training of shop floor control module within the ERP system and organizational efficiencies of common procurement techniques among buyers.

Manufacturing Space Planning

We currently lease 93,967 square feet of manufacturing space (see "Properties"). Our current facilities are sufficient to meet our immediate production needs without excess capacity. As our processes are primarily labor driven, we are able to easily adapt to changes in customer demand by adjusting headcounts, overtime schedules and shifts in line with production needs. In the event additional floor space is required to accommodate new contracts, Optex has the option to lease adjacent floor space at the current negotiated lease cost per square foot. Consistent with the space planning, we will drive economies of scale to reduce support costs on a percentage of sales basis. These cost reductions can then be either passed through directly to the bottom line or used for business investment.

Our manufacturing process is driven by the use of six sigma techniques and process standardization. Initial activities in this area have been the successful six sigma projects in several production areas which have led to improved output and customer approval on the aesthetics of the work environment. In addition, we use many tools including 5S programs, six sigma processes, and define, measure, analyze, improve, control (DMAIC) problem solving techniques to identify bottlenecks within the process flow, reduce cost and improve product yields. Successful results can then be replicated across the production floor and drive operational improvements.

Economies of Scale

Plant efficiencies fluctuate as a function of program longevity, complexity and overall production volume. Our internal processes are primarily direct labor intensive and can be more easily adapted to meet fluctuations in customer demand; however, our material purchases, subcontracted operations and manufacturing support costs are extremely sensitive to changes in volume. As our volume increases, our support labor, material and scrap costs decline as a percentage of revenue as we are able to obtain better material pricing, and scrap, start up and support labor (fixed) costs and they are spread across a higher volume base. On the contrary, as production volumes decline, our labor and material costs per unit of production generally increase. Additional factors that contribute to economies of scale relate to the longevity of the program. Long running, less complex programs (e.g., periscopes) do not experience as significant of an impact on labor costs as production volumes change, as the associated workforce is generally less skilled and can be ramped quickly as headcounts shift. Our more complex thin laser filter coatings, Howitzer and thermal day/night programs are more significantly impacted by volume changes as they require a more highly-skilled workforce and ramp time is longer as the training is more complex. We continually monitor customer demand over a rolling twelve-month window and in order to anticipate any changes in necessary manpower and material which allows us to capitalize on any benefits associated with increased volume and minimize any negative impact associated with potential declines in product quantities.

Intellectual Property

We utilize several highly specialized and unique processes in the manufacture of our products. While we believe that these trade secrets have value, it is probable that our future success will depend primarily on the innovation, technical expertise, manufacturing and marketing abilities of our personnel. We cannot assure you that we will be able to maintain the confidentiality of our trade secrets or that our non-disclosure agreements will provide meaningful protection of our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or other disclosure. The confidentiality agreements that are designed to protect our trade secrets could be breached, and we might not have adequate remedies for the breach. Additionally, our trade secrets and proprietary know-how might otherwise become known or be independently discovered by others. We possess three utility patents and two design patents.

Our competitors, many of which have substantially greater resources, may have applied for or obtained, or may in the future apply for and obtain, patents that will prevent, limit or interfere with our ability to make and sell some of our products. Although we believe that our products do not infringe on the patents or other proprietary rights of third parties, we cannot assure you that third parties will not assert infringement claims against us or that such claims will not be successful.

The following patents generally expire 20 years after issuance.

On July 13, 2021, we filed for a new patent, currently under review with the United States Patent and Trademark Office.

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

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

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

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

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

Competition

The markets for our products are competitive. We compete primarily on the basis of our ability to design and engineer products to meet performance specifications set by our customers. Our customers include military and government end users as well as prime contractors that purchase component parts or subassemblies, which they incorporate into their end products. Product pricing, quality, customer support, experience, reputation and financial stability are also important competitive factors.

There are a limited number of competitors in each of the markets for the various types of products that we design, manufacture and sell. At this time, we consider our primary competitors for the Optex, Richardson site to be Kent Periscopes and Synergy International Optronics, LLC. The Applied Optics Center thin film and laser coatings products compete primarily with Materion-Barr, Artemis and Alluxa.

Our competitors are often well entrenched, particularly in the defense markets. Some of these competitors have substantially greater resources than we do. While we believe that the quality of our technologies and product offerings provides us with a competitive advantage over certain manufacturers, some of our competitors have significantly more financial and other resources than we do to spend on the research and development of their technologies and for funding the construction and operation of commercial scale plants.

We expect our competitors to continue to improve the design and performance of their products. We cannot assure investors that our competitors will not develop enhancements to, or future generations of, competitive products that will offer superior price or performance features, or that new technology or processes will not emerge that render our products less competitive or obsolete. Increased competitive pressure could lead to lower prices for our products, thereby adversely affecting our business, financial condition and results of operations. Also, competitive pressures may force us to implement new technologies at a substantial cost, and we may not be able to successfully develop or expend the financial resources necessary to acquire new technology. We cannot assure you that we will be able to compete successfully in the future.

Employees and Human Capital

We had 84 full time equivalent employees as of October 3, 2021 and 87 employees as of December 13, 2021, which include a small temporary work force to handle peak loads as needed. We are in compliance with local prevailing wage, contractor licensing and insurance regulations, and have good relations with our employees, who are not currently unionized. We use outside consultants for various services. We have not experienced any work stoppages and are not a party to a collective bargaining agreement. Management considers labor relations to be good.

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

Internet Address

The Company maintains an internet website at the following address: www.optexsys.com. The information on the Company’s website is not incorporated by reference in this Annual Report on Form 10-K.

Item 1A Risk Factors

Investing in our common stock involves a high degree of risk. Prospective investors should carefully consider the risks described below, together with all of the other information included or referred to in this Annual Report, before purchasing shares of our common stock. There are numerous and varied risks, known and unknown, that may prevent us from achieving our goals. The risks described below are not the only risks we face. If any of these risks actually materializes, our business, financial condition or results of operations may be materially adversely affected. In such case, the trading price of our common stock could decline and investors in our common stock could lose all or part of their investment. The risks and uncertainties described below are not exclusive and are intended to reflect the material risks that are specific to us, our industry and companies that have securities trading on an over-the-counter market.

Risks Related to our Business

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

We compete with several other large defense contractors, as well as homebuilding, industrial manufacturing and warehousing industries within the immediate area of our manufacturing facilities for both lower and higher skill level manufacturing employees. The limited supply of available workers for hire, combined with increasing competition among other local industries may result in increased production costs associated with higher wages, employee bonuses, overtime premiums and enhanced employee benefits in addition to cost increases associated with employee recruitment, employee turnover, training and learning curve inefficiencies. We may be unable to fill the labor positions required to meet our customer demands in a timely or cost-effective manner which would impede our ability to meet current or increasing production levels in line with our customer expectations and adversely affect our ability to grow revenue or maintain our current margin levels.

Our ability to fulfill our backlog may have an effect on our long-term ability to procure contracts and fulfill current contracts.

Our ability to fulfill our backlog may be limited by our ability to devote sufficient financial and human capital resources and limited by available material supplies. Disruptions in our supply chain driven by Covid-19, transportation delays, combined with inflationary pressures and tight labor market conditions could impede our ability to meet customer requirements. If we do not fulfill our backlog in a timely manner, we may experience delays in product delivery which would postpone receipt of revenue from those delayed deliveries. Additionally, if we are consistently unable to fulfill our backlog, this may be a disincentive to customers to award large contracts to us in the future until they are comfortable that we can effectively manage our backlog.

Our historical operations depend on government contracts and subcontracts. We face risks related to contracting with the federal government, including federal budget issues and fixed price contracts.

Future general political and economic conditions, which cannot be accurately predicted, may directly and indirectly affect the quantity and allocation of expenditures by federal agencies. Even the timing of incremental funding commitments to existing, but partially funded, contracts can be affected by these factors. Therefore, cutbacks or re-allocations in the federal budget could have a material adverse impact on our results of operations. Obtaining government contracts may also involve long purchase and payment cycles, competitive bidding, qualification requirements, delays or changes in funding, budgetary constraints, political agendas, extensive specification development, price negotiations and milestone requirements. In addition, our government contracts are primarily fixed price contracts, which may prevent us from recovering costs incurred in excess of budgeted costs. Fixed price contracts require us to estimate the total project cost based on preliminary projections of the project's requirements. The financial viability of any given project depends in large part on our ability to estimate such costs accurately and complete the project on a timely basis. Some of those contracts are for products that are new to our business and are thus subject to unanticipated impacts to manufacturing costs. Even if our estimates are reasonable at the time made, prices of materials are subject to unanticipated adverse fluctuation. In the event our actual costs exceed fixed contractual costs of our product contracts, we will not be able to recover the excess costs which could have a material adverse effect on our business and results of operations. We examine these contracts on a regular basis and accrue for anticipated losses on these contracts, if necessary. As of October 3, 2021, there was \$51 thousand in accrued loss provisions for loss contracts or cost overruns.

Approximately 83% of our contracts contain termination clauses for convenience. In the event these clauses should be invoked by our customer, future revenues against these contracts could be affected, however these clauses allow for a full recovery of any incurred contract costs plus a reasonable fee up through and as a result of the contract termination. We are currently unaware of any pending terminations on our existing contracts.

In some cases, contract awards may be issued that are subject to renegotiation at a date (up to 180 days) subsequent to the initial award date. Generally, these subsequent negotiations have had an immaterial impact (zero to 5%) on the contract price of the affected contracts. Currently, none of our awarded contracts are subject to renegotiation.

We have sought to minimize the adverse impact from the slower pace of U.S. military orders on our results of operations by seeking to obtain foreign military orders, expanding our customer base as well as seeking new commercial business. We do not expect these markets to completely mitigate the negative impact of lower U.S. defense spending.

If we fail to scale our operations appropriately in response changes in demand, we may be unable to meet competitive challenges or exploit potential market opportunities, and our business could be materially and adversely affected.

Significant fluctuations in customer demand place a significant strain on our management personnel, infrastructure and resources. To implement our current business and product plans, we need to appropriately manage our cost base, as well as train, manage and motivate our workforce, while continuing to maintain our critical operational and financial systems and our manufacturing and service capabilities. All of these endeavors require substantial management effort and potential capital. If we are unable to effectively manage our operations to our customer demand levels, we may be unable to scale our business quickly enough to meet competitive challenges or exploit potential market opportunities, and our current or future business could be materially and adversely affected.

We do not have employment agreements with our key personnel, other than our Chief Executive and Financial Officers, and our management has minimal unencumbered equity ownership in us. If we are not able to retain our key personnel or attract additional key personnel as required, we may not be able to implement our business plan and our results of operations could be materially and adversely affected.

We depend to a large extent on the abilities and continued participation of our executive officers and other key employees. The loss of any key employee could have a material adverse effect on our business. We currently have only two employment agreements, with our Chief Executive Officer which renews on an annual basis and currently expires on November 30, 2022, and our Chief Financial Officer which expires on June 30, 2022, with renewable terms each 18 months thereafter. We do not presently maintain “key man” insurance on any other key employees. Our management also has minimal unencumbered ownership interest in us, thus limiting their direct stake in our outcome. We believe that experienced personnel will continue to be required to implement our business plan. Competition for such personnel is intense, and we cannot assure you that they will be available when required, or that we will have the ability to attract and retain them. In addition, due to our small size, we do not presently have depth of staffing in our executive, operational and financial management areas in order to have an effective succession plan should the need arise. Thus, in the event of the loss of one or more of our management employees, our results of operations could be vulnerable to challenges associated with recruiting additional key personnel, if such recruiting efforts are not successful in a timely manner.

Certain of our products are dependent on specialized sources of supply potentially subject to disruption which could have a material, adverse impact on our business.

We expect recent supply chain disruptions driven by the pandemic, combined with raw material shortages, labor shortages, transportation delays and inflationary pressures, to continue throughout 2022. These conditions have strained our suppliers and extended supplier delivery lead times, affecting their ability to sustain operations. We anticipate market wide material shortages for paint and resin products as well as critical epoxies and chemicals used in our manufacturing process. In addition, we are seeing substantial increases in the costs of aluminum, steel and acrylic commodities.

We have selectively single-sourced some of our material components in order to mitigate excess procurement costs associated with significant tooling and startup costs. Furthermore, because of the nature of government contracts, we are often required to purchase selected items from U.S. government approved suppliers, which may further limit our ability to utilize multiple supply sources for these key components.

To the extent any of these single sourced or government approved suppliers may have disruptions in deliveries due to production, quality, or other issues, we may also experience related production delays or unfavorable cost increases associated with retooling and qualifying alternate suppliers. The impact of delays resulting from disruptions in supply for these items could negatively impact our revenue, our reputation with our customers, and our results of operations. In addition, significant price increases from single-source suppliers could have a negative impact on our profitability to the extent that we are unable to recover these cost increases on our fixed price contracts.

Each contract has a specific quantity of material which needs to be purchased, assembled, and shipped. Prior to bidding on a contract, we contact potential sources of material and receive qualified quotations for this material. In some cases, the entire volume is given to a single supplier and in other cases; the volume might be split between several suppliers. If a contract has a single source supplier and that supplier fails to meet their obligations (e.g., quality, delivery), then we would seek to find an alternate supplier and bring this information back to the final customer. Contractual deliverables would then generally be re-negotiated (e.g., specifications, delivery, price. As of November 22, 2021, approximately 1% of our material requirements are single-sourced across 9 suppliers representing approximately 8% of our active supplier order value. Single-sourced component requirements span across all of our major product lines.

We consider it a material financial or schedule risk if we believe it will take us at least three months to identify and qualify a suitable replacement for specialized single source suppliers. In the table below, we identify those specialized single source suppliers with respect to which we face such a material risk and the product lines supported by those materials utilized by us as of November 22, 2021.

Product Line	Supply Item	Risk	Purchase Orders
Sighting Systems M36 DDAN	Digital camera system	Alternative source would take in excess of six months to qualify	This supplier is the designated replacement for Raytheon for the video system boards. One P.O. is currently in place to drive the transfer from Raytheon.
Periscopes	Die-cast housings	All die cast tooling is consolidated at this supplier. It would take approximately six months to move tooling and re-qualify a new supplier.	Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule.
Periscopes	Steel castings	Alternative supplier source would take six months to qualify.	Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements.
Vision Blocks	MIL Spec welded housings for vision blocks	Would take approximately 8-10 months to re-qualify a new supplier source.	Currently on Last Time Buy with current supplier vendor and trying to qualify a new vendor
Vision Blocks	Large/Small/Customs Blocks	Would take approximately 4-6 months to re-qualify a new supplier source.	Currently working with single source for purchasing material on a forecast projection basis
MRS	AL Castings for Housing	Would take approximately 8-12 months to re-qualify a new supplier source.	Currently, ordering for a single source, new casting tool and FAT will be required to qualify a new source
Short/Long Drivers	Mirrors	Would take approximately 8-12 months to re-qualify a new supplier source.	Currently working with single source for purchasing material on a forecast projection basis
Big Eye	Sand castings for big eye binocular parts	Would take approximately 4-6 months to re-qualify a new supplier source	Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements.
Applied Optics Center M22/M24 Binocular	Spare Components	Only approved source due to proprietary rights. Alternate source cannot be developed.	Current firm fixed price and quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule.

The defense technology supply industry is subject to technological change and if we are not able to keep up with our competitors and/or they develop advanced technology as response to our products, we may be at a competitive disadvantage.

The market for our products is generally characterized by technological developments, evolving industry standards, changes in customer requirements, frequent new product introductions and enhancements, short product life cycles and severe price competition. Our competitors could also develop new, more advanced technologies in reaction to our products. Currently accepted industry standards may change. Our success depends substantially on our ability, on a cost-effective and timely basis, to continue to enhance our existing products and to develop and introduce new products that take advantage of technological advances and adhere to evolving industry standards. An unexpected change in one or more of the technologies related to our products, in market demand for products based on a particular technology or of accepted industry standards could materially and adversely affect our business. We may or may not be able to develop new products in a timely and satisfactory manner to address new industry standards and technological changes, or to respond to new product announcements by others. In addition, new products may or may not achieve market acceptance.

Unexpected warranty and product liability claims could adversely affect our business and results of operations.

The possibility of future product failures could cause us to incur substantial expense to repair or replace defective products. We warrant the quality of our products to meet customer requirements and be free of defects for twelve months subsequent to delivery. We establish reserves for warranty claims based on our historical rate of returned shipments against these contracts. There can be no assurance that this reserve will be sufficient if we were to experience an unexpectedly high incidence of problems with our products. Significant increases in the incidence of such claims may adversely affect our sales and our reputation with consumers. Costs associated with warranty and product liability claims could materially affect our financial condition and results of operations.

We rely on the proper function, availability and security of information technology systems to operate our business and a cyber-attack or other breach of these systems could have a material adverse effect on our business, financial condition or results of operations.

We rely on information technology systems to process, transmit, and store electronic information in our day-to-day operations. Similar to other companies, the size and complexity of our information technology systems makes them vulnerable to a cyber-attack, malicious intrusion, breakdown, destruction, loss of data privacy, or other significant disruption. Our information systems require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards.

On July 13, 2021, we experienced a ransomware attack. While we do not expect that attack to have material adverse consequences, similar attacks, if not caught and effectively addressed in a timely manner, could have a material adverse effect on our business, financial condition and results of operations.

Any failure by us to maintain or protect our information technology systems and data integrity, including from cyber-attacks, intrusions or other breaches, could result in the unauthorized access to personally identifiable information, theft of intellectual property or other misappropriation of assets, or otherwise compromise our confidential or proprietary information and disrupt our operations. Any of these events may cause us to have difficulty preventing, detecting, and controlling fraud, be subject to legal claims and liability, have regulatory sanctions or penalties imposed, have increases in operating expenses, incur expenses or lose revenues as a result of a data privacy breach or theft of intellectual property, or suffer other adverse consequences, any of which could have a material adverse effect on our business, financial condition or results of operations.

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

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

The pandemic has caused several program delays throughout the defense supply chain as a result of plant shutdowns, employee illnesses, travel restrictions, remote work arrangements and similar supplier issues. Due to the significant level of uncertainty surrounding the pandemic and its impact to our customers and the defense supply chain, we are unable to ascertain the impact further delays in contract awards and customer orders may have on our fiscal year 2022 revenues.

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

For the year ended October 3, 2021, the Company's consolidated revenues were derived from U.S. government agencies (28%), four U.S. defense contractors (27%, 11%, 5%, and 5%), one major commercial customer (10%) and all other customers (14%). Approximately 90% of total Company revenue is generated from domestic customers and 10% is derived from foreign customers, primarily Canada. In particular, a decision by one of our major defense contract customers, U.S. government agencies, or major commercial customers to cease issuing contracts to us could have a significant material impact on our business and results of operations given that they represent over 86% of our gross business revenue. There can be no assurance that we could replace these customers on a timely basis or at all.

We have approximately 81 discrete contracts with major defense contractors and the U.S. Government (primarily Defense Logistics Agencies (DLA)), and other prime U.S. defense contractors. If they choose to terminate these contracts, we are entitled to fully recover all contractual costs and reasonable profits incurred up to or as a result of the terminated contract.

We only possess five patents and rely primarily on trade secrets to protect our intellectual property.

We utilize several highly specialized and unique processes in the manufacture of our products, for which we rely solely on trade secrets to protect our innovations. We cannot assure you that we will be able to maintain the confidentiality of our trade secrets or that our non-disclosure agreements will provide meaningful protection of our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or other disclosure. The non-disclosure agreements that are designed to protect our trade secrets could be breached, and we might not have adequate remedies for the breach.

It is also possible that our trade secrets will otherwise become known or independently developed by our competitors, many of which have substantially greater resources than us, and these competitors may have applied for or obtained, or may in the future apply for or obtain, patents that will prevent, limit or interfere with our ability to make and sell some of our products. Although based upon our general knowledge (and we have not conducted patent searches), we believe that our products do not infringe on the patents or other proprietary rights of third parties; however, we cannot assure you that third parties will not assert infringement claims against us or that such claims will not be successful.

We anticipate that we may need to raise additional capital in the future beyond any cash flow from our existing business; additional funds may not be available on terms that are acceptable to us, or at all.

We anticipate we may have to raise additional capital in the future to finance our future working capital needs. We cannot assure you that any additional capital will be available on a timely basis, on acceptable terms, or at all. Future equity or debt financings may be difficult to obtain. If we are not able to obtain additional capital as may be required, our business, financial condition and results of operations could be materially and adversely affected.

We anticipate that our capital requirements will depend on many factors, including:

- our ability to fulfill backlog;
- our ability to procure additional production contracts;

- our ability to control costs;
- the timing of payments and reimbursements from government and other contracts, including but not limited to changes in federal government military spending and the federal government procurement process;
- increased sales and marketing expenses;
- technological advancements and competitors' response to our products;
- capital improvements to new and existing facilities;
- our relationships with customers and suppliers; and
- general economic conditions including the effects of future economic slowdowns, acts of war or terrorism and the current international conflicts.

Even if available, financings may involve significant costs and expenses, such as legal and accounting fees, diversion of management's time and efforts, and substantial transaction costs. If adequate funds are not available on acceptable terms, or at all, we may be unable to finance our operations, develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures.

Risks Related to Our Stock

Our common stock is currently quoted on an Over-The-Counter Market, which affects the liquidity of our common stock and may affect its stock price.

Our common stock is quoted on OTCQB under the trading symbol "OPXS". Trading in our common stock has been very limited and we cannot make any assurances that the trading volume will increase, or, if and when it increases, that it will be sustained at any level. Over-the-counter markets are generally considered to be less efficient than, and not as broad as, a stock exchange.

Our share price could decrease as a result of this limited liquidity or otherwise, and our share price is likely to be highly volatile. Specifically, stockholders may have difficulties reselling significant numbers of shares of common stock at any particular time, and may not be able to resell their shares of common stock at or above the price paid for such shares. As a result, stockholders may be required to hold shares of common stock for an indefinite period of time. In addition, sales of substantial amounts of common stock could lower the prevailing market price of our common stock.

Furthermore, our ability to raise additional capital is impaired because of the less liquid nature of the over-the-counter markets. We may not be able to complete an equity financing on acceptable terms, or at all. In that context, investors should consider that not having the common stock listed on a national securities exchange makes us ineligible to use shorter and less costly filings, such as Form S-3, to register our securities for sale. While we may use Form S-1 to register a sale of our stock to raise capital or complete acquisitions, doing so would cause us to incur higher transaction costs and adversely impact our ability to raise capital or complete acquisitions of other companies in a timely manner. In addition, if we are able to complete equity financings, the dilution from any equity financing while our shares are quoted on an over-the-counter market could be greater than if we were to complete a financing while our common stock were listed on a national securities exchange.

Finally, if we cease to qualify for quotation on OTCQB, our common stock may be forced to trade on the "pink sheets," and the market for resale of our common stock would be extremely limited. In that case, holders of our common stock may find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our common stock, and the market value of our common stock may decline as a result.

We are subject to penny stock rules, which discourages broker-dealers from effecting transactions in our common stock.

The SEC has adopted a number of rules to regulate “penny stock” that restricts transactions involving our shares of common stock. Such rules include Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6, 15g-7, and 15g-9 under the Exchange Act. These rules may have the effect of reducing the liquidity of penny stocks. “Penny stocks” generally are equity securities with a price of less than \$5.00 per share, subject to certain exclusions. As long as we are not listed on a securities exchange or Nasdaq, our shares of common stock constitute “penny stock” within the meaning of the rules. The additional sales practice and disclosure requirements imposed upon U.S. broker-dealers in connection with effecting transactions in “penny stocks” may discourage such broker-dealers from effecting transactions in shares of our common stock, which could severely limit the market liquidity of such shares and impede their sale in the secondary market.

A U.S. broker-dealer selling penny stock to anyone other than an established customer or “accredited investor” must make a special suitability determination for the purchaser and must receive the purchaser’s written consent to the transaction prior to sale, unless the broker-dealer or the transaction is otherwise exempt. In addition, the penny stock regulations require the U.S. broker-dealer to deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared in accordance with SEC standards relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt. A U.S. broker-dealer is also required to disclose commissions payable to the U.S. broker-dealer and the registered representative and current quotations for the securities. Finally, a U.S. broker-dealer is required to submit monthly statements disclosing recent price information with respect to the penny stock held in a customer’s account and information with respect to the limited market in penny stocks.

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

Furthermore, transfers of our common stock may require broker-dealers to submit notice filings and pay fees in certain states, which may discourage broker-dealers from effecting transactions in our common stock.

You should also be aware that, according to the SEC, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) “boiler room” practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, resulting in investor losses.

General Risk Factors

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

Changes in current economic conditions may cause a decline in business, consumer and defense spending and capital market performance, which could adversely affect our business and financial performance. Our ability to raise funds, which could be required for business continuity or expansion of our operations, may be adversely affected by current and future economic conditions, such as a reduction in the availability of credit, financial market volatility and economic recession.

In the future, we may look to acquire other businesses in our industry and the acquisitions will require us to use substantial resources.

In the future, we may decide to pursue acquisitions of other businesses in our industry. In order to successfully acquire other businesses, we would be forced to spend significant resources for both acquisition and transactional costs, which could divert substantial resources in terms of both financial and personnel capital from our current operations. Additionally, we might assume liabilities of the acquired business, and the repayment of those liabilities could have a material adverse impact on our cash flow. Furthermore, when a new business is integrated into our ongoing business, it is possible that there would be a period of integration and adjustment required which could divert resources from ongoing business operations.

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

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

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

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

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

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

Item 2 Properties

We are headquartered in Richardson, TX and lease approximately 93,967 combined square feet of facilities between Richardson, Texas and Dallas, Texas. We operate with a single shift, and capacity could be expanded by adding a second shift.

We renewed the lease on our 49,100 square foot, Richardson, Texas facility, effective as of January 11, 2021, for eighty-six (86) months, commencing on April 1, 2021 and ending on May 31, 2028. Our Applied Optics Center, is located in Dallas, Texas with leased premises consisting of approximately 44,867 square feet of space. The Applied Optics Center lease was renewed on January 11, 2021 for eighty-six (86) months, commencing on November 1, 2021 and ending on December 31, 2028. The Applied Optics Center 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 rent rate.

Item 3 Legal Proceedings

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

Item 4 Mine Safety Disclosures

None.

PART II

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

Market information

Our common stock is currently quoted on the OTCQB Marketplace under the symbol "OPXS". Trading in our common stock has historically lacked consistent volume, and the market price has been volatile. Over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

On December 13, 2021, the closing price for our common stock as reported on the OTCQB was \$1.89 per share.

Securities outstanding and holders of record

On December 13, 2021, there were approximately 80 shareholders of record for our common stock and 8,523,704 shares of our common stock issued and 8,462,310 common shares outstanding.

Dividends

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

Unregistered Sales of Equity Securities

On January 2, 2021, the Company issued 58,392 common shares to directors and officers, net of tax withholding of \$44 thousand, in settlement of 83,000 restricted stock units which vested on January 1, 2021. The issuance was made pursuant to the exemption from registration afforded by Rule 506(b) under the Securities Act as an issuance to accredited investors.

Issuer Purchases of Equity Securities

The table below sets forth information with respect to purchases made by or on behalf of the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act) of its common shares during the three months ended October 3, 2021.

<u>Period</u>	<u>Total number of shares purchased</u>	<u>Total purchase cost</u>	<u>Average price paid per share (with commission)</u>	<u>Maximum dollar value that may yet be purchased under the plan⁽¹⁾</u>
September 23, 2021 to October 3, 2021	35,555	\$ 68,546	\$ 1.93	\$ 931,454

- (1) On September 22, 2021 the Company announced authorization for an additional \$1 million stock repurchase program. As of October 3, 2021, there were 35,555 shares held in treasury purchased under the September 2021 stock repurchase program. The shares authorized to be repurchased under the repurchase program may be purchased from time to time at prevailing market prices, through open market or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC.

Item 6. Reserved

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and the related notes that are set forth in our financial statements elsewhere in this Annual Report.

This management’s discussion and analysis reflects information known to management as of our fiscal year end, October 3, 2021, and the date of filing. This MD&A is intended to supplement and complement our audited financial statements and notes thereto for the year ended October 3, 2021, prepared in accordance with U.S. generally accepted accounting principles (GAAP). You are encouraged to read our financial statements in conjunction with this MD&A. The financial information in this MD&A has been prepared in accordance with GAAP, unless otherwise indicated. In addition, we use non-GAAP financial measures as supplemental indicators of our operating performance and financial position. We use these non-GAAP financial measures internally for comparing actual results from one period to another, as well as for planning purposes. We will also report non-GAAP financial results as supplemental information, as we believe their use provides more insight into our performance. When a non-GAAP measure is used in this MD&A, it is clearly identified as a non-GAAP measure and reconciled to the most closely corresponding GAAP measure.

The following discussion highlights the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described. This discussion contains forward-looking statements. Please see “Special cautionary statement concerning forward-looking statements” and “Risk factors” for a discussion of the uncertainties, risks and assumptions associated with these forward-looking statements. The operating results for the periods presented were not significantly affected by inflation.

All references in the following section to 2020 or 2021 with respect to our financial position and results of operations are to our fiscal years ended September 27, 2020 or October 3, 2021, respectively.

Background

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

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

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

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

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

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

Recent Developments and Material Trends

Refer to "Item 1. Business – Market Opportunity: U.S. Military" 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, all of which is incorporated herein by reference.

Refer to Item 1.A. 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*” for a description of recent supply chain disruptions, which have strained our suppliers and extended supplier delivery lead times, affecting their ability to sustain operations. We anticipate market wide material shortages for paint and resin products as well as critical epoxies and chemicals used in our manufacturing process. In addition, we are seeing substantial increases in the costs of aluminum, steel and acrylic commodities.

Refer to “Item 1. Business Recent Events” of this report for updated information on new orders, board changes, executive and board compensation and stock and warrant repurchases.

Results of Operations

Segment Information

We have presented the operating results by segment to provide investors with an additional tool to evaluate our operating results. Management of Optex Systems Holdings uses the selected financial measures by segment internally to evaluate its ongoing segment operations and to allocate resources within the organization accordingly. Segments are determined based on differences in products, location, internal reporting and how operational decisions are made. Management has determined that the Optex Systems, Richardson plant (to which we refer below as the Optex Systems segment or Optex Systems), and the Applied Optics Center, Dallas plant, which was acquired on November 3, 2014 (to which we refer below as the Applied Optics Center segment or Applied Optics Center), are separately managed, organized, and internally reported as separate business segments. The table below provides a summary of selective statement of operations data by operating segment for the years ended October 3, 2021 and September 27, 2020 reconciled to the Audited Consolidated Results of Operations as presented in Item 8, “Financial Statements and Supplementary Data”.

Results of Operations Selective Financial Info (Thousands)

	Twelve months ended							
	October 3, 2021				September 27, 2020			
	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	\$ 11,827	\$ 6,395	\$ -	\$ 18,222	\$ 17,233	\$ 8,657	\$ -	\$ 25,890
Intersegment Revenues	-	1,056	(1,056)	-	-	1,689	(1,689)	-
Total Segment Revenue	11,827	7,451	(1,056)	18,222	17,233	10,346	(1,689)	25,890
Total Cost of Sales	9,934	6,824	(1,056)	15,702	13,517	7,974	(1,689)	19,802
Gross Margin	1,893	627	-	2,520	3,716	2,372	-	6,088
Gross Margin %	16.0%	8.4%	-	13.8%	21.6%	22.9%	-	23.5%
General and Administrative Expense	2,319	467	228	3,014	2,439	569	197	3,205
Segment Allocated G&A Expense	(677)	677	-	-	(673)	673	-	-
Net General & Administrative Expense	1,642	1,144	228	3,014	1,766	1,242	197	3,205
Operating Income (Loss)	251	(517)	(228)	(494)	1,950	1,130	(197)	2,883
Operating Income (Loss) %	2.1%	(6.9%)	-	(2.7%)	11.3%	10.9%	-	11.1%
Gain (Loss) on Change in Fair Value of Warrants	-	-	2,535	2,535	-	-	(508)	(508)
Interest Expense	-	-	(11)	(11)	-	-	(19)	(19)
Income (Loss) before taxes	\$ 251	\$ (517)	\$ 2,296	\$ 2,030	\$ 1,950	\$ 1,130	\$ (724)	\$ 2,356
Income (loss) before taxes %	2.1%	(6.9%)	-	11.1%	11.3%	10.9%	-	9.1%

Our total external sales revenues decreased by \$7.7 million in 2021, or 29.6% compared to 2020 revenue levels. The Optex Systems segment realized a \$5.4 million decrease and the Applied Optics Center segment realized a decrease of \$2.3 million in external revenue compared to the prior year period. Intersegment revenues decreased by \$0.6 million to \$1.1 million in 2021 from \$1.7 million in 2020. Intersegment revenues relate primarily to coated filters provided by the Applied Optics Center to Optex Systems in support of the Optex Systems periscope line.

Gross margin decreased \$3.6 million and the gross margin percentage decreased by 9.7 points from 23.5% in 2020 to 13.8% in 2021. The Optex Systems gross margin decreased by \$1.8 million in 2021 compared to 2020 and the gross margin percentage decreased to 16.0% in 2021 as compared to a gross margin percentage of 21.6% in 2020. The Applied Optics Center gross margin decreased by \$1.7 million and the gross margin percentage decreased by 14.5 points from 22.9% in 2020 to 8.4% in 2021. The erosion in the gross margin percentage between years is primarily driven by lower revenue across both segments, changes in product mix toward less profitable product groups, and unfavorable manufacturing overhead adjustments on reduced production volume.

During the years ended 2021 and 2020, Applied Optics Center absorbed \$0.7 million of fixed general and administrative costs incurred by Optex Systems for support services. These expenses cover accounting, executive, human resources, information technology, board fees and other corporate expenses paid by Optex Systems and shared across both operating segments.

Operating income decreased by \$3.4 million, in 2021 to a loss of \$(0.5) million, as compared to the prior year operating income of \$2.9 million. The decrease in operating income is primarily attributable to lower revenue and lower gross margin during the year partially offset by slightly lower general and administrative costs of \$0.2 million as compared to the prior year.

Income before taxes decreased \$0.3 million, to \$2.0 million in 2021 from a prior year income before taxes of \$2.4 million. The decrease in income before taxes year over year is primarily due to decreased operating income of \$3.4 million, offset by an increase in income for non-cash related changes to the fair value of warrants of \$3.0 million.

Backlog

Backlog as of October 3, 2021 was \$27.3 million as compared to a backlog of \$16.3 million as of September 27, 2020, representing an increase of 67.5%. The following table depicts the current expected delivery by quarter of all contracts awarded as of October 3, 2021. The increased backlog was primarily within our Applied Optics Center segment.

(Millions)

Product Line	Q1	Q2	Q3	Q4	2022	2023+	Total	Total	Variance	% Chg
	2022	2022	2022	2022	Delivery	Delivery	Backlog 10/3/2021	Backlog 9/27/2020		
Periscopes	\$ 1.0	\$ 0.9	\$ 1.8	\$ 0.7	\$ 4.4	\$ 1.2	\$ 5.6	\$ 5.3	\$ 0.3	5.7%
Sighting Systems	0.3	0.1	0.1	0.1	0.6	1.1	1.7	2.9	(1.2)	(41.4)%
Howitzer	-	-	0.1	0.2	0.3	2.0	2.3	2.5	(0.2)	(8.0)%
Other	0.4	0.5	0.1	0.2	1.1	0.3	1.4	2.5	(1.1)	(44.0)%
Optex Systems - Richardson	1.7	1.5	2.1	1.2	6.4	4.6	11.0	13.2	(2.2)	(16.7)%
Applied Optics Center - Dallas	2.4	3.1	2.5	2.8	10.9	5.4	16.3	3.1	13.2	425.8%
Total Backlog	\$ 4.1	\$ 4.6	\$ 4.6	\$ 4.0	\$ 17.3	\$ 10.0	\$ 27.3	\$ 16.3	\$ 11.0	67.5%

During fiscal year 2021, Optex Systems Holdings received new orders totaling \$29.2 million, a 65.9% increase, as compared to new orders of \$17.6 million during the prior year. The 2021 orders consist of \$7.6 million in support of our periscope product line, \$19.6 million attributable to the Applied Optics Center and \$1.2 million attributable to sighting systems and support, and \$0.8 million in other products.

During the eighteen months through October 3, 2021, we experienced a reduction in new orders and ending customer backlog in our Optex Richardson segment. We attribute the lower orders to a combination of factors including a COVID-19 driven slow-down of contract awards for both U.S. military sales and foreign military sales (FMS), primarily during the second half of fiscal year 2020, combined with significant shifting in defense spending budget allocations in US military sales and FMS away from Army ground system vehicles toward other military agency applications. In addition, the pandemic has caused several program delays throughout the defense supply chain as a result of plant shutdowns, employee illnesses, travel restrictions, remote work arrangements and similar supplier chain issues. Our Applied Optics Center segment experienced a significant decline in orders during the second half of fiscal year 2020, however during the last twelve months, the segment has seen a sizable increase in new orders as a result of increased military spending in Army infantry optical equipment and an increased customer base.

Optex Systems - Richardson:

During the twelve months ended October 3, 2021, backlog for our Optex Richardson segment decreased by 16.7%, or 2.2 million to \$11.0 million, as compared to the prior year ending backlog of \$13.2 million.

Backlog for our periscope product line has increased 5.7% or \$0.3 million to \$5.6 million, from our 2020 fiscal year end level of \$5.3 million. Our total periscope contract awards for fiscal 2021 totaled \$7.6 million as compared to \$6.2 million in the fiscal year 2020, an increase of \$1.4 million, or 22.6% from the prior year.

Sighting Systems backlog decreased by \$1.2 million or 41.4% from \$2.9 million in fiscal year 2020 to \$1.7 million as of the end of fiscal year 2021. The decrease in backlog is primarily attributable shipments against several of our long running Commander Weapon Sighting Systems "CWSS", Digital Day and Night Sighting Systems "DDAN" contracts awarded during the prior years. During 2021, we booked \$1.2 million in new orders, an increase of \$0.2 million from the prior year orders of \$1.0 million.

Howitzer backlog decreased by \$0.2 million, or 8.0%, from \$2.5 million to \$2.3 million, on shipments against our Aiming Circle XM10 contract for optical assemblies which was awarded in fiscal year 2020. During the year, there were no new orders for howitzer assemblies as compared to \$2.3 million in the prior year.

Our backlog in other product groups decreased by \$1.1 million or 44.0% from \$2.5 million in 2020 to \$1.4 million in 2021 on shipments against our long running Muzzle Reference Sensor Collimator Assembly "MRS" contracts. During 2021, we booked new orders of \$0.8 million as compared to the prior year orders of \$2.7 million.

The Optex Systems Richardson segment, currently has seven open US Government IDIQ type military contracts for periscopes with substantial unspent funding which covers government base year and option year requirement periods into 2025, in addition to a significant pricing proposal in process for sighting system support with an expected award during the next six months.

Applied Optics Center – Dallas

The Applied Optics Center backlog increased by \$13.2 million, or 425.8%, for the year ended October 3, 2021, from \$3.1 million in 2020 to \$16.3 million in 2021. New orders for the Applied Optics Center during the 2021 fiscal year were \$19.6 million as compared to the fiscal year 2020 orders of \$5.4 million, an increase of \$14.2 million or 263.0%. We are seeing increases in demand and proposal activity for both laser coated filters and optical assemblies and anticipate additional order bookings for both our commercial and military products for deliveries beginning in fiscal year 2022. On August 2, 2021, the Company announced a contract award of \$8.4 million with a new customer as part of a twenty-four-month purchase order for laser filter units and on September 21, 2021, the Company announced a \$3 million commercial order for optical devices.

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

Twelve month period ended October 3, 2021 compared to the twelve month period ended September 27, 2020

Revenues:

The table below details the revenue changes by segment and product line for the year ended October 3, 2021 as compared to the year ended September 27, 2020.

Product Line	Twelve months ended (Millions)		Variance	% Chg
	October 3, 2021	September 27, 2020		
Periscopes	\$ 7.2	\$ 11.3	\$ (4.1)	(36.3)
Sighting Systems	2.3	2.2	0.1	4.5
Howitzers	0.2	-	0.2	-
Other	2.1	3.7	(1.6)	(43.2)
Optical Systems – Richardson	11.8	17.2	(5.4)	(31.4)
Applied Optics Center – Dallas	6.4	8.7	(2.3)	(26.4)
Total Revenue	\$ 18.2	\$ 25.9	\$ (7.7)	(29.7)

Our total revenues decreased by \$7.7 million, or 29.7% in 2021 compared to 2020 revenue levels. The Optex Systems Richardson segment realized a \$5.4 million, or 31.4%, decrease in revenue and the Applied Optics Center segment realized a decrease of \$2.3 million, or 26.4%, in revenue compared to the prior year period.

Revenues decreased by \$4.1 million or 36.3% on our periscope line during the twelve months ended October 3, 2021 as compared to the twelve months ended September 27, 2020 based on lower customer demand between the respective periods.

Revenues on sighting systems increased by \$0.1 million, or 4.5% from the prior year period due to shipments of Commander Weapon Sighting Systems against existing prior year contracts.

Revenue on Howitzers increased by \$0.2 million, compared to revenues of zero in the prior year due to shipments against our Aiming Circle XM10 optical assemblies contract awarded in 2020.

Revenue on other product lines decreased by \$1.6 million, or 43.2%, compared to revenues in the prior year due to lower contract demand on MRS collimators and cell assemblies.

The Applied Optics Center external revenue decreased by \$2.3 million, or 26.4%, during 2021 as compared to the prior year period. The lower revenue was primarily driven by lower customer orders across coated filter and optical assembly lines. We expect revenue for the Applied Optics Center to increase in the next year consistent with recent increases in customer demand for optical assemblies and laser filter units.

Gross Margin. The gross margin for the year ended October 3, 2021 was 13.8% of revenue as compared to a gross margin of 23.5% of revenue for the year ended September 27, 2020. Cost of sales decreased by \$4.1 million to \$15.7 million for 2021 compared to \$19.8 million for 2020 on reduced revenue. The gross margin decreased by \$3.6 million to \$2.5 million in 2021 as compared to \$6.1 million in 2020. The erosion in the gross margin is primarily due to lower revenue across both segments, unfavorable manufacturing overhead adjustments on reduced production volume and some shifts in product mix toward less profitable product groups.

G&A Expenses. For the years ended October 3, 2021 and September 27, 2020, we recorded operating expenses of \$3.0 million and \$3.2 million, respectively. General and administrative cost decreases of \$0.2 million, or 6.3%, during 2021 are primarily attributable to decreased salaries and office expenses.

Operating Income. For the year ended October 3, 2021, we recorded an operating loss \$0.5 million as compared to operating income of \$2.9 million during the year ended September 27, 2020. The \$3.4 million decrease in operating income in the current year over the prior year is primarily due to decreased revenue and gross margin, offset by slightly lower general and administrative spending in the current year as compared to the prior year period.

Other (Expense) Income. During the year ended October 3, 2021, we recognized a \$2.5 million gain on change in the fair value of warrants as compared to a \$0.5 million loss in the year ended September 27, 2020. The \$3.0 million change in the fair value of warrants is primarily due to the expiration of outstanding warrants as of August 26, 2021. Additional information related to the change in valuation is discussed under Item 1, “Consolidated Financial Statements, Note 12 – Warrant Liabilities”.

Net income applicable to common shareholders. During the year ended October 3, 2021, we recorded net income applicable to common shareholders of \$1.5 million as compared to net income applicable to common shareholders of \$1.2 million during the year ended September 27, 2020. The increase of net income of \$0.3 million is primarily attributable to decreased operating income of (\$3.4) million offset by changes in the fair value of warrants of \$3.0 million and a change in income taxes of \$0.6 million as compared to the year ended 2020.

Non GAAP Adjusted EBITDA

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

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

The table below summarizes our twelve-month operating results for the periods ended October 3, 2021 and September 27, 2020, in terms of both the GAAP net income measure and the non-GAAP Adjusted EBITDA measure.

	(Thousands)	
	Twelve months ended	
	October 3, 2021	September 27, 2020
Net Income — GAAP	\$ 2,131	\$ 1,825
<i>Add:</i>		
(Gain) Loss on Change in Fair Value of Warrants	(2,535)	508
Federal Income Tax (Benefit) Expense	(101)	531
Depreciation	263	248
Stock Compensation	228	197
Interest Expense	11	19
Adjusted EBITDA - Non GAAP	\$ (3)	\$ 3,328

Our Adjusted EBITDA decreased by \$3.3 million to \$0.0 million during the twelve months ended October 3, 2021 as compared to \$3.3 million during the twelve months ended September 27, 2020. The decrease in EBITDA is primarily driven by a decrease in revenue of \$7.7 million resulting in lower operating profit of \$3.4 million and other changes of (\$0.1) million. Operating segment performance is discussed in greater detail throughout the previous sections.

Liquidity and Capital Resources

As of October 3, 2021, Optex Systems Holdings had working capital of \$12.9 million, as compared to \$11.7 million as of September 27, 2020. Some of our contracts may allow for government contract financing in the form of contract progress payments pursuant to Federal Acquisition Regulation 52.232-16, “Progress Payments.” Subject to certain limitations, this clause provides for government payment of up to 90% of incurred program costs prior to product delivery for small businesses like us. To the extent any contracts allow for progress payments and the respective contracts would result in significant preproduction cash requirements for design, process development, tooling, material or other resources which could exceed our current working capital or line of credit availability, we intend to utilize this benefit to minimize any potential negative impact on working capital prior to receipt of payment for the associated contract deliveries.

Backlog as of October 3, 2021 was \$27.3 million as compared to a backlog of \$16.3 million as of September 27, 2020, representing an increase of 67.5%.

The Company has historically funded its operations through operations, convertible notes, common and preferred stock offerings and bank debt. The Company's ability to generate positive cash flows depends on a variety of factors, including the continued development and successful marketing of the Company's products. At October 3, 2021, the Company had approximately \$3.9 million in cash and an outstanding payable balance of zero against our working line of credit. The line of credit allows for borrowing up to a maximum of \$2.3 million. As of October 3, 2021, our outstanding accounts receivable was \$3.2 million. We expect the accounts to be collected during the first quarter of fiscal 2022. 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 facilities line of credit during the next twelve months and beyond; however, uneven revenue levels driven by changes in customer delivery demands, first article inspection requirements or other program delays associated with the pandemic could create a working capital shortfall. In the event the Company does not successfully implement its ultimate business plan, certain assets may not be recoverable.

On June 8, 2020 the Company announced authorization for a \$1 million stock repurchase program. The shares authorized to be repurchased under the new repurchase program may be purchased from time to time at prevailing market prices, through open market or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC. During the twelve months ended September 27, 2020, there were 105,733 common shares repurchased through the program at a cost of \$200 thousand. The Company purchased a total of 519,266 shares against the program through April 2021 at a total cost of \$1.0 million, which were subsequently cancelled in June 2021.

On September 22, 2021 the Company announced authorization for an additional \$1 million stock repurchase program. As of October 3, 2021, there were 35,555 shares held in treasury which were purchased under the September 2021 stock repurchase plan at a cost of \$69 thousand. During the twelve months ended October 3, 2021, there was a combined total of 449,088 common shares repurchased through both repurchase programs at a total cost of \$869 thousand.

During the twelve months ending October 3, 2021, we generated operating cash flow of \$0.5 million, received proceeds from the exercise of warrants of \$0.3 million, paid down our line of credit by (\$0.4) million, and spent (\$0.9) million for the purchase of shares against our previously announced stock repurchase plans and (\$0.3) million on acquisitions of property and equipment.

We intend to renew or replace our current \$2.3 million facilities line of credit which expires on April 15, 2022. If adequate funds are not available on acceptable terms, or at all, we may be unable to finance our operations, develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures.

On August 26, 2021, 3,936,391 outstanding warrants expired worthless, resulting in a \$2.5 million gain on change in fair value of warrants and the elimination of the balance sheet warrant liability.

During the twelve months ended October 3, 2021 the Company declared and paid no dividends. As of October 3, 2021, there are no outstanding declared and unpaid dividends.

Critical Accounting Policies

Revenue Recognition: The Company has adopted FASB ASC 606—Revenue from Contracts with Customers which requires revenue recognition based on a five-step model that includes: identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price and recognizing the revenue. The standard results in the recognition of revenue depicting the transfer of promised goods or services to customers in an amount reflecting the expected consideration to be received from the customer for such goods and services, based on the satisfaction of performance obligations, occurring when the control of the goods or services transfer to the customer. The majority of the Company's contracts and customer orders originate with fixed determinable unit prices for each deliverable quantity of goods defined by the customer order line item (performance obligation) and include the specific due date for the transfer of control and title of each of those deliverables to the customer at pre-established payment terms, which are generally within thirty to sixty days from the transfer of title and control. We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods. In addition, the Company has one ongoing service contract which relates to optimized weapon system support (OWSS) and includes ongoing program maintenance, repairs and spare inventory support for the customer's existing fleet units in service during the duration of the contract. Revenue recognition for this program has been recorded by the Company, and compensated by the customer, at fixed monthly increments over time, consistent with the defined contract maintenance period. The total revenue recognized over time related to the contract is \$479 thousand for the twelve months ended October 3, 2021 and \$451 thousand for the twelve months ended September 27, 2020.

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

During the twelve months ended October 3, 2021, there was \$1 thousand of revenue recognized during the period from customer deposit liabilities (deferred contract revenue). During the twelve months ended September 27, 2020 there was \$3 thousand of revenue recognized during the period from customer deposit liabilities (deferred contract revenue). As of the twelve months ended October 3, 2021 and September 27, 2020, there are no significant deferred contract costs such as sales commissions.

Stock-Based Compensation: FASB ASC 718 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, but primarily focuses on transactions whereby an entity obtains employee services for share-based payments. FASB ASC 718 requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

Income Tax/Deferred Tax: FASB ASC 740 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on differing treatment of items for financial reporting and income tax reporting purposes. The deferred tax balances are adjusted to reflect tax rates by tax jurisdiction, based on currently enacted tax laws, which will be in effect in the years in which the temporary differences are expected to reverse. Under FASB ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that Optex Systems Holdings will not realize tax assets through future operations. When assessing the recoverability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies and results of recent operations. Based on those estimates, management has determined that a portion of the deferred tax assets may not be realized and has established a valuation allowance against the deferred tax asset balance. We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

As of October 3, 2021, Optex Systems Inc. has a net carrying value of \$1.3 million in deferred tax assets represented by deferred tax assets of \$2.1 million and a deferred tax asset valuation allowance of (\$0.8) million against those assets. The valuation allowance has been established due to historical losses resulting in a Net Operating Loss Carryforward for each of the fiscal years 2010 through 2016 which may not be fully recognized due to an IRS Section 382 limitation related to a change in control occurring in fiscal year 2018. Due to historical losses, our valuation allowance reserve was set at 100% of the deferred tax asset for the years 2014 through 2018 for a net carrying value of zero. As of October 3, 2021, and September 27, 2020, we reviewed the deferred tax assets and determined it was more likely than not that we would be able to utilize a substantial portion of the deferred tax asset balance against future earnings. Our assumptions were based on the previous three years earnings trend as well as anticipated future earnings expected with the increases in U.S defense and Foreign Military market spending. During the twelve months ended October 3, 2021, we recognized an additional \$0.04 million in tax benefits from the deferred tax assets. We will continue to review the deferred tax assets and related valuation reserves in accordance with ASC 740 on an annual basis.

Leases: In February 2016, FASB issued ASU 2016-02—*Leases (Topic 842)*. The update is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As such, Optex Systems Holdings adopted these provisions as of the fiscal year beginning on September 30, 2019. Optex Systems Holdings has two significant operating facilities leases which extend beyond twelve months and fall under the guidance of ASC Topic 842. Adoption of ASC Topic 842 resulted in the balance sheet recognition of a right-of-use asset of \$1.9 million and corresponding operating lease liabilities of approximately \$1.8 million as of the beginning of the fiscal year ended on September 27, 2020, representing the present value of future lease payments as of the beginning of the year, for the term of the equipment lease and both segment facility leases and which assumed the exercise of a five-year renewal option at the Applied Optics Center as of November 1, 2021. On January 11, 2021, the Company executed amendments extending the lease terms of both facilities for eighty-six months. Execution of the new lease amendments for the Dallas and Richardson facilities on January 11, 2021 resulted in the balance sheet recognition of a right-of-use asset of \$3.7 million and corresponding operating lease liabilities of approximately \$3.7 million during the period.

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

Recent Accounting Pronouncements

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

Item 8 Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Optex Systems Holdings, Inc. and subsidiaries (the “Company”) as of October 3, 2021 and September 27, 2020, and the related consolidated statements of income, stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 3, 2021 and September 27, 2020, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Critical Audit Matter

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

Deferred Taxes

Critical Audit Matter Description

As described in notes 2 and 13 to the consolidated financial statements, deferred tax assets and liabilities are determined based on differing treatment of items for financial reporting and income tax reporting purposes. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations. When assessing the recoverability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies, and results of recent operations. Management has determined that a portion of the deferred tax assets may not be realized and has established a valuation allowance against the deferred tax asset balance. For the year ended October 3, 2021, the Company has a net carrying value of \$1.3 million in deferred tax assets represented by deferred tax assets of \$2.1 million and a deferred tax asset valuation allowance of \$0.8 million against those assets.

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

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures consisted of the following:

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

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

Fort Worth, Texas
December 20, 2021

Optex Systems Holdings, Inc.
Consolidated Balance Sheets

(Thousands, except share and
per share data)

	October 3, 2021	September 27, 2020
ASSETS		
Cash and Cash Equivalents	\$ 3,900	\$ 4,700
Accounts Receivable, Net	3,183	2,953
Inventory, Net	7,583	8,791
Prepaid Expenses	262	229
Current Assets	14,928	16,673
Property and Equipment, Net	1,017	1,006
Other Assets		
Deferred Tax Asset	1,288	1,227
Right-of-use Asset	3,599	1,416
Security Deposits	23	23
Other Assets	4,910	2,666
Total Assets	\$ 20,855	\$ 20,345
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 551	\$ 833
Operating Lease Liability	528	417
Accrued Expenses	851	1,077
Warrant Liability	-	2,544
Accrued Warranty Costs	78	83
Customer Advance Deposits	-	1
Current Liabilities	2,008	4,955
Other Liabilities		
Credit Facility	-	377
Operating Lease Liability, net of current portion	3,133	1,037
Other Liabilities	3,133	1,414
Total Liabilities	5,141	6,369
Commitments and Contingencies		
Stockholders' Equity		
Common Stock – (\$0.001 par, 2,000,000,000 authorized, 8,523,704 and 8,795,869 shares issued, and 8,488,149 and 8,690,136 outstanding, respectively)	9	9
Treasury Stock (at cost, 35,555 and 105,733 shares held, respectively)	(69)	(200)
Additional Paid in capital	25,752	26,276
Accumulated Deficit	(9,978)	(12,109)
Stockholders' Equity	15,714	13,976
Total Liabilities and Stockholders' Equity	\$ 20,855	\$ 20,345

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

Optex Systems Holdings, Inc.
Consolidated Statements of Income

(Thousands, except share and per share data)

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

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

Optex Systems Holdings, Inc.
Consolidated Statements of Cash Flows

	(Thousands)	
	Twelve months ended	
	October 3, 2021	September 27, 2020
Cash Flows from Operating Activities:		
Net Income	\$ 2,131	\$ 1,825
Adjustments to Reconcile Net Income to Net Cash provided by Operating Activities:		
Depreciation and Amortization	263	248
(Gain) Loss on Change in Fair Value of Warrants	(2,535)	508
Stock Compensation Expense	228	197
Deferred Tax	(60)	187
Accounts Receivable	(230)	113
Inventory	1,208	1,744
Prepaid Expenses	(33)	119
Leases	24	38
Accounts Payable and Accrued Expenses	(510)	(1,103)
Accrued Warranty Costs	(4)	37
Customer Advance Deposits	(1)	(2)
Increase (Decrease) In Accrued Estimated Loss On Contracts	-	-
Total Adjustments	(1,650)	2,086
Net Cash provided by Operating Activities	481	3,911
Cash Flows used in Investing Activities		
Purchases of Property and Equipment	(274)	(152)
Net Cash used in Investing Activities	(274)	(152)
Cash Flows used in Financing Activities		
Cash Paid for Taxes Withheld On Net Settled Restricted Stock Unit Share Issue	(44)	(54)
Payments (to) Borrowings from Credit Facility	(377)	127
Proceeds from Warrant Exercise	283	-
Stock Repurchase	(869)	(200)
Net Cash used in Financing Activities	(1,007)	(127)
Net (Decrease) Increase in Cash and Cash Equivalents	(800)	3,632
Cash and Cash Equivalents at Beginning of Period	4,700	1,068
Cash and Cash Equivalents at End of Period	\$ 3,900	\$ 4,700
Supplemental Cash Flow Information:		
Non Cash Transactions:		
Right-of-Use Asset	\$ 3,688	\$ 1,811
Operating Lease Liabilities	(3,688)	(1,894)
Treasury stock retired	(1,000)	-
Cash Transactions:		
Cash Paid for Taxes	48	289
Cash Paid for Interest	11	19

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

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

(Thousands, except share data)

	Common Shares Issued	Treasury Shares	Common Stock	Treasury Stock	Additional Paid in Capital	Retained Earnings	Total Stockholders Equity
Balance at September 29, 2019	8,436,422	-	\$ 8	\$ -	\$ 26,134	\$ (13,934)	\$ 12,208
Stock Compensation Expense	-	-	-	-	197	-	197
Vested restricted stock units issued net of tax withholding	59,447	-	-	-	(54)	-	(54)
Restricted Board Shares Issued ⁽¹⁾	300,000	-	1	-	(1)	-	-
Common Stock Repurchase ⁽²⁾	-	105,733	-	(200)	-	-	(200)
Net income	-	-	-	-	-	1,825	1,825
Balance at September 27, 2020	8,795,869	105,733	\$ 9	\$ (200)	\$ 26,276	\$ (12,109)	\$ 13,976
Stock Compensation Expense	-	-	-	-	228	-	228
Vested restricted stock units issued net of tax withholding	58,392	-	-	-	(44)	-	(44)
Common Stock Repurchase ⁽²⁾	-	449,088	-	(869)	-	-	(869)
Exercise of Warrants ⁽³⁾	188,809	-	-	-	292	-	292
Common Stock Purchase and Cancellation	(100)	-	-	-	-	-	-
Cancellation of Treasury Shares ⁽²⁾	(519,266)	(519,266)	-	1,000	(1,000)	-	-
Net income	-	-	-	-	-	2,131	2,131
Balance at October 3, 2021	8,523,704	35,555	\$ 9	\$ (69)	\$ 25,752	\$ (9,978)	\$ 15,714

(1) 100,000 restricted common shares issued to each of the Independent Board of Directors (Rimmy Malhotra, Dale Lehman, Larry Hagenbuch) on April 30, 2020 with 20% vesting as of each January 1 each year over a five-year period. The value of the shares at issue date is \$525,000 for 300,000 shares to be amortized over the vesting period. As of October 3, 2021, 60,000 of the director shares were vested, and 240,000 were unvested.

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

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

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

Note 1 — Organization and Operations

Optex Systems Holdings, Inc. (“the Company”) manufactures optical sighting systems and assemblies for the U.S. Department of Defense, foreign military applications and commercial markets. Its products are installed on a variety of U.S. military land vehicles, such as the Abrams and Bradley fighting vehicles, light armored and advanced security vehicles, and have been selected for installation on the Stryker family of vehicles. Optex Systems Holdings also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Optex Systems Holdings’ products consist primarily of build to customer print products that are delivered both directly to the military and to other defense prime contractors or commercial customers. Optex Systems Holdings’ operations are based in Dallas and Richardson, Texas in leased facilities comprising 93,967 square feet. As of October 3, 2021, the Company operated with 84 full-time equivalent employees.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

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

Fiscal Year: Optex System Holdings’ fiscal year ends on the Sunday nearest September 30. Fiscal year 2021 ended on October 3, 2021 and included 53 weeks. Fiscal year 2020 ended on September 27, 2020 and included 52 weeks.

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

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

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

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

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

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

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

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

Cash and Cash Equivalents: For financial statement presentation purposes, Optex Systems Holdings considers those short-term, highly liquid investments with original maturities of three months or less to be cash or cash equivalents. Optex Systems Holdings has \$3.9 million in cash on deposit with our banks. Only a portion of the cash, currently \$500 thousand, would be covered by federal deposit insurance and the uninsured balances are substantially greater than the insured amounts.

Concentration of Credit Risk: The Company's revenues for fiscal year ended October 3, 2021 are derived from sales to U.S. government agencies (28%), four U.S. defense contractors (27%, 11%, 5%, and 5%), one major commercial customer (10%) and all other customers (14%). The Company's revenues for fiscal year ended September 27, 2020 are derived from sales to U.S. government agencies (50%), three major U.S. defense contractors (19%, 6% and 5%), one major commercial customer (9%) and all other customers (11%). Optex Systems Holdings does not believe that this concentration results in undue credit risk because of the financial strength of the obligees.

Accounts Receivable: Optex Systems Holdings records its accounts receivable at the original sales invoice amount less liquidations for previously collected advance/progress bills and an allowance for doubtful accounts. An account receivable is considered to be past due if any portion of the receivable balance is outstanding beyond its scheduled due date. On a quarterly basis, Optex Systems Holdings evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on its history of past write-offs and collections, and current credit conditions. No interest is accrued on past due accounts receivable. As of October 3, 2021, and September 27, 2020, Optex Systems Holdings had an allowance for doubtful accounts of \$5 thousand, for non U.S. government account balances greater than 120 days. As the customer base is primarily U.S. government and government prime contractors, Optex Systems Holdings allowance for doubtful accounts is minimal. Optex Systems Holdings charges uncollectible accounts to bad debt expense in the period as they are first deemed uncollectible. In the fiscal year 2021 we recognized zero in bad debt expenses associated with uncollectible accounts. In the fiscal year 2020 we recognized \$1 thousand in bad debt expenses associated with uncollectible accounts.

As of October 3, 2021, 87% of the accounts receivable balance was comprised of six customers: the U.S. government, 34%, three major defense contractors, 13%, 10% and 7%, a commercial customer, 16%, and a foreign military customer, 7%. As of September 27, 2020, 89% of the accounts receivable balance was comprised of five customers: the U.S. government, 29%, three major defense contractors, 39%, 8% and 7%, and a commercial customer, 6%.

Inventory: Inventory is recorded at the lower of cost or net realizable value, and adjusted as appropriate for decreases in valuation and obsolescence. Adjustments to the valuation and obsolescence reserves are made after analyzing market conditions, current and projected sales activity, inventory costs and inventory balances to determine appropriate reserve levels. Cost is determined using the first-in first-out method. As of October 3, 2021, and September 27, 2020 inventory included:

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

In the twelve months ended October 3, 2021 Optex Systems recorded \$69 thousand of obsolete and excess inventory reserves. Net Inventory decreased by \$1.2 million in support of deliveries against several long running contracts during the 2021 fiscal year.

Warranty Costs: Some of Optex Systems Holdings' customers require that the Company warrant the quality of its products to meet customer requirements and be free of defects for up to twelve months subsequent to delivery. Future warranty costs are based on the estimated cost of replacement for expected returns based upon our most recent experience rate of defects as a percentage of warranty covered sales. Throughout the year, warranty costs are expensed as incurred, and as of each year end, Optex Systems Holdings reviews the prior 12-month warranty experience rate and may adjust the warranty accrual as required to cover any estimated warranty expenses associated the period end backlog of returned customer units awaiting repair or replacement plus any estimated warranty expenses related to anticipated future returns on previous deliveries. As of October 3, 2021, and September 27, 2020, the existing warranty reserve balances of \$78 thousand and \$83 thousand, respectively, were reviewed and determined to be adequate to satisfy any future warranty claims that may have existed as of the end of each fiscal year for shipments occurring in the prior 12 months. We have made numerous improvements to our supplier bases and internal production process to reduce the return rate on future shipments but will continue to review and monitor the reserve balances related to this product line against any existing warranty backlog and current trend data as we repair and replace our current warranty backlog and process future warranty returns.

The table below summarizes the warranty expenses and incurred warranty costs for the twelve months ended October 3, 2021 and September 27, 2020.

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

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

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

Property and Equipment: Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Expenditures for renewals and betterments are capitalized. Expenditures for minor items, repairs and maintenance are charged to operations as incurred. Gain or loss upon sale or retirement due to obsolescence is reflected in the operating results in the period the event takes place.

Leases: In February 2016, FASB issued ASU 2016-02—*Leases (Topic 842)*. The update is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As such, Optex Systems Holdings adopted these provisions as of the fiscal year beginning on September 30, 2019. Optex Systems Holdings has two significant operating facilities leases which extend beyond twelve months and fall under the guidance of ASC Topic 842. Adoption of ASC Topic 842 resulted in the balance sheet recognition of a right-of-use asset of \$1.9 million and corresponding operating lease liabilities of approximately \$1.8 million as of the beginning of the fiscal year ended on September 27, 2020, representing the present value of future lease payments as of the beginning of the year, for the term of the equipment lease and both segment facility leases and which assumed the exercise of a five-year renewal option at the Applied Optics Center as of November 1, 2021. On January 11, 2021, the Company executed amendments extending the lease terms of both facilities for eighty-six months. Execution of the new lease amendments for the Dallas and Richardson facilities on January 11, 2021 resulted in the balance sheet recognition of a right-of-use asset of \$3.7 million and corresponding operating lease liabilities of approximately \$3.7 million during the period.

As of period ended September 27, 2021, the Company has recognized a \$1.4 million in right-of-use-asset and corresponding operating lease liabilities of \$1.5 million. As of period ended October 3, 2021, the Company has recognized a \$3.6 million in right-of-use-asset and corresponding operating lease liabilities of \$3.7 million. See also Note 7.

Revenue Recognition: The Company has adopted FASB ASC 606—Revenue from Contracts with Customers which requires revenue recognition based on a five-step model that includes: identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price and recognizing the revenue. The standard results in the recognition of revenue depicting the transfer of promised goods or services to customers in an amount reflecting the expected consideration to be received from the customer for such goods and services, based on the satisfaction of performance obligations, occurring when the control of the goods or services transfer to the customer. The majority of the Company's contracts and customer orders originate with fixed determinable unit prices for each deliverable quantity of goods defined by the customer order line item (performance obligation) and include the specific due date for the transfer of control and title of each of those deliverables to the customer at pre-established payment terms, which are generally within thirty to sixty days from the transfer of title and control. We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods. In addition, the Company has one ongoing service contract which relates to optimized weapon system support (OWSS) and includes ongoing program maintenance, repairs and spare inventory support for the customer's existing fleet units in service during the duration of the contract. Revenue recognition for this program has been recorded by the Company, and compensated by the customer, at fixed monthly increments over time, consistent with the defined contract maintenance period. The total revenue recognized over time related to the contract is \$479 thousand for the twelve months ended October 3, 2021 and \$451 thousand for the twelve months ended September 27, 2020.

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

During the twelve months ended October 3, 2021, there was \$1 thousand of revenue recognized during the period from customer deposit liabilities (deferred contract revenue). During the twelve months ended September 27, 2020 there was \$3 thousand of revenue recognized during the period from customer deposit liabilities (deferred contract revenue). As of the twelve months ended October 3, 2021 and September 27, 2020, there are no significant deferred contract costs such as sales commissions.

Customer Advance Deposits: Customer advance deposits represent amounts collected from customers in advance of shipment or revenue recognition which relate to undelivered product due to non-substantive milestone payments or other cash in advance payment terms. As of October 3, 2021, and September 27, 2020, Optex Systems, Inc. had a balance of zero and \$1 thousand, respectively, in customer advance deposits.

Government Contracts: Many of Optex Systems Holdings' contracts are prime or subcontracted directly with the Federal government and as such, are subject to Federal Acquisition Regulation (Federal Acquisition Regulation) Subpart 49.5, "Contract Termination Clauses" and more specifically Federal Acquisition Regulation clauses 52.249-2 "Termination for Convenience of the Government (Fixed-Price)", and 49.504 "Termination of fixed-price contracts for default". These clauses are standard clauses on prime military contracts and are required by the government to be "flowed down" by the prime contractor to any subcontractors used to perform work or provide components against the award. It has been Optex Systems Holdings' experience that the termination for convenience is rarely invoked, except where it has been mutually beneficial for both parties. Optex Systems Holdings is not currently aware of any pending terminations for convenience or default on its existing prime contracts or customer purchase orders.

Impairment or Disposal of Long-Lived Assets: Optex Systems Holdings follows the provisions of FASB ASC 360-10, "Accounting for the Impairment or Disposal of Long-lived Assets". This standard requires, among other things, that long-lived assets be reviewed for potential impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such assets, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to estimate future cash flows and the fair value of long-lived assets. No impairment of long-lived assets was recorded for the periods presented.

Stock-Based Compensation: FASB ASC 718 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, but primarily focuses on transactions whereby an entity obtains employee services for share-based payments. FASB ASC 718 requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

Income Tax/Deferred Tax: FASB ASC 740 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on differing treatment of items for financial reporting and income tax reporting purposes. The deferred tax balances are adjusted to reflect tax rates by tax jurisdiction, based on currently enacted tax laws, which will be in effect in the years in which the temporary differences are expected to reverse. Under FASB ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that Optex Systems Holdings will not realize tax assets through future operations. When assessing the recoverability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies and results of recent operations. Based on those estimates, management has determined that a portion of the deferred tax assets may not be realized and has established a valuation allowance against the deferred tax asset balance. We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

As of October 3, 2021, Optex Systems Inc. has a net carrying value of \$1.3 million in deferred tax assets represented by deferred tax assets of \$2.1 million and a deferred tax asset valuation allowance of (\$0.8) million against those assets. The valuation allowance has been established due to historical losses resulting in a Net Operating Loss Carryforward for each of the fiscal years 2010 through 2016 which may not be fully recognized due to an IRS Section 382 limitation related to a change in control occurring in fiscal year 2018. Due to historical losses, our valuation allowance reserve was set at 100% of the deferred tax asset for the years 2014 through 2018 for a net carrying value of zero. As of October 3, 2021, and September 27, 2020, we reviewed the deferred tax assets and determined it was more likely than not that we would be able to utilize a substantial portion of the deferred tax asset balance against future earnings. Our assumptions were based on the previous three years earnings trend as well as anticipated future earnings expected with the increases in U.S. defense and Foreign Military market spending. During the twelve months ended October 3, 2021, we recognized an additional \$0.04 million in tax benefits from the deferred tax assets. We will continue to review the deferred tax assets and related valuation reserves in accordance with ASC 740 on an annual basis.

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

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

For the twelve months ended October 3, 2021, 99,000 unvested restricted stock units and 240,000 restricted unvested shares (which converts to 82,788 incremental dilutive shares) were included in the diluted earnings per share calculation as dilutive. For the twelve months ended September 27, 2020, 182,000 unvested restricted stock units and 300,000 restricted unvested shares (which converts to 125,347 incremental dilutive shares) were included in the diluted earnings per share calculation as dilutive, and 4,125,200 warrants were excluded.

Our outstanding warrants during the twelve months ended October 3, 2021 and September 27, 2020 are participating securities which share dividend distributions and the allocation of any undistributed earnings (deemed dividends) with our common shareholders. During the twelve months ended October 3, 2021 and September 27, 2020, there were no declared dividends and allocated undistributed earnings of \$0.7 million and \$0.6 million attributable to the participating warrants, respectively.

Note 3 — Recent Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”). ASU 2018-13 modifies the disclosure requirements on recurring and nonrecurring fair value measurements in Topic 820. The amendments in the update are effective for all entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. As such, Optex Systems Holdings adopted these provisions as of the fiscal year beginning on September 28, 2020. There was no material impact on our financial statement disclosures as a result of the amendment adoption.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (“ASU 2016-13”). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, held-to-maturity debt securities and loans, and requires entities to use a new forward-looking expected loss model that will result in the earlier recognition of allowance for losses. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. As such, Optex Systems Holdings adopted these provisions as of the fiscal year beginning on September 28, 2020. There was no material impact on our consolidated financial statements and results of operations as a result of adopting ASU 2016-13.

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

Note 4 — Segment Reporting

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

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

Optex Systems (OPX) – Richardson, Texas

Optex Systems revenues are primarily in support of prime and subcontracted military customers. Approximately 85% of the Optex Systems segment revenue is comprised of domestic military customers, and 15% is comprised of foreign military customers. Optex Systems segment revenue is derived from the U.S. government, 28%, and two major U.S. defense contractors representing 21% and 11%, of the Company's consolidated revenue, respectively.

Optex Systems is located in Richardson Texas, with leased premises consisting of approximately 49,100 square feet. As of October 3, 2021, the Richardson facility operated with 47 full time equivalent employees in a single shift operation. Optex Systems, Richardson serves as the home office for both the Optex Systems and Applied Optics Center segments.

Applied Optics Center (AOC) – Dallas, Texas

The Applied Optics Center serves primarily domestic U.S. customers. Sales to commercial customers represent 35% and military sales to prime and subcontracted customers represent 65% of the total segment revenue. Approximately 86% of the AOC revenue is derived from external customers and approximately 14% is related to intersegment sales to Optex Systems in support of military contracts. For the twelve months ended October 3, 2021, the AOC segment revenue from the U.S. government, one major commercial customer, and two major defense contractors represent approximately 10%, 7% and 5% of the Company's consolidated revenue, respectively.

The Applied Optics Center is located in Dallas, Texas with leased premises consisting of approximately 44,867 square feet of space. As of October 3, 2021, AOC operated with 37 full time equivalent employees in a single shift operation.

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

Reportable Segment Financial Information				
(thousands)				
Twelve months ended October 3, 2021				
	Optex Systems Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	\$ 11,827	\$ 6,395	\$ -	\$ 18,222
Intersegment revenues	-	1,056	(1,056)	-
Total Revenue	\$ 11,827	\$ 7,451	\$ (1,056)	\$ 18,222
Interest expense	-	-	11	11
Depreciation and Amortization	41	222	-	263
Income (loss) before taxes	251	(517)	2,296	2,030
Other significant noncash items:				
Allocated home office expense	(677)	677	-	-
Gain on change in fair value of warrants	-	-	(2,535)	(2,535)
Stock compensation expense	-	-	228	228
Warranty expense	(15)	90	-	75
Segment Assets	14,010	6,845	-	20,855
Expenditures for segment assets	20	254	-	274

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

Note 5 — Property and Equipment

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

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

During the twelve months ended October 3, 2021, Optex Systems Holdings' purchased \$254 thousand in new furniture and fixtures and \$20 thousand in leasehold improvements. During the twelve months ended October 3, 2021, there were no sales or retirements of fixed assets. During the twelve months ended September 27, 2020, Optex Systems Holdings' purchased \$20 thousand in new furniture and fixtures and \$132 thousand in machinery and equipment. During the twelve months ended September 27, 2020, there were no sales or retirements of fixed assets.

Note 6 — Accrued Expenses

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

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

Note 7 — Commitments and Contingencies

Rental Payments under Non-cancellable Operating Leases

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

The leased facility under Optex Systems Inc. located at 1420 Presidential Drive, Richardson, Texas consists of 49,100 square feet of space at the premises. The previous lease term for this location expired March 31, 2021 and the monthly base rent was \$24.6 thousand through March 31, 2021. On January 11, 2021 the Company executed a sixth amendment extending the terms of the lease for eighty-six (86) months, commencing on April 1, 2021 and ending on May 31, 2028. The initial base rent is set at \$25.3 thousand and escalates 3% on April 1 each year thereafter. The initial term included 2 months of rent abatement for April and May of 2021. The monthly rent includes approximately \$11.6 thousand for additional Common Area Maintenance fees and taxes ("CAM"), to be adjusted annually based on actual expenses incurred by the landlord.

The leased facility under the Applied Optics Center located at 9839 and 9827 Chartwell Drive, Dallas, Texas, consists of 44,867 square feet of space at the premises. The previous lease term for this location expired on October 31, 2021 and the monthly base rent was \$21.9 thousand through the end of the lease. On January 11, 2021 the Company executed a first amendment extending the terms of the lease for eighty-six (86) months, commencing on November 1, 2021 and ending on December 31, 2028. The initial base rent is set at \$23.6 thousand as of January 1, 2022 and escalates 2.75% on January 1 each year thereafter. The initial term includes 2 months of rent abatement for November and December of 2021. The amendment provides for a five-year renewal option at the end of the lease term at the greater of the then “prevailing rental rate” or the then current base rental rate. Our obligations to make payments under the lease are secured by a \$125,000 standby letter of credit. The monthly rent includes approximately \$7.8 thousand for additional CAM, to be adjusted annually based on actual expenses incurred by the landlord.

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

Optex Systems Holdings adopted the provisions of ASC Topic 842 “Leases” as of the fiscal year beginning on September 30, 2019. Optex Systems Holdings has two significant operating facilities leases and one equipment lease which extend beyond twelve months and fall under the guidance of ASC Topic 842. Adoption of ASC Topic 842 resulted in the balance sheet recognition of a right-of-use asset of \$1.8 million and corresponding operating lease liabilities of approximately \$1.9 million as of September 30, 2019, which represented the present value of future lease payments for the term of the equipment lease and both segment facility leases and which assumed the exercise of a five-year renewal option at the Applied Optics Center as of November 1, 2021. Execution of the new lease amendments for the Dallas and Richardson facilities on January 11, 2021 resulted in the balance sheet recognition of a right-of-use asset of \$3.7 million and corresponding operating lease liabilities of approximately \$3.7 million during the twelve months ended October 3, 2021.

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

Non-cancellable Operating Leases Minimum Payments

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

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

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

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

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

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

Note 8 — Debt Financing

Credit Facility — PNC Bank (formerly BBVA, USA)

On April 16, 2020, the Company terminated its facility with Avidbank and entered into a new facility with BBVA USA.

On April 16, 2020, Optex Systems Holdings, Inc. and its subsidiary, Optex Systems, Inc. (the “Borrower”) entered into a line of credit facility (the “Facility”) with BBVA, USA. In June 2021, PNC Bank completed its acquisition of BBVA, USA and the bank name changed to PNC Bank (“PNC”). The substantive terms are as follows:

- The principal amount of the Facility is \$2.25 million. The Facility matures on April 15, 2022. The interest rate is variable based on PNC’s Prime Rate plus a margin of -0.250%, initially set at 3% at loan origination, and all accrued and unpaid interest is payable monthly in arrears starting on May 15, 2020; and the principal amount is due in full with all accrued and unpaid interest and any other fees on April 15, 2022.
- There are commercially standard covenants including, but not limited to, covenants regarding maintenance of corporate existence, not incurring other indebtedness except trade debt, not changing more than 25% stock ownership of Borrower, and a Fixed Charge Coverage Ratio of 1.25:1, with the Fixed Charge Coverage Ratio defined as (earnings before taxes, amortization, depreciation, amortization and rent expense less cash taxes, distribution, dividends and fair value of warrants) divided by (current maturities on long term debt plus interest expense plus rent expense). As of October 3, 2021, the Company was in compliance with the covenants.
- The Facility contains commercially standard events of default including, but not limited to, not making payments when due; incurring a judgment of \$10,000 or more not covered by insurance; not maintaining collateral and the like.
- The Facility is secured by a first lien on all of the assets of Borrower.

The outstanding balance on the credit facility was zero and \$377 thousand as of October 3, 2021 and September 27, 2020, respectively. For the years ended October 3, 2021 and September 27, 2020, the total interest expense against the outstanding line of credit balance was \$11 thousand and \$19 thousand, respectively.

Note 9 — Stock Based Compensation

Stock Options issued to Employees, Officers and Directors

The Optex Systems Holdings 2009 Stock Option Plan provides for the issuance of up to 75,000 shares to the Company’s officers, directors, employees and to independent contractors who provide services to Optex Systems Holdings as either incentive or non-statutory stock options determined at the time of grant. During the twelve months ended September 27, 2020, all of the 25,000 outstanding stock options were repurchased at \$0.01 per option for a total transaction of \$250. There were no new grants of stock options during the twelve months ended October 3, 2021. As of October 3, 2021, there are zero stock options outstanding.

Restricted Stock Units issued to Officers and Employees

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

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

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

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

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

Restricted Shares Issued to Independent Board Members

On April 30, 2020, the Optex Systems Holdings, Inc. Board of Directors held a meeting and voted to increase the annual board compensation for the three independent directors from \$22,000 to \$36,000 with an effective date of January 1, 2020, in addition to granting 100,000 restricted shares to each independent director which shall vest at a rate of 20% per year (20,000 shares) each January 1st, over the next five years, through January 1, 2025. The total market value for the 300,000 shares is \$525 thousand based on the stock price of \$1.75 as of April 30, 2020. The Company will amortize the fair market value to stock compensation expense on a straight-line basis across the five-year vesting period beginning on April 30, 2020. On January 1, 2021, 60,000 of the restricted director shares vested.

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

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

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

Stock Based Compensation Expense

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

	Stock Compensation (thousands)			
	Recognized Compensation Expense Twelve months ended		Unrecognized Compensation Expense As of year ended	
	October 3, 2021	September 27, 2020	October 3, 2021	September 27, 2020
Restricted Shares	\$ 105	\$ 79	\$ 341	\$ 446
Restricted Stock Units	123	118	66	188
Total Stock Compensation	\$ 228	\$ 197	\$ 407	\$ 634

The unrecognized compensation expense for restricted shares and restricted stock units is expected to be recognized over a weighted-average period of 3.25 years and 0.92 years, respectively.

Note 10 — Defined Contribution Plan

The Company sponsors a defined contribution pension plan under Section 401(k) of the Internal Revenue Code for all employees. Company contributions are voluntary and are determined annually at the discretion of the Board of Directors at the beginning of each fiscal year. For the fiscal years ended October 3, 2021 and September 27, 2020, the Company offered a qualified automatic contribution arrangement (QACA) with a 100% match of the first 1% and 50% matching of the next 5% and a 2-year vesting requirement. The Company's contribution expense for the fiscal years ended October 3, 2021 and September 27, 2020 were \$158 thousand and \$165 thousand, respectively.

Note 11 — Stockholders' Equity

Dividends

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

Common stock

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

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

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

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

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

On September 22, 2021 the Company announced authorization for an additional \$1 million stock repurchase program. As of October 3, 2021, there were 35,555 shares held in treasury purchased under the September 2021 stock repurchase plan. The shares authorized to be repurchased under the repurchase program may be purchased from time to time at prevailing market prices, through open market or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC.

During the twelve months ended October 3, 2021, there were 449,088 common shares repurchased through the program at a cost of \$869 thousand. During the twelve months ended September 27, 2020, there were 105,733 common shares repurchased through the program at a cost of \$200 thousand. A summary of the purchases under the plan follows:

Fiscal Period	Total number of shares purchased	Total purchase cost	Average price paid per share (with commission)	Maximum dollar value that may yet be purchased under the plan
Stock Buyback Plan initiated May 2020 (\$1,000,000)				
May 24, 2020 through June 28, 2020	34,243	\$ 63	\$ 1.84	\$ 937
June 29, 2020 through July 26, 2020	6,806	13	1.89	924
July 27, 2020 through August 23, 2020	10,688	21	1.96	903
August 23, 2020 through September 27, 2020	53,996	103	1.90	800
September 28, 2020 through October 25, 2020	20,948	42	2.01	758
October 26, 2020 through November 22, 2020	129,245	265	2.05	493
November 23, 2020 through December 27, 2020	58,399	109	1.86	384
December 28, 2020 through January 24, 2021	40,362	73	1.80	311
January 25, 2021 through February 21, 2021	52,180	101	1.94	210
February 22, 2021 through March 28, 2021	73,800	140	1.90	70
March 29, 2021 through April 19, 2021	38,599	70	1.82	-
Total shares repurchased and cancelled	519,266	\$ 1,000	\$ 1.93	\$ -
Stock Buyback Plan initiated September 2021 (\$1,000,000)				
September 23, 2021 through October 1, 2021	35,555	\$ 69	\$ 1.93	\$ 931
Total shares repurchased for the twelve months ended September 27, 2020	105,733	\$ 200	\$ 1.89	
Total shares repurchased for the twelve months ended October 3, 2021	449,088	869	1.93	
Total shares repurchased as of October 3, 2021	554,821	\$ 1,069	\$ 1.93	\$ 931

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

Warrants

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

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

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

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

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

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

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

As of September 27, 2020 there were 4,125,200 warrants outstanding. During the twelve months ended September 27, 2020, there were zero warrants exercised or repurchased. During the twelve months ended October 3, 2021, 188,809 of the warrants were exercised and zero warrants repurchased. On August 26, 2021, the remaining 3,936,391 warrants expired worthless. As of October 3, 2021, there were zero outstanding warrants remaining.

Note 12 — Warrant Liabilities

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

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

<i>Valuation Assumptions</i>	Issuance date August 26, 2016	Period ended October 1, 2017	Period ended September 30, 2018	Period ended September 29, 2019	Period ended September 27, 2020	Expiration date August 26, 2021⁽⁵⁾
Exercise Price ⁽¹⁾	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50
Warrant Expiration Date ⁽¹⁾	8/26/2021	8/26/2021	8/26/2021	8/26/2021	8/26/2021	8/26/2021
Stock Price ⁽²⁾	\$ 0.95	\$ 0.98	\$ 1.71	\$ 1.56	\$ 1.96	\$ 1.49
Interest Rate (annual) ⁽³⁾	1.23%	1.62%	2.88%	1.63%	0.12%	-
Volatility (annual) ⁽⁴⁾	246.44%	179.36%	64.05%	53.66%	51.67%	-
Time to Maturity (Years)	5	3.9	2.9	1.9	0.9	Expired
Calculated fair value per share	\$ 0.93	\$ 0.87	\$ 0.82	\$ 0.49	\$ 0.62	\$ -

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

(2)Based on the trading value of common stock of Optex Systems Holdings, Inc. as of each presented period ending date. August 26, 2021 stock price based on the volume weighted average price for 618,451 share trades on that date. Closing price was \$1.55 based trades of 2,400 final shares traded.

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

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

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

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

Warrant Liability	Warrants Outstanding	Fair Value per Share	Fair Value (000's)
Fair Value as of period ended 9/29/2019	4,125,200	\$ 0.49	\$ 2,036
Loss on Change in Fair Value of Warrant Liability			508
Fair Value as of period ended 9/27/2020	4,125,200	\$ 0.62	\$ 2,544
Reclassification to additional paid in capital on exercise of warrants ⁽¹⁾	(188,809)		(9)
Gain on Change in Fair Value of Warrant Liability ⁽²⁾	(3,936,391)		(2,535)
Fair Value as of period ended 10/03/2021	-	\$ -	\$ -

(1) Exercise of warrants for gross proceeds of \$283 thousand and a warrant liability fair market value of \$292 thousand as of the exercise date.

(2) Expiration of Warrants on August 26, 2021.

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

Note 13 — Income Taxes

The income tax provision for the years ended October 3, 2021 and September 27, 2020 include the following:

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

As of October 3, 2021, Optex Systems Inc. has a net carrying value of \$1.3 million in deferred tax assets represented by deferred tax assets of \$2.1 million and a deferred tax asset valuation allowance of (\$0.8) million against those assets. The valuation allowance has been established due to historical losses resulting in a Net Operating Loss Carryforward for each of the fiscal years 2010 through 2016 which may not be fully recognized due to an IRS Section 382 limitation related to a change in control occurring in fiscal year 2018. As of October 3, 2021, and September 27, 2020, we reviewed the deferred tax assets and determined it was more likely than not that we would be able to utilize a substantial portion of the deferred tax asset balance against future earnings. Our assumptions were based on the previous three years earnings trend as well as anticipated future earnings expected with the recent orders and increased backlog as of October 3, 2021. During the twelve months ended October 3, 2021, the Company recognized (\$0.04) million in tax benefits to deferred tax assets. During the twelve months ended September 27, 2020, the Company recognized \$0.2 million in tax expenses from deferred tax assets. We will continue to review the deferred tax assets and related valuation reserves in accordance with ASC 740 on an annual basis.

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

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

Deferred income taxes recorded in the balance sheets result from differences between financial statement and tax reporting of income and deductions. A summary of the composition of the deferred income tax assets (liabilities) follows:

	(Thousands)	
	<u>Deferred Tax Asset</u>	
	<u>As of</u> <u>October 3, 2021</u>	<u>As of</u> <u>September 27, 2020</u>
Stock Compensation	\$ 73	\$ 64
Inventory Reserve	134	119
Unicap	27	31
Deferred Compensation	-	39
Fixed assets	(226)	(18)
Goodwill Amortization	199	299
Intangible Asset Amortization	113	170
Net Operating Losses	1,657	1,362
Other	119	124
Subtotal	<u>\$ 2,096</u>	<u>\$ 2,190</u>
Valuation allowance	<u>(808)</u>	<u>(963)</u>
Net deferred asset	<u>\$ 1,288</u>	<u>\$ 1,227</u>

The Company has a net loss carryforward of \$7.9 million as of October 3, 2021 as compared to a net loss carryforward of \$6.5 million as of September 27, 2020. Due to an IRS section 382 change in control limitation which was effective during the fiscal year ended 2017, it is anticipated that the Company may only realize \$4.0 million of the current net operating loss carryforward for a net tax benefit of \$0.8 million through fiscal year ending in 2037. For the year ended October 3, 2021, the Company realized a (\$1.4) million net operating tax loss which is not subject to the IRS section 382 limitation and is available for a tax loss carryback up to five years.

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

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

Note 14 — Subsequent Events

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

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

The employment agreement events of termination consist of: (i) death or permanent disability of Mr. Schoening; (ii) termination by the Company for cause (including conviction of a felony, commission of fraudulent acts, willful misconduct by Mr. Schoening, continued failure to perform duties after written notice, violation of securities laws and breach of the employment agreement), (iii) termination by the Company without cause and (iv) termination by Mr. Schoening for good reason (including breach by the Company of its obligations under the agreement, the requirement for Mr. Schoening to move more than 100 miles away for his employment without consent, and merger or consolidation that results in more than 66% of the combined voting power of the Company's then outstanding securities or those of its successor changing ownership or a sale of all or substantially all of its assets, without the surviving entity assuming the obligations under the agreement). For a termination by the Company for cause or upon death or permanent disability of Mr. Schoening, Mr. Schoening will be paid salary and for a termination due to his death or permanent disability, also any bonus earned through the date of termination. For a termination by the Company without cause or by Mr. Schoening with good reason, Mr. Schoening will also be paid six months' base salary in effect and, if such termination occurs prior to a change of control, Mr. Schoening will not forfeit the unvested RSUs until and unless the change of control does not occur by March 13, 2023.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of October 3, 2021, management performed, with the participation of our Principal Executive Officer and Principal Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the report we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's forms, and that such information is accumulated and communicated to our management including our Principal Executive Officer and our Principal Financial Officer, to allow timely decisions regarding required disclosures. Based on the evaluation, our Principal Executive Officer and our Principal Financial Officer concluded that, as of October 3, 2021, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the quarter ended October 3, 2021, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has conducted, with the participation of our Principal Executive Officer and our Principal Financial Officer, an assessment, including testing of the effectiveness, of our internal control over financial reporting as of October 3, 2021. Management's assessment of internal control over financial reporting was conducted using the criteria in *the 2013 Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In connection with our management's assessment of our internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002, we have not identified any material weaknesses in our internal control over financial reporting as of October 3, 2021. We have thus concluded that our internal control over financial reporting was effective as of October 3, 2021.

Item 9.B. Other Information

None.

PART III

Item 10 Directors, Executive Officers and Corporate Governance

Our board of directors directs the management of the business and affairs of our company as provided in our certificate of incorporation, our by-laws and the General Corporation Law of Delaware. Members of our board of directors keep informed about our business through discussions with senior management, by reviewing analyses and reports sent to them, and by participating in regularly scheduled board and committee meetings.

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

As of October 3, 2021, our board of directors consists of four directors, which includes three independent directors and one non-independent director as discussed below.

Our board leadership structure is used by other smaller public companies in the United States, and we believe that this leadership structure is effective for us. We believe that our directors provide effective oversight of the risk management function, especially through dialogue between the full board and our management. Our directors serve for a one-year term and until their successors are elected and duly qualify.

Due to our small size, the priority has been in attracting qualified directors, with some consideration toward board diversity.

Directors and Executive Officers

The following table sets forth information regarding the members of our board of directors and our executive officers and other significant employees.

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

Name	Age	Position
Danny Schoening	57	Chairman and Director, Chief Executive Officer, Chief Operating Officer
Karen L. Hawkins	56	Chief Financial Officer
Larry Hagenbuch	55	Director, Audit Committee Chair (appointed November 4, 2019)
Dale Lehmann	63	Director, Nominating Committee Chair (appointed November 4, 2019)
Rimmy Malhotra	46	Director, Compensation Committee Chair (appointed November 4, 2019)
Billy Bates ⁽²⁾	59	General Manager, Applied Optics Center

Danny R. Schoening (57). Mr. Schoening joined Optex Systems, Inc. (Texas) in January 2008. Upon the acquisition of the assets of Optex Systems, Inc. (Texas) by Optex Systems, Inc. (Delaware), Danny became the COO of Optex Systems, Inc. (Delaware) (as of September 28, 2008) and he commenced service with Optex Systems Holdings as its Chief Operating Officer as of the date of the reorganization, March 30, 2009 and was appointed Chief Executive Officer and as a Director in 2013. He has been instrumental in establishing the systems and infrastructure required to continue Optex System’s rapid growth. This activity was rewarded with Optex System’s recent ISO 9001:2000 Certification. From February 2004 to January 2008, Danny was the Vice President of Operations for The Finisar Corporation AOC Division for 4 years where he led a team of up to 200 employees to produce vertical cavity lasers for the data communications industry at production rates of hundreds of thousands of units per week. Prior to Finisar, Danny was the Director of Operations for multiple divisions of Honeywell International. Serving the Automotive, Medical, Aerospace, and Consumer Commercial Markets. During this 17-year period, Danny was recognized with Honeywell’s Lund Award, their highest award for developing employee resources. Danny has a broad experience level in the following technologies: Mechanical Assembly Processes, Micro-Electronic Assembly Processes, Laser Manufacturing, Plastic Molding, Metal Machining, Plating, Thick Film Printing, Surface Mount Technology, Hall Effect Technology and MEMS based Pressure Devices. Danny received a Bachelor’s of Science in Manufacturing Engineering Technology from the University of Nebraska, an MBA from Southern Methodist University, and holds three U.S. patents. The Board of Directors has determined that Danny is suited to sit on our Board because of his industry experience and as he is the CEO.

Karen L. Hawkins (56). On November 19, 2014, Karen Hawkins was appointed as our Chief Financial Officer. Ms. Hawkins had previously served as our Vice President, Finance and Controller, since the date of the reorganization, March 30, 2009 and was the controller of Optex Systems, Inc. (Delaware), effective September 28, 2009. She began her employment with Optex Systems, Inc. (Texas) in April 2007. Ms. Hawkins has over 30 years' experience in Financial Accounting and Management, primarily focused in the Defense and Transportation Industries. She has a strong background in both Financial & Cost Accounting, with extensive Government Pricing, Financial Analysis, and Internal Auditing experience. Her past history also includes Program Management, Materials Management and Business Development. She brings over 25 years' direct experience in Government Contracting with a strong knowledge of Cost Accounting Standards Board and Federal Acquisition Regulation. Her previous employment includes General Dynamics — Ordnance and Tactical Division, Garland (formerly known as Intercontinental Manufacturing) for over 13 years from November, 1994 through March, 2007. During her tenure there she served in the roles of Controller (Accounting & IT), Program Manager over a \$250M 3-year Army Indefinite Delivery/Indefinite Quantity (Indefinite Delivery/Indefinite Quantity) type contract, as well as Materials Manager with oversight of Purchasing, Production Control & Warehousing functions. Prior to her employment at General Dynamics, Ms. Hawkins served in various finance and accounting positions at Luminator, a Mark IV Industries Co, and Johnson Controls, Battery Division - Garland. Karen received her Bachelor's Degree in Business Administration in Accounting from Stephen F. Austin State University in Texas in 1986 and became a Certified Public Accountant in 1992.

Bill Bates (59). Mr. Bates joined the Company in 2014. He has thirty-five years of experience related to optical component and system manufacturing. He is currently the General Manager of the Applied Optics Center in Dallas, Texas where he oversees the Thin-film Coating and Optical Assembly Operations where he has served since November of 2014. He has held various positions throughout his thirty-five years of experience within Litton Industries, Northrop Grumman Corporation, and L-3 Communications. He previously served as Vice President and General Manager within the Warrior Systems Division of L-3 Communications. Mr. Bates received a Bachelor of Science of Business Administration from DeVry University and an MBA from the University of Texas at Dallas.

R. Rimmy Malhotra (46) joined the Board in November 2019 and holds the role of Compensation Committee Chair. Rimmy currently manages The Nicoya Fund, an investment partnership whose partners include, high net worth individuals, entrepreneurs and family offices and has acted in that capacity since 2013. He currently serves as Vice-Chairman of HireQuest, Inc., a NASDAQ listed staffing operator. He holds an MBA from The Wharton School in Finance, MA in International Affairs from The University of Pennsylvania and a Bachelor of Science in Computer Science from Johns Hopkins University. The Board of Directors has determined that Rimmy is suited to sit on our Board because of his experience with public equities and financial matters.

Lawrence F. Hagenbuch (55) joined the Board in November 2019 and holds the role of Audit Committee Chair. Larry is currently a Managing Director at Huron Consulting Group. Prior to that, Larry was the Chief Operating Officer and Chief Financial Officer for J. Hilburn, Inc., a custom clothier for men from December 2009 to May 2019. He served on the board of directors of Remy International (REMY) from November 2008 until that company's sale to BorgWarner in November 2015, where he served on the audit and compensation committees. Larry also currently served on the board of director of Arotech (ARTX) prior to its sale to Greenbriar Partners. Larry currently serves on the board of directors for HireQuest (HQL). Larry has served in senior management positions for SunTx Capital Partners, Alix Partners, GE / GE Capital, and American National Can Group, Inc. Larry began his professional career in the United States Navy. The Board of Directors has determined that Larry is suited to sit on our Board because of his operating experience at both large and growth-oriented companies, in addition to his experience as a director of other public companies.

Dale E. Lehmann (63) joined the Board in November 2019 as an industry expert having over 30 years of management, strategy, product development, delivery and operational experience in the electro-optical industry. Dale was the Director of Business Development & Strategy for General Dynamics Global Imaging Technologies Group from 2014 through 2017. Prior to that, Dale was the Senior Vice President & General Manager of the Infrared Products Group for L-3 Communications/Cincinnati Electronics from 1995 through 2014. Dale currently sits on the Board of Directors for Adimec USA, a provider of application specific imaging solutions. The Board of Directors has determined that Dale is suited to sit on our Board because of his experience with companies in similar industries.

Family Relationships

There are no family relationships among the officers and directors.

Corporate Governance

Our board of directors believes that sound governance practices and policies provide an important framework to assist them in fulfilling their duty to stockholders. Our board of directors actively supports management's adoption and implementation of many "best practices" in the area of corporate governance, including annual review of internal control changes, compensation practices, executive management and auditor retention. In the year ended October 3, 2021, all directors attended a minimum of 75% of the meetings of the board of directors and of the committees on which they served.

Code of Ethics

Our board of directors has adopted a Code of Business Conduct and Ethics which has been distributed to all directors, and executive officers, and will be distributed to employees and will be given to new employees at the time of hire. The Financial Code of Ethics contains a number of provisions that apply principally to our Principal Executive Officer, Principal Financial Officer and other key accounting and financial personnel. A copy of our Code of Business Conduct and Ethics can be found under the "Investor Relations" section of our website (www.optexsys.com) under the section for corporate governance. We also intend to disclose any amendments or waivers of our Code on our website.

Board Meetings

We are incorporated under the laws of the State of Delaware. The interests of our stockholders are represented by the board of directors, which oversees our business and management.

The board of directors meets regularly during the year and holds special meetings and acts by unanimous written consent whenever circumstances require. The board held four meetings (including special meetings) and took action by unanimous written consent one time during our fiscal year ended October 3, 2021.

Board Independence

Our board of directors has determined that three of our directors (all except Mr. Schoening) would meet the independence requirements of the Nasdaq Capital Market, if such standards applied to the Company. In reaching its conclusions, the board of directors considered all relevant facts and circumstances with respect to any direct or indirect relationships between the Company and each of the directors.

Board Committees

The Company has a separately-designated audit committee, of which Larry Hagenbuch serves as the chair and the "audit committee financial expert." The Company has a separately-designated compensation committee, of which Rimmy Malhotra serves as the chair. The Company has a separately-designated nominating committee, of which Dale Lehman serves as the chair. Each committee consists of independent directors Larry Hagenbuch, Rimmy Malhotra and Dale Lehmann.

Board Nominations

Stockholders wishing to bring a nomination for a director candidate before a stockholders meeting must give written notice to our Corporate Secretary, either by personal delivery or by United States mail, postage prepaid. The stockholder's notice must be received by the Corporate Secretary not later than (a) with respect to an Annual Meeting of Stockholders, 90 days prior to the anniversary date of the immediately preceding annual meeting, and (b) with respect to a special meeting of stockholders for the election of directors, the close of business on the tenth day following the date on which notice of the meeting is first given to stockholders. The stockholder's notice must set forth all information relating to each person whom the stockholder proposes to nominate that is required to be disclosed under applicable rules and regulations of the SEC, including the written consent of the person proposed to be nominated to being named in the proxy statement as a nominee and to serving as a director if elected. The stockholder's notice must also set forth as to the stockholder making the nomination (i) the name and address of the stockholder, (ii) the number of shares held by the stockholder, (iii) a representation that the stockholder is a holder of record of stock of the Optex Systems Holdings, entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to nominate the person named in the notice, and (iv) a description of all arrangements or understandings between the stockholder and each nominee.

Stockholder Communications with the Board of Directors

Stockholders may communicate directly with the board of directors or any board member by writing to them at Optex Systems Holdings, Inc., 1420 Presidential Drive, Richardson, TX 75081. The outside of the envelope should prominently indicate that the correspondence is intended for the board of directors or for a specific director. The secretary will forward all such written communications to the director to whom it is addressed or, if no director is specified, to the entire board of directors.

Director Attendance at Annual Meetings of Stockholders

Directors are encouraged to attend annual meetings, although such attendance is not required. All four directors attended the Company's 2021 Annual Meeting of Shareholders.

Delinquent Section 16 Reports

Section 16(a) of the Exchange Act requires officers, directors and persons who own more than ten percent of a registered class of equity securities to, within specified time periods, file certain reports of ownership and changes in ownership with the SEC. Based solely on its review of the copies of such forms received by it, the Company believes that, during its most recently completed fiscal year ended on October 3, 2021, all Section 16(a) reports required to be filed by its officers, directors, and greater than ten percent beneficial owners were timely filed, except that (1) two reports were filed late by Dale Lehman, reporting seven late transactions, (2) one report was filed late by Rimmy Malhotra, reporting one late transaction and (3) one report was filed late by Ephraim Fields, reporting one late transaction.

Item 11 Executive Compensation

Summary Compensation Table

The following table sets forth, for the years indicated, all compensation paid, distributed or accrued for services, including salary and bonus amounts, rendered in all capacities by our principal executive officer, principal financial officer and all other executive officers who received or are entitled to receive remuneration in excess of \$100,000 during the stated periods. These officers are referred to herein as the "named executive officers." Except as provided below, none of our executive officers received annual compensation in excess of \$100,000 during the last three fiscal years.

Name and Principal Position	Fiscal Year	Salary (\$)	Non-Equity Incentive Compensation (\$)	Stock Awards (\$)(1)	All Other Compensation (\$)	Total (\$)
Danny Schoening, CEO, COO & Board Chairman	2021	\$ 271,515	\$ -	\$ 65,340	\$ 120	\$ 336,975
	2020	284,645	47,632	65,835	-	398,112
	2019	279,504	74,719	73,740	-	427,963
Karen Hawkins CFO	2021	\$ 199,500	\$ -	\$ 21,780	\$ 120	\$ 221,400
	2020	205,425	37,158	21,945	-	264,528
	2019	201,537	53,924	24,580	-	280,041
Bill Bates AOC General Manager	2021	\$ 149,002	\$ -	\$ 35,411	\$ 120	\$ 184,533
	2020	150,834	23,014	31,076	-	204,924
	2019	148,269	22,236	15,675	-	186,180

(1) On June 15, 2016, the Company issued 150,000 RSUs to its Chief Executive Officer, Danny Schoening, and 50,000 RSUs to its Chief Financial Officer, Karen Hawkins. The RSUs issued to Mr. Schoening and Ms. Hawkins vest as follows: 34% on January 1, 2017, 33% on January 1, 2018 and 33% on January 1, 2019. The total market value of the restricted stock units based on the share price of \$1.85 as of June 15, 2016 is \$372 thousand. The restricted stock units were fully vested on January 1, 2019. On June 15, 2017, the Company issued 50,000 RSUs to its General Manager (Applied Optical Products). The RSUs issued to Mr. Bates vest as follows: 34% on January 1, 2018, 33% on January 1, 2019 and 33% on January 1, 2020. The total market value of the restricted stock units granted to Mr. Bates based on the share price of \$0.95 as of June 15, 2017 is \$47.5 thousand. On January 2, 2019, the Company issued 150,000 RSUs to its Chief Executive Officer, Danny Schoening, and 50,000 RSUs to its Chief Financial Officer, Karen Hawkins. The RSUs issued to Mr. Schoening and Ms. Hawkins vest as follows: 34% on January 1, 2020, 33% on January 1, 2021 and 33% on January 1, 2022. The total market value of the restricted stock units based on the share price of \$1.32 as of January 2, 2019 is \$264 thousand. The cost of the shares is amortized on a straight-line basis across the vesting periods. On December 1, 2021 the Company executed an amended and restated twelve-month employment agreement for Danny Schoening, effective as of December 1, 2021 and expiring on November 30, 2022. The amended agreement modifies the Restricted Stock Unit (“RSU”) Agreement vesting requirements for his remaining 49,500 unvested units from January 1, 2022 to vesting upon a “Change of Control Date” as defined in the employment agreement. The amounts in the “Stock awards” column reflect the dollar amounts recognized as the executive portion of compensation expense for financial statement reporting purposes for each named executive officer, as required by FASB ASC 718, disregarding any estimates for forfeitures relating to service-based vesting conditions.

Employment Agreements

Danny Schoening

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

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

The employment agreement events of termination consist of: (i) death or permanent disability of Mr. Schoening; (ii) termination by the Company for cause (including conviction of a felony, commission of fraudulent acts, willful misconduct by Mr. Schoening, continued failure to perform duties after written notice, violation of securities laws and breach of the employment agreement), (iii) termination by the Company without cause and (iv) termination by Mr. Schoening for good reason (including breach by the Company of its obligations under the agreement, the requirement for Mr. Schoening to move more than 100 miles away for his employment without consent, and merger or consolidation that results in more than 66% of the combined voting power of the Company's then outstanding securities or those of its successor changing ownership or a sale of all or substantially all of its assets, without the surviving entity assuming the obligations under the agreement). For a termination by the Company for cause or upon death or permanent disability of Mr. Schoening, Mr. Schoening will be paid salary and for a termination due to his death or permanent disability, also any bonus earned through the date of termination. For a termination by the Company without cause or by Mr. Schoening with good reason, Mr. Schoening will also be paid six months' base salary in effect and, if such termination occurs prior to a change of control, Mr. Schoening will not automatically forfeit the unvested RSUs until and unless the change of control does not occur by March 13, 2023.

- On December 15, 2020, the Company's Board of Directors approved an executive bonus for Danny Schoening, CEO of \$48 thousand to be paid January 2021.
- In January 2021 Danny Schoening agreed to a temporary salary reduction of 8% from February 20, 2021 through October 1, 2021.

Karen Hawkins

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

The term of the agreement commenced on August 1, 2016, and the current term expires on June 30, 2022 and automatically renews for subsequent 18-month periods unless Ms. Hawkins or we give notice of termination at least 90 days before the end of the term then in effect.

On each subsequent renewal date of the commencement of employment, Ms. Hawkins' base salary shall be reviewed by the Board and may be increased to such rate as the Board, in its sole discretion, may hereafter from time to time determine and Ms. Hawkins is entitled to annual bonuses of up to 30% of her base salary as approved by the Board.

Ms. Hawkins is entitled to 20 days' vacation and all other benefits accorded to our other senior executives.

The employment agreement events of termination consist of: (i) death of Ms. Hawkins; (ii) termination by the Company for cause (including conviction of a felony, commission of fraudulent acts, willful misconduct by Ms. Hawkins, continued failure to perform duties after written notice, violation of securities laws and breach of the employment agreement), (iii) termination by the Company without cause and (iv) termination by Ms. Hawkins for good reason (including breach by the Company of its obligations under the agreement, the requirement for Ms. Hawkins to move more than 100 miles away for her employment without consent, and merger or consolidation that results in more than 66% of the combined voting power of the 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 of Ms. Hawkins, Ms. Hawkins will be paid salary and bonus earned through the date of termination. For a termination by the Company without cause or by Ms. Hawkins with good reason, Ms. Hawkins will also be paid six months' base salary in effect and all granted stock options shall remain exercisable for a period of two years after such termination, with all unvested stock options immediately vesting. The agreement contains a standard non-solicitation and non-compete agreement that extends for one year subsequent to termination thereof.

- On December 15, 2020, the Company's Board of Directors approved an executive bonus for Karen Hawkins, CFO of \$37 thousand to be paid in December 2020.
- In January 2021 Karen Hawkins agreed to a temporary salary reduction of 5% from February 20, 2021 through October 1, 2021 at which time her salary was reinstated to \$205,425 per annum.

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

Equity Compensation Plan Information

Option Compensation Plan

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

As of September 29, 2019, there were 25,000 fully vested stock options outstanding at an exercise price of \$10 per share and an expiration date of December 18, 2020. During the twelve months ended September 27, 2020, all 25,000 outstanding stock options were repurchased at \$0.01 per option for a total transaction of \$250. There were no new grants of stock options during the twelve months ended October 3, 2021. As of October 3, 2021, there are zero stock options outstanding.

Restricted Stock Unit Plan

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

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding the outstanding equity awards held by the named executive officers at October 3, 2021 and market value as of December 13, 2021.

Name	Option Awards					Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights that have not Vested (\$)
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options Unearned (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that have not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights that have not Vested (#)	
Danny Schoening ⁽¹⁾	-	-	-	-	-	49,500	\$ 93,555	-	\$ -
Karen Hawkins ⁽²⁾	-	-	-	-	-	16,500	\$ 31,185	-	\$ -
Bill Bates ⁽³⁾	-	-	-	-	-	33,000	\$ 62,370	-	\$ -

(1) Restricted Stock Unit Agreement dated January 2, 2019 and pursuant to amended and restated employment agreement executed on November 1, 2021, 49,500 restricted stock units will vest upon a "Change in Control Date".

(2) Pursuant to Restricted Stock Unit Agreement dated January 2, 2019, 16,500 shares (33% of 50,000 RSU grant) will vest on January 1, 2022.

(3) Pursuant to Restricted Stock Unit Agreement dated February 17, 2020, 16,500 shares (33% of 50,000 RSU grant each year) will vest on January 1, 2022 and on January 1, 2023.

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

As of October 3, 2021, there are 99,000 outstanding unvested restricted stock units remaining to vest, of which 33,000 will vest as of January 1, 2022, 49,500 will vest upon a Change of Control Date pursuant to terms of Danny Schoening's employment agreement effective as of December 1, 2021, and the remaining 16,500 will vest on January 1, 2023.

On December 1, 2021 the Company executed an amended and restated employment agreement for Danny Schoening, effective as of December 1, 2021 and expiring on November 30, 2022. The amended agreement modifies the Restricted Stock Unit Agreement vesting requirements for his remaining 49,500 unvested units from January 1, 2022 to vesting upon a "Change of Control Date" as defined in the employment agreement. In the event of Mr. Schoening's termination without cause, or resignation with good reason prior to expiration of the employment agreement, any unvested RSUs will continue to be outstanding until the earlier of (i) the Change of Control Date, on which date, if still outstanding, they vest, or (ii) March 13, 2023, on which date, if still outstanding, they will be forfeited and expire for no consideration. In the event of termination prior to a Change of Control Date, for any reason other than termination without cause, or resignation with good reason, any unvested RSUs would be forfeited. For additional information on the amended and restated employment agreement and amended vesting terms, please see "Item 11. Executive Compensation – Employment Agreements - Danny Schoening," which disclosure is incorporated by reference herein.

Restricted Shares Issued to Independent Board Members

On April 30, 2020, the Optex Systems Holdings, Inc. Board of Directors held a meeting and voted to increase the annual board compensation for the three independent directors from \$22,000 to \$36,000 with an effective date of January 1, 2020, in addition to granting 100,000 restricted shares to each independent director which shall vest at a rate of 20% per year (20,000 shares) each January 1st, over the next five years, through January 1, 2025. The total market value for the 300,000 shares is \$525 thousand based on the stock price of \$1.75 as of April 30, 2020. The Company will amortize the fair market value to stock compensation expense on a straight-line basis across the five-year vesting period beginning on April 30, 2020. As of period ended October 3, 2021, 60,000 of the restricted shares had vested.

Post-Termination Compensation

We have not entered into change in control agreements with any of our named executive officers or other members of the executive management team other than the provision with respect to Mr. Schoening and Ms. Hawkins described above. Other than the final tranche of Mr. Schoening's 2019 RSU award, no awards of equity incentives under our equity incentive plans provide for immediate vesting upon a change in control. However, our Board of Directors has the full and exclusive power to interpret the plans, including the power to accelerate the vesting of outstanding, unvested awards. A "change in control" is generally defined as (1) the acquisition by any person of 66% or more of the combined voting power of our outstanding securities or (2) the occurrence of a transaction requiring stockholder approval and involving the sale of all or substantially all of our assets or the merger of us with or into another corporation, but has a different definition for purposes of such 2019 RSU award.

Director Compensation

The following table provides information regarding compensation paid to directors for services rendered during the year ended October 3, 2021.

Name	Fees Earned or Paid in Cash (\$) ⁽¹⁾	Vested Restricted Stock Awards ⁽²⁾	Total Compensation
Rimmy Malhotra	\$ 36,000	\$ 35,000	\$ 71,000
Larry Hagenbuch	36,000	35,000	71,000
Dale Lehmann	36,000	35,000	71,000
Danny Schoening	-	-	-

(1) Director fees paid quarterly.

(2) Represents restricted shares issued to each independent director vesting at a rate of 20% per year. The amounts in the "Stock awards" column reflect the dollar amounts recognized as the director portion of compensation expense for financial statement reporting purposes for each named director, as required by FASB ASC 718, disregarding any estimates for forfeitures relating to service-based vesting conditions.

The members of our board of directors are actively involved in various aspects of our business ranging from relatively narrow board oversight functions to providing hands-on guidance to our executives and scientific staff with respect to matters within their personal experience and expertise. We believe that the active involvement of all directors in our principal business and policy decisions increases our board of directors' understanding of our needs and improves the overall quality of our management decisions.

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

On April 30, 2020, the Optex Systems Holdings, Inc. Board of Directors held a meeting and voted to increase the annual board compensation for the three independent directors from \$22,000 to \$36,000 with an effective date of January 1, 2020, in addition to granting 100,000 restricted shares to each independent director which shall vest at a rate of 20% per year (20,000 shares) each January 1st, over the next five years, through January 1, 2025. The total market value for the 300,000 shares is \$525 thousand based on the stock price of \$1.75 as of April 30, 2020. As of period ended October 3, 2021, 60,000 (20%) of the restricted shares had vested.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

On December 13, 2021, we had 8,462,310 shares of common stock outstanding, zero options, zero warrants, and 99,000 granted and unvested restricted stock units. The following table sets forth certain information with respect to the beneficial ownership of our securities as of December 13, 2021, for (i) each of our directors and executive officers; (ii) all of our directors and executive officers as a group; and (iii) each person who we know beneficially owns more than 5% of our common stock.

Beneficial ownership data in the table has been calculated based on Commission rules that require us to identify all securities that are exercisable or convertible into shares of our common stock within 60 days of December 13, 2021 and treat the underlying stock as outstanding for the purpose of computing the percentage of ownership of the holder.

Except as indicated by the footnotes following the table, and subject to applicable community property laws, each person identified in the table possesses sole voting and investment power with respect to all capital stock held by that person. The address of each named executive officer and director, unless indicated otherwise by footnote, is c/o our corporate headquarters.

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

<u>Title of Class</u>	<u>Name of Beneficial Owner</u>	<u>Number of Shares</u>	<u>Percentage of Outstanding Shares</u>
5% Holders	Ephraim Fields ⁽¹⁾	1,154,399	13.6%
	Dayton Judd, Sudbury Holdings LLC ⁽²⁾	845,000	9.9%
Directors and Officers:	Danny Schoening ⁽³⁾	834,030	9.8%
	Karen Hawkins ⁽⁴⁾	250,144	2.9%
	Bill Bates ⁽⁵⁾	62,631	0.7%
	Rimmy Malhotra ⁽⁶⁾⁽⁷⁾	195,210	2.3%
	Larry Hagenbuch ⁽⁷⁾	110,000	1.3%
	Dale Lehmann ⁽⁷⁾	166,558	2.0%
Directors and officers as a group (6 Individuals) ⁽⁸⁾		1,618,573	19.0%

1 Represents 1,154,399 common shares reported as held by Ephraim Fields located at 265 East 66th Street #42E, New York, NY 10065 as per SEC Form 4/A (filed on September 1, 2021).

2 Represents 820,000 common shares reported as held by Sudbury Holdings, LLC and controlled by Dayton Judd who also holds an additional 25,000 shares for a total combined holding of 845,000 shares. Both are located at 136 Oak Trail, Coppell, TX 75019 as per SEC Schedule 13D (filed on September 7, 2021).

3 Includes common shares held of 834,030.

4 Includes common shares held of 233,644 and restricted stock units of 16,500 expected to vest on January 1, 2022.

- 5 Includes common shares held of 46,131 and restricted stock units of 16,500 expected to vest on January 1, 2022.
- 6 Includes 76,900 shares held by Nicoya Capital and controlled by Rimmy Malhotra.
- 7 Includes 80,000 unvested restricted shares for each independent director.
- 8 Represents common shares held by Danny Schoening, Karen Hawkins, Bill Bates, Rimmy Malhotra, Larry Hagenbuch and Dale Lehmann.

Information with respect to our equity compensation plans

2009 Stock Option Plan

Optex Systems Holdings adopted its 2009 Stock Option Plan on March 26, 2009. On December 9, 2011, the Board of Directors of Optex Systems Holdings, Inc. authorized an amendment to its Stock Option Plan to increase the number of issuable shares from 6,000 to 50,000 and authorized the grant of 10,000 options to two board members and a total of 36,070 to Optex Systems Holdings employees including 20,000 options to executive officers. On December 19, 2013, the Board of Directors of Optex Systems Holdings, Inc. authorized an amendment to its Stock Option Plan to increase the number of issuable shares from 50,000 to 75,000. As of October 3, 2021, there were no outstanding options.

2016 Restricted Stock Unit Plan

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

On December 1, 2021 the Company executed an amended and restated employment agreement for Danny Schoening, effective as of December 1, 2021 and expiring on November 30, 2022. The amended agreement modifies the Restricted Stock Unit Agreement vesting requirements for his remaining 49,500 unvested units from January 1, 2022 to vesting upon a “Change of Control Date” as defined in the employment agreement. In the event of Mr. Schoening’s termination without cause, or resignation with good reason prior to expiration of the employment agreement, any unvested RSUs will continue to be outstanding until the earlier of (i) the Change of Control Date, on which date, if still outstanding, they vest, or (ii) March 13, 2023, on which date, if still outstanding, they will be forfeited and expire for no consideration. In the event of termination prior to a Change of Control Date, for any reason other than termination without cause, or resignation with good reason, any unvested RSUs would be forfeited. For additional information on the amended and restated employment agreement and amended vesting terms, please see “*Item 11. Executive Compensation – Employment Agreements - Danny Schoening*,” which disclosure is incorporated by reference herein.

As of October 3, 2021, there are 99,000 outstanding unvested restricted stock units remaining to vest of which 33,000 will vest on January 1, 2021, and 500,000 authorized restricted stock units from the 2016 Restricted Stock Unit Plan remaining to be granted at a future date.

Equity Compensation Plan Table

The following table provides information about our common stock that may be issued upon the exercise, vesting and/ or settlement of securities outstanding under all our existing equity compensation plans as of October 3, 2021:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	-	NA	NA
Equity compensation plans not approved by security holders	99,000	-	500,000
Total	99,000	-	500,000

Item 13. Certain Relationships and Related Transactions, and Director Independence

None.

Transactions with Executive Management

See the “Executive Compensation” section for a discussion of the material elements of compensation awarded to, earned by or paid to our named executive officers. Other than as stated in the “Executive Compensation” section, we have not entered into any transactions with executive management.

Director Independence

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

Item 14. Principal Accountant Fees and Services

The following table sets forth the fees paid to date for audit services rendered during fiscal years ended October 3, 2021 and September 27, 2020, respectively.

Fee Category	2021	2020
Audit Fees ⁽¹⁾	\$ 101,786	\$ 89,802
Tax Fees	8,500	7,613

(1) Audit Fees are fees for professional services performed for the audit of our annual consolidated financial statements and review of consolidated financial statements included in our 10-Q filings for the fiscal years ended October 3, 2021 and September 27, 2020, respectively.

Item 15. Exhibits

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

[Report of Independent Registered Public Accounting Firm](#)
[Consolidated Statements of Income for the years ended October 3, 2021 and September 27, 2020](#)
[Consolidated Balance Sheets as of October 3, 2021 and September 27, 2020](#)
[Consolidated Statement of Stockholders' Equity for the years ended October 3, 2021 and September 27, 2020](#)
[Consolidated Statements of Cash Flows for the years ended October 3, 2021 and September 27, 2020](#)
[Notes to the Consolidated Financial Statements](#)

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

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

(a)(3) *Exhibits.*

See Exhibit Index

Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Reorganization, dated as of the March 30, 2009, by and between registrant, a Delaware corporation and Optex Systems, Inc., a Delaware corporation⁽¹⁾.
3.1	Certificate of Incorporation, as amended to date
3.2	Bylaws of Optex Systems Holdings⁽¹⁾.
3.3	Charters of the Audit Committee, Compensation Committee and Nominating Committee⁽⁶⁾.
4.1	Description of Capital Stock
4.2	Specimen Stock Certificate⁽²⁾
10.1	Lease for 1420 Presidential Blvd., Richardson, TX⁽¹⁾.
10.2	Third Amendment to Lease, between Aquiport DFWIP and Optex Systems, Inc., dated January 7, 2010⁽³⁾.
10.3	Restricted Stock Unit Plan⁽⁷⁾.
10.4	Form of RSU Agreement⁽⁷⁾.
10.5	Employment Agreement with Karen Hawkins, dated as of August 1, 2016⁽⁵⁾.
10.6	Form of Lease⁽⁸⁾.
10.7	Form of Letter of Credit⁽⁸⁾.

10.8	Form of Award/Contract between the Company and US DLA, dated July 3, 2017⁽⁹⁾
10.9	Employment Agreement with Danny Schoening, dated December 1, 2021 ⁽¹⁰⁾
10.10	Sixth Amendment to Lease Agreement
10.11	First Amendment to Lease
10.13	BBVA Business Loan Agreement⁽¹¹⁾
10.14	BBVA Letter of Credit
10.15	2009 Stock option Plan (4)
14.1	Code of Ethics⁽²⁾
21.1	List of Subsidiaries — Optex Systems, Inc.⁽¹⁾
31.1	Certifications pursuant to Section 302 of Sarbanes Oxley Act of 2002
31.2	Certifications pursuant to Section 302 of Sarbanes Oxley Act of 2002
32.1	Certifications pursuant to Section 906 of Sarbanes Oxley Act of 2002
32.2	Certifications pursuant to Section 906 of Sarbanes Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OPTEX SYSTEMS HOLDINGS, INC.

By: /s/ Danny Schoening
Danny Schoening, Principal Executive Officer and Director

Date: December 20, 2021

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

Date: December 20, 2021

Pursuant to the requirements of the Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Danny Schoening</u> Danny Schoening	Chairman, Principal Executive Officer and Director	December 20, 2021
<u>/s/ Karen Hawkins</u> Karen Hawkins	Principal Financial Officer and Principal Accounting Officer	December 20, 2021
<u>/s/ Larry Hagenbuch</u> Larry Hagenbuch	Director	December 20, 2021
<u>/s/ Rimmy Malhotra</u> Rimmy Malhotra	Director	December 20, 2021
<u>/s/ Dale Lehmann</u> Dale Lehmann	Director	December 20, 2021

CERTIFICATE OF INCORPORATION

State of Delaware
Secretary of State
Division of Corporations
Delivered 12:28 PM 04/11/2006
FILED 12:13 PM 04/11/2006
SRV 060338530 - 4140386 FILE

FIRST: The name of this corporation shall be: SUSTUT EXPLORATION INC.

SECOND: Its registered office in the State of Delaware is to be located at 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle and its registered agent at such address is Corporation Service Company.

THIRD: The purpose or purposes of the corporation shall be:

To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH: The total number of shares of stock, which this corporation is authorized to issue, is Two Hundred Million (200,000,000) shares of common stock with a par value of \$.001.

FIFTH: The name and address of the incorporator is as follows:

Corporation Service Company
2711 Centerville Road
Suite 400
Wilmington, Delaware 19808

SIXTH: The Board of Directors shall have the power to adopt, amend or repeal the by-laws.

SEVENTH: No director shall be personally liable to the Corporation or its stockholders for monetary damages for any breach of fiduciary duty by such director as a director. Notwithstanding the foregoing sentence, a director shall be liable to the extent provided by applicable law, (i) for breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit. No amendment to or repeal of this Article Seventh shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment.

IN WITNESS WHEREOF, the undersigned, being the incorporator herein before named, has executed signed and acknowledged this certificate of incorporation this 11th day of April, A.D. 2006.

Corporation Service Company, Incorporator

By: Rita J. LePore
Name: Rita J. LePore
Assistant Secretary

**CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
SUSTUT EXPLORATION INC.**

Sustut Exploration Inc., a corporation duly organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify that:

1. The Certificate of Incorporation of the Corporation is hereby amended by deleting Article Fourth thereof in its entirety and inserting the following in lieu thereof:

"Fourth: The total number of shares of stock of which the corporation shall have authority to issue is Two Hundred Million (200,000,000), all of which shall be designated as common stock, \$0.001 par value per share.

Effective as of 5:00 pm, New York time, on April 17, 2008 (the "Effective Time") each share of the corporation's common stock, \$0.001 par value per share (the "Old Common Stock"), issued and outstanding immediately prior to the Effective Time, will be automatically reclassified as and converted into 0.99026241954 of a share of common stock, \$0.001 par value per share, of the corporation (the "New Common Stock"). Any stock certificate that, immediately prior to the Effective Time, represented shares of the Old Common Stock will, from and after the Effective Time, automatically and without the necessity of presenting the same for exchange, represent the number of shares of the New Common Stock as equals the product obtained by multiplying the number of shares of Old Common Stock represented by such certificate immediately prior to the Effective Time by 0.99026241954. No fractional shares of New Common Stock shall be issued as a result of such stock split, and any fractional shares owed due to such split shall be rounded up or down to the nearest whole share"

2. The foregoing amendment was duly adopted in accordance with the provisions of Section 242 and 228 (by the written consent of the stockholders of the Corporation) of the General Corporation Law of the State of Delaware.

[SIGNATURE PAGE FOLLOWS]

[SIGNATURE PAGE TO CERTIFICATE OF AMENDMENT]

IN WITNESS WHEREOF, Sustut Exploration, Inc. has caused this Certificate to be executed by its duly authorized officer on this 17th day of April, 2008.

SUSTUT EXPLORATION INC.

By: /s/ Terry Hughes
Name: Terry Hughes
Title: President

STATE OF DELAWARE
CERTIFICATE OF AMENDMENT
OF CERTIFICATE OF INCORPORATION

The corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware does hereby certify:

FIRST: That at a meeting of the Board of Directors of SUSTUT EXPLORATION INC. resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that the Certificate of Incorporation of this corporation be amended by changing the Article thereof numbered "FIRST" so that, as amended, said Article shall be and read as follows:

FIRST: The name of the corporation is: OPTEX SYSTEMS HOLDINGS, INC.

FURTHER RESOLVED, that the Certificate of Incorporation of this corporation be amended by changing the Article thereof numbered "FOURTH" so that, as amended, said Article shall be and read as follows:

FOURTH: The corporation shall be authorized to issue the following shares:

<u>Class</u>	<u>Number of Shares</u>	<u>Par Value</u>
COMMON	200,000,000	\$0.001
PREFERRED	5,000	\$0.001

* A Certificate of Designation designating 1,027 shares of Preferred Stock as Series A Convertible Preferred Stock is being filed simultaneously with this Certificate of Amendment.

FURTHER RESOLVED, that the Certificate of Incorporation of this corporation be amended by changing the Article thereof numbered "SIXTH" so that, as amended, said Article shall be and read as follows:

SIXTH: The following provisions are inserted for the management of the business and for the conduct of the affairs of the corporation, and for further definition, limitation and regulation of the powers of the corporation and of its directors and stockholders:

- (1) The number of directors of the corporation shall be such as from time to time shall be fixed by, or in the manner provided in, the By-laws. Election of directors need not be by ballot unless the By-laws so provide.
- (2) The Board of Directors shall have power without the assent or vote of the stockholders:
 - (a) To make, alter, amend, change, add to or repeal the By-laws of the corporation; to fix and vary the amount of capital to be reserved for any proper purpose; to authorize and cause to be executed mortgages and liens upon all or any part of the property of the corporation; to determine the use and disposition of any surplus or net profits; and to fix the times for the declaration and payment of dividends.
 - (b) To determine from time to time whether, and at what times and places, and under

what conditions the accounts and books of the corporation (other than the stock ledger) or any of them, shall be open to the inspection of the stockholders.

(3) The directors in their discretion may submit any contract or act for approval or ratification at any annual meeting of the stockholders, at any meeting of the stockholders called for the purpose of considering any such act or contract, or through a written consent in lieu of a meeting in accordance with the requirements of the General Corporation Law of Delaware, as amended from time to time, and any contract or act that shall be so approved or be so ratified by the vote of the holders of a majority of the stock of the corporation which is represented in person or by proxy at such meeting (or by written consent whether received directly or through a proxy) and entitled to vote thereon (provided that a lawful quorum of stockholders be there represented in person or by proxy) shall be as valid and as binding upon the corporation and upon all the stockholders as though it had been approved, ratified, or consented to by every stockholder of the corporation, whether or not the contract or act would otherwise be open to legal attack because of directors' interest, or for any other reason.

(4) In addition to the powers and authorities herein before or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the corporation; subject, nevertheless, to the provisions of the statutes of Delaware, of this certificate, and to any By-laws from time to time made by the stockholders; provided, however, that no By-laws so made shall invalidate any prior act of the directors which would have been valid if such By-law had not been made.

FURTHER RESOLVED, that the Certificate of Incorporation of this corporation be amended by changing the Article thereof numbered "SEVENTH" so that, as amended, said Article shall be and read as follows:

SEVENTH: No director shall be liable to the corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director, except with respect to (1) a breach of the director's duty of loyalty to the corporation or its stockholders, (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (3) liability under Section 174 of the Delaware General Corporation Law or (4) a transaction from which the director derived an improper personal benefit, it being the intention of the foregoing provision to eliminate the liability of the corporation's directors to the corporation or its stockholders to the fullest extent permitted by Section 102 (b)(7) of the Delaware General Corporation Law, as amended from time to time. The corporation shall indemnify to the fullest extent permitted by Sections 102 (b)(7) and 145 of the Delaware General Corporation Law, as amended from time to time, each person that such sections grant the corporation the power to indemnify.

FURTHER RESOLVED, that the Certificate of Incorporation of this corporation be amended by adding the Article thereof numbered "EIGHTH" so that, as amended, said Article shall be and read as follows:

EIGHTH: Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or

receivers appointed for this corporation under the provisions of Section 279 Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and /or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

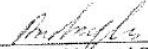
FURTHER RESOLVED, that the Certificate of Incorporation of this corporation be amended by adding the Article thereof numbered "NINTH" so that, as amended, said Article shall be and read as follows:

NINTH: The corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation in the manner now or hereafter prescribed by law, and all rights and powers conferred herein on stockholders, directors and officers are subject to this reserved power.

SECOND: That thereafter, pursuant to resolution of its Board of Directors, a special meeting of the stockholders of said corporation was duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said corporation has caused this certificate to be signed this 26th day of March, 2009.

By: 
Title: President and Chief Executive Officer
Name: Andrey Oks

CERTIFICATE OF DESIGNATION
OF
SERIES A CONVERTIBLE
PREFERRED STOCK, \$0.001 PAR VALUE PER SHARE

OF
OPTEX SYSTEMS HOLDINGS, INC.
(formerly, Sustut Exploration Inc.)

1. **Designation: Number of Shares.** The designation of said series of Preferred Stock shall be Series A Convertible Preferred Stock (the "Series A Preferred Stock"). The number of shares of Series A Preferred Stock shall be 1,027. Each share of Series A Preferred Stock shall have a stated value equal to \$6,000 (as adjusted for any stock dividends, combinations or splits with respect to such shares) (the "Series A Stated Value"), and \$.001 par value. The existence of the Preferred Stock shall be perpetual.

2. **Liquidation Rights.** Upon the occurrence of a "Liquidation Event" (as defined below), the Holders of the Series A Preferred Stock shall be entitled to receive, and before any payment or distribution shall be made on any Junior Stock, out of the assets of the Corporation available for distribution to stockholders, an amount equal to one (1) times the Series A Stated Value per share of Series A Preferred Stock. Upon the payment in full of all amounts due to the Holders of the Series A Preferred Stock and Junior Stock shall receive all remaining assets of the Corporation legally available for distribution. If the assets of the Corporation available for distribution to the Holders of the Series A Preferred Stock shall be insufficient to permit payment in full of the amounts payable as aforesaid to the Holders of Series A Preferred Stock upon a Liquidation Event, then all such assets of the Corporation shall be distributed to the exclusion of the Holders of Junior Stock ratably among the Holders of the Series A Preferred Stock. "Liquidation Event" shall mean (i) the liquidation, dissolution or winding-up, whether voluntary or involuntary, of the Corporation, (ii) the purchase or redemption by the Corporation of shares of any class of stock or the merger or consolidation of the Corporation with or into any other corporation or corporations unless (a) the Holders of the Series A Preferred Stock receive securities of the surviving corporation having substantially similar rights as the Series A Preferred Stock and the stockholders of the Corporation immediately prior to such transaction are holders of at least a majority of the voting securities of the successor corporation immediately thereafter or (b) the sale, license or lease of all or substantially all, or any material part of, the Corporation's assets, unless the Holders of a majority of the shares of Series A Preferred Stock elect otherwise. "Junior Stock" shall mean any equity securities of the Corporation other than the Series A Preferred Stock.

3. **Conversion into Common Stock.** Holders of shares of Series A Preferred Stock shall have the following conversion rights and obligations:

(a) Subject to the further provisions of this paragraph 4 each Holder of Series A Preferred Stock shall have the right at any time commencing after the issuance to the Holder of shares of Series A Preferred Stock, to convert such shares (collectively "Stated Value") into fully paid and non-assessable shares of Common Stock of the Corporation determined in accordance with the applicable "Conversion Price" provided in paragraph 3(b) below (the "Conversion Price").

(b) The number of shares of Common Stock issuable upon conversion of the Series A Preferred Stock shall be the number of shares of Series A Preferred Stock being converted multiplied by the Stated Value per share being converted divided by the Conversion

Price. The Conversion Price of the Series A Preferred Stock shall initially be \$0.15. The Conversion Price shall also be subject to adjustment as described below.

(c) Holder will give notice of its decision to exercise its right to convert the Series A Preferred Stock, or part thereof by telecopying an executed and completed Notice of Conversion (a form of which is annexed as Exhibit A to this Certificate of Designation) to the Corporation via confirmed telecopier transmission. The Holder will not be required to surrender the Series A Preferred Stock certificate until the Series A Preferred Stock has been fully converted. Each date on which a Notice of Conversion is telecopied to the Corporation in accordance with the provisions hereof shall be deemed a Conversion Date. The Corporation will itself or cause the Corporation's transfer agent to transmit the Corporation's Common Stock certificates representing the Common Stock issuable upon conversion of the Series A Preferred Stock to the Holder via express courier for receipt by such Holder within five (5) business days after receipt by the Corporation of the Notice of Conversion (the "Delivery Date"). In the event the Common Stock is electronically transferable, then delivery of the Common Stock must be made by electronic transfer provided request for such electronic transfer has been made by the Holder. A Series A Preferred Stock certificate representing the balance of the Series A Preferred Stock not so converted will be provided by the Corporation to the Holder if requested by Holder, provided the Holder has delivered the original Series A Preferred Stock certificate to the Corporation. To the extent that a Holder elects not to surrender Series A Preferred Stock for reissuance upon partial payment or conversion, the Holder hereby indemnifies the Corporation against any and all loss or damage attributable to a third-party claim in an amount in excess of the actual amount of the Series A Stated Value then owned by the Holder.

In the case of the exercise of the conversion rights set forth in paragraph 4(a) the conversion privilege shall be deemed to have been exercised and the shares of Common Stock issuable upon such conversion shall be deemed to have been issued upon the date of receipt by the Corporation of the Notice of Conversion. The person or entity entitled to receive Common Stock issuable upon such conversion shall, on the date such conversion privilege is deemed to have been exercised and thereafter, be treated for all purposes as the recordholder of such Common Stock and shall on the same date cease to be treated for any purpose as the record Holder of such shares of Series A Preferred Stock so converted.

Upon the conversion of any shares of Series A Preferred Stock no adjustment or payment shall be made with respect to such converted shares on account of any dividend on the Common Stock, except that the Holder of such converted shares shall be entitled to be paid any dividends declared on shares of Common Stock after conversion thereof.

The Corporation shall not be required, in connection with any conversion of Series A Preferred Stock, and payment of dividends on Series A Preferred Stock to issue a fraction of a share of its Series A Preferred Stock or Common Stock and may instead deliver a stock certificate representing the next whole number.

(d) The Conversion Price determined pursuant to Paragraph 4(b) shall be subject to adjustment from time to time as follows:

(i) In case the Corporation shall at any time (A) declare any dividend or distribution on its Common Stock or other securities of the Corporation other than the Series A Preferred Stock, (B) split or subdivide the outstanding Common Stock, (C) combine the outstanding Common Stock into a smaller number of shares, or (D) issue by reclassification of its Common Stock any shares or other securities of the Corporation, then in each such event the Conversion Price shall be adjusted proportionately so that the Holders of Series A Preferred Stock shall be entitled to receive the kind and number of

shares or other securities of the Corporation which such Holders would have owned or have been entitled to receive after the happening of any of the events described above had such shares of Series A Preferred Stock been converted immediately prior to the happening of such event (or any record date with respect thereto). Such adjustment shall be made whenever any of the events listed above shall occur. An adjustment made to the Conversion Price pursuant to this paragraph 4(d)(i) shall become effective immediately after the effective date of the event.

(ii) For so long as the Series A Preferred Stock is outstanding, other than in the case of an "Excepted Issuance" (as defined below), if the Corporation shall issue any Common Stock, prior to the complete conversion of the Series A Preferred Stock for a consideration less than the Conversion Price that would be in effect at the time of such issue, then, and thereafter successively upon each such issuance, the Conversion Price shall be reduced to such other lower issue price. For purposes of this adjustment, the issuance of any security or debt instrument of the Corporation, carrying the right to convert such security or debt instrument into Common Stock or of any warrant, right or option to purchase Common Stock or the modification of any of the foregoing which may be outstanding shall result in an adjustment to the Conversion Price upon the modification or issuance of the above-described security, debt instrument, warrant, right, or option and again upon the issuance of shares of Common Stock upon exercise of such conversion or purchase rights if such issuance is at a price lower than the then applicable Conversion Price. "Excepted Issuances" shall include the Corporation's issuance of (i) options to purchase Common Stock pursuant to stock option plans and employee stock purchase plans and any options to purchase Common Stock pursuant to stock option plans and employee stock purchase plans created thereafter, so long as such new plans are approved by the Corporation's shareholders, (ii) Common Stock upon exercise of the options referred to in clause (i), (iii) Common Stock upon the exercise of warrants or other convertible securities outstanding prior to the date hereof, (iv) securities which results in an adjustment to the Conversion Price under Section 4(d)(i) above, (v) Series A Preferred Stock or any shares of Common Stock on conversion thereof, and (vi) securities as payment of liquidated damages in respect of the Series A Preferred Stock.

(e) (i) In case of any merger of the Corporation with or into any other corporation (other than a merger in which the Corporation is the surviving or continuing corporation and which does not result in any reclassification, conversion, or change of the outstanding shares of Common Stock) then unless the right to convert shares of Series A Preferred Stock shall have terminated as part of such merger, lawful provision shall be made so that Holders of Series A Preferred Stock shall thereafter have the right to convert each share of Series A Preferred Stock into the kind and amount of shares of stock and/or other securities or property receivable upon such merger by a Holder of the number of shares of Common Stock into which such shares of Series A Preferred Stock might have been converted immediately prior to such consolidation or merger. Such provision shall also provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in subparagraph (d) of this paragraph 4. The foregoing provisions of this paragraph 4(e) shall similarly apply to successive mergers.

(ii) In case of any sale or conveyance to another person or entity of the property of the Corporation as an entirety, or substantially as an entirety, in connection with which shares or other securities or cash or other property shall be issuable, distributable, payable, or deliverable for outstanding shares of Common Stock, then, unless the right to convert such shares shall have terminated, lawful provision shall be made so that the Holders of Series A Preferred Stock shall thereafter have the right to convert each share of the Series A Preferred Stock into the kind and amount of shares of stock or other securities or property that shall be issuable, distributable, payable, or deliverable upon such sale or conveyance with respect to each share of Common Stock immediately prior to such conveyance.

(f) Whenever the number of shares to be issued upon conversion of the Series A Preferred Stock is required to be adjusted as provided in this paragraph 4, the Corporation shall forthwith compute the adjusted number of shares to be so issued and prepare a certificate setting forth such adjusted conversion amount and the facts upon which such adjustment is based, and such certificate shall forthwith be filed with the Transfer Agent for the Series A Preferred Stock and the Common Stock; and the Corporation shall mail to each Holder of record of Series A Preferred Stock notice of such adjusted conversion price not later than the first business day after the event, giving rise to the adjustment.

(g) In case at any time the Corporation shall propose:

(i) to offer for subscription to the Holders of its Common Stock any additional shares of any class or any other rights; or

(ii) any capital reorganization or reclassification of its shares or the merger of the Corporation with another corporation (other than a merger in which the Corporation is the surviving or continuing corporation and which does not result in any reclassification, conversion, or change of the outstanding shares of Common Stock); or

(iii) the voluntary dissolution, liquidation or winding-up of the Corporation;

then, and in any one or more of said cases, the Corporation shall cause at least five (5) days prior notice of the date on which (A) the books of the Corporation shall close or a record be taken for such stock dividend, distribution, or subscription rights, or (B) such capital reorganization, reclassification, merger, dissolution, liquidation or winding-up shall take place, as the case may be, to be mailed to the Holders of record of the Series A Preferred Stock.

(h) The term "Common Stock" as used in this Certificate of Designation shall mean the \$0.001 par value Common Stock of the Corporation as such stock is constituted at the date of issuance thereof or as it may from time to time be changed, or shares of stock of any class or other securities and/or property into which the shares of the Series A Preferred Stock shall at any time become convertible pursuant to the provisions of this paragraph 4.

(i) The Corporation shall pay the amount of any and all issue taxes (but not income taxes) which may be imposed in respect of any issue or delivery of stock upon the conversion of any shares of Series A Preferred Stock, but all transfer taxes and income taxes that may be payable in respect of any change of ownership of Series A Preferred Stock or any rights represented thereby or of stock receivable upon conversion thereof shall be paid by the person or persons surrendering such stock for conversion.

(j) In the event a Holder shall elect to convert any shares of Series A Preferred Stock as provided herein, the Corporation may not refuse conversion based on any claim that such Holder or any one associated or affiliated with such Holder has been engaged in any violation of law, or for any other reason unless, an injunction from a court, on notice, restraining and or enjoining conversion of all or part of said shares of Series A Preferred Stock shall have been sought and obtained by the Corporation or at the Corporation's request or with the Corporation's assistance and the Corporation posts a surety bond for the benefit of such Holder equal to 120% of the Stated Value sought to be converted, which is subject to the injunction, which bond shall remain in effect until the completion of arbitration/litigation of the dispute and the proceeds of which shall be payable to such Holder in the event it obtains judgment.

(k) In addition to any other rights available to the Holder, if the Corporation fails to deliver to the Holder such certificate or certificates pursuant to Section 4(c) by the Delivery Date and if within five (5) business days after the Delivery Date the Holder purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by such Holder of the Common Stock which the Holder anticipated receiving upon such conversion (a "Buy-In"), then the Corporation shall pay in cash to the Holder (in addition to any remedies available to or elected by the Holder) within five (5) business days after written notice from the Holder, the amount by which (A) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (B) the aggregate Stated Value of the shares of Series A Preferred Stock for which such conversion was not timely honored. The Holder shall provide the Corporation written notice indicating the amounts payable to the Holder in respect of the Buy-In.

(l) The Corporation represents to the Holders of shares of Series A Preferred Stock that for purposes of "tacking" under Rule 144 promulgated under the Securities Act of 1933 the original date of ownership of any shares of Series A Preferred Stock shall be the date of original ownership by such Holder of the shares of Common Stock owned by such Holder which were surrendered in exchange for shares of Series A Preferred Stock. The Corporation also covenants to comply with all applicable requirements of an issuer for its equity securities to be eligible for resale under Rule 144 (including, but not limited to, requirements as to current reporting).

4. Voting Rights. The Holders of shares of Series A Preferred Stock shall vote together with the holders of the Common Stock on an as converted basis and shall have one vote per share for each share of Common Stock it would have as if the Holder's shares of Series A Preferred Stock had been converted into Common Stock prior to the vote.

5. Dividends.

(a) The holders of shares of the outstanding Series A Preferred Stock shall be entitled, when, as and if declared by the Board of Directors out of funds of the Corporation legally available therefor, to receive cumulative cash dividends at the rate per annum of 6.0% per share on the Liquidation Preference (equivalent to the then in effect Series A Stated Value per annum per share), payable quarterly in arrears (the "Dividend Rate"). Dividends payable for each full quarterly period will be computed by dividing the Dividend Rate by four and shall be payable in arrears on the last day of each calendar quarter ("Quarterly Payment Date") (commencing March 31, 2009) for the quarterly period ending immediately on such Quarterly Payment Date, to the holders of record of Preferred Stock at the close of business on the Quarterly Payment Date. Such dividends shall be cumulative from the issue date for the Series A Preferred Stock ("Issue Date") (whether or not in any period or periods the Board of Directors shall have declared such dividends or there shall be funds of the Corporation legally available for the payment of such dividends) and shall accumulate on a day-to-day basis, whether or not earned or declared, from and after the Issue Date. Dividends payable for any partial period shall be computed on the basis of days elapsed over a 360-day year consisting of twelve 30-day months. Accumulated unpaid dividends accrue and cumulate dividends at the annual rate of 6.0% and are payable in the manner provided in this Section 3.

(b) No dividends will be declared or paid upon, or any sum set apart for the payment of dividends upon, any outstanding share of the Series A Preferred Stock with respect to any period unless all dividends for all preceding periods have been declared and paid or declared and a sufficient sum set apart for the payment of such upon all outstanding shares of Series A Preferred Stock.

(c) No dividends or other distributions (other than a dividend or distribution payable solely in shares of Junior Stock and other than cash paid in lieu of fractional shares) may be declared, made or paid, or set apart for payment upon, any Junior Stock, nor may any Junior Stock be redeemed, purchased or otherwise acquired for any consideration (or any money paid to or made available for a sinking fund for the redemption of any Junior Stock) by or on behalf of the Corporation (except by conversion into or exchange for shares of Junior Stock, unless full accumulated dividends on the Series A Preferred Stock shall have been or contemporaneously are declared and paid, or are declared and a sum sufficient for the payment thereof is set apart for such payment, on the Series A Preferred Stock for all payment periods terminating on or prior to the date of such declaration, payment, redemption, purchase or acquisition.

(d) Holders of shares of Series A Preferred Stock shall not be entitled to any dividends on the Series A Preferred Stock, whether payable in cash, property or stock, in excess of full cumulative dividends.

(e) In any case where any dividend payment date of any Series A Preferred Stock shall not be a business day, at any place of payment, then payment of dividends need not be made on such date, but may be made on the next succeeding business day at such place of payment with the same force and effect as if made on the payment date; and no dividends shall accumulate on the amount so payable for the period from and after such payment date, as the case may be, to such business day.

6. Prior Approval to Enter Into Transactions. The Corporation may not enter into any transaction which shall result in the issuance of any of its equity except for Excepted Issuances or incur, create, assume or permit to exist any indebtedness except for third party trade indebtedness in the ordinary course of business or indebtedness incurred with respect to a financing with a commercial banking institution without the prior written consent of the holders of at least 50.1% of the then outstanding Series A Preferred Stock.

Dated: March 26, 2009



Andrey Ok,
Chief Executive Officer

EXHIBIT A

NOTICE OF CONVERSION

(To Be Executed By the Registered Holder in Order to Convert Series A Preferred Stock of Optex Systems, Inc.)

The undersigned hereby irrevocably elects to convert \$ _____ of the Stated Value of the above Series A Preferred Stock into shares of Common Stock of Optex Systems, Inc. (the "Corporation") according to the conditions hereof, as of the date written below.

Date of Conversion: _____

Applicable Conversion Price Per Share: _____

Number of Common Shares Issuable Upon This Conversion: _____

Select one:

- A Series A Convertible Preferred Stock certificate is being delivered herewith. The unconverted portion of such certificate should be reissued and delivered to the undersigned.
- A Series A Convertible Preferred Stock certificate is not being delivered to Optex Systems, Inc.

Signature: *Andrey Ciks*

Print Name: ANDREY CIKS

Address: 2702 Watch Hill Drive
 Tarrytown, NY 10591

Deliveries Pursuant to this Notice of Conversion Should Be Made to:

**CERTIFICATE of AMENDMENT of
CERTIFICATE of INCORPORATION
OF
OPTEX SYSTEMS HOLDINGS, INC.**

The corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware does hereby certify:

FIRST: That at a telephonic meeting of the Board of Directors of Optex Systems Holdings, Inc., (the "Corporation") held on March 16, 2011, resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of the Corporation, declaring said amendment to be advisable and approving the use of a stockholder consent in lieu of a meeting of the stockholders of the Corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that the Certificate of Incorporation of the Corporation be amended by changing Articles thereof numbered Fourth relating to the authorized shares of the Corporation so that, as amended, said Article shall be read as follows:

"FOURTH:

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is 2,000,005,000 shares of which 2,000,000,000 shares are designated as common stock, par value \$.001 per share (the "Common Stock") and 5,000 shares of which are designated as preferred stock, par value \$.001 per share (the "Preferred Stock").

SECOND: That thereafter, pursuant to resolution of its Board of Directors, a consent in lieu of a special meeting of the stockholders of said corporation was duly executed and delivered in accordance with section 228 of the General Corporation Law of the State of Delaware pursuant to which consent the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the undersigned has executed this Certificate on the 18th day of November, 2011.

/s/ Stanley A. Hirschman
Stanley A. Hirschman, President

State of Delaware
Secretary of State
Division of Corporations
Delivered 05:25 PM 03/26/2015
FILED 05:23 PM 03/26/2015
SRV 150418866 - 4140386 FILE

CERTIFICATE OF DESIGNATION, NUMBER, POWERS,
PREFERENCES AND RELATIVE, PARTICIPATING,
OPTIONAL, AND OTHER SPECIAL RIGHTS AND THE
QUALIFICATIONS, LIMITATIONS, RESTRICTIONS,
AND OTHER DISTINGUISHING CHARACTERISTICS OF
SERIES B PREFERRED STOCK

OF

OPTEX SYSTEMS HOLDINGS, INC.

It is hereby certified that:

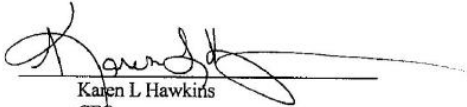
1. The name of the corporation (hereinafter called the "corporation") is Optex Systems Holdings, Inc.
2. The certificate of incorporation as amended of the corporation authorizes the issuance of 5,000 shares of Preferred Stock of a par value of .001 Dollars each and expressly vests in the Board of Directors of the corporation the authority provided therein to issue any or all of said shares in one or more series and by resolution or resolutions, the designation, number, full or limited voting powers, or the denial of voting powers, preferences and relative, participating, optional, and other special rights and the qualifications, limitations, restrictions, and other distinguishing characteristics of each series to be issued.
3. The Board of Directors of the corporation, pursuant to the authority expressly vested in it as aforesaid, has adopted the following resolutions creating a Series B issue of Preferred Stock:

RESOLVED, that a series of Preferred Stock of the Corporation known as "Series B Preferred Stock" is hereby authorized as set forth in the Attachment A attached hereto; and it is further

FURTHER RESOLVED, that the statements contained in the foregoing resolutions creating and designating the said Series A issue of Preferred Stock and fixing the number, powers, preferences and relative, optional, participating, and other special rights and the qualifications, limitations, restrictions, and other distinguishing characteristics thereof shall, upon the effective date of said series, be deemed to be included in and be a part of the certificate of incorporation of the corporation pursuant to the provisions of Sections 104 and 151 of the General Corporation Law of the State of Delaware.

The effective time and date of the series herein certified shall be

Signed on March 26, 2015


Karen L. Hawkins
CFO

ATTACHMENT A
TO
CERTIFICATE OF DESIGNATION
OF
SERIES B CONVERTIBLE
PREFERRED STOCK, \$.001 PAR VALUE PER SHARE
OF
OPTEX SYSTEMS HOLDINGS, INC.

1. **Designation: Number of Shares.** The designation of said series of Preferred Stock shall be Series B Convertible Preferred Stock (the "Series B Preferred Stock"). The number of shares of Series B Preferred Stock shall be 1,010. Each share of Series B Preferred Stock shall have a stated value equal to \$1,629.16 (as adjusted for any stock dividends, combinations or splits with respect to such shares) (the "Series B Stated Value"), and \$.001 par value. The existence of the Preferred Stock shall be perpetual. The Corporation may issue fractional shares of Series B Preferred Stock.

2. **Liquidation Rights.** Upon the occurrence of a "Liquidation Event" (as defined below), the Holders of the Series B Preferred Stock shall be entitled to receive, and before any payment or distribution shall be made on any Junior Stock, out of the assets of the Corporation available for distribution to stockholders, an amount equal to one (1) times the Series B Stated Value per share of Series B Preferred Stock. Upon the payment in full of all amounts due to the Holders of the Series B Preferred Stock and Junior Stock shall receive all remaining assets of the Corporation legally available for distribution. If the assets of the Corporation available for distribution to the Holders of the Series B Preferred Stock shall be insufficient to permit payment in full of the amounts payable as aforesaid to the Holders of Series B Preferred Stock upon a Liquidation Event, then all such assets of the Corporation shall be distributed to the exclusion of the Holders of Junior Stock ratably among the Holders of the Series B Preferred Stock. "Liquidation Event" shall mean (i) the liquidation, dissolution or winding-up, whether voluntary or involuntary, of the Corporation, (ii) the purchase or redemption by the Corporation of shares of any class of stock or the merger or consolidation of the Corporation with or into any other corporation or corporations unless (a) the Holders of the Series B Preferred Stock receive securities of the surviving corporation having substantially similar rights as the Series B Preferred Stock and the stockholders of the Corporation immediately prior to such transaction are holders of at least a majority of the voting securities of the successor corporation immediately thereafter or (b) the sale, license or lease of all or substantially all, or any material part of, the Corporation's assets, unless the Holders of a majority of the shares of Series B Preferred Stock elect otherwise. "Junior Stock" shall mean any equity securities of the Corporation other than the Corporation's Series A Preferred Stock and the Series B Preferred Stock.

3. **Conversion into Common Stock.** Holders of shares of Series B Preferred Stock shall have the following conversion rights and obligations:

- (a) Subject to the further provisions of this paragraph 3 each Holder of Series B Preferred Stock shall have the right at any time commencing after the issuance to the Holder of shares of Series B Preferred Stock, to convert such shares (collectively "Stated

Value") into fully paid and non-assessable shares of Common Stock of the Corporation determined in accordance with the applicable "Conversion Price" provided in paragraph 3(b) below (the "Conversion Price").

(b) The number of shares of Common Stock issuable upon conversion of the Series B Preferred Stock shall be the number of shares of Series B Preferred Stock being converted multiplied by the Stated Value per share being converted divided by the Conversion Price. The Conversion Price of the Series B Preferred Stock shall initially be \$0.0000025. The Conversion Price shall also be subject to adjustment as described below.

(c) Holder will give notice of its decision to exercise its right to convert the Series B Preferred Stock, or part thereof by telecopying an executed and completed Notice of Conversion (a form of which is annexed as Exhibit A to this Certificate of Designation) to the Corporation via confirmed telecopier transmission. The Holder will not be required to surrender the Series B Preferred Stock certificate until the Series B Preferred Stock has been fully converted. Each date on which a Notice of Conversion is telecopied to the Corporation in accordance with the provisions hereof shall be deemed a Conversion Date. The Corporation will itself or cause the Corporation's transfer agent to transmit the Corporation's Common Stock certificates representing the Common Stock issuable upon conversion of the Series B Preferred Stock to the Holder via express courier for receipt by such Holder within five (5) business days after receipt by the Corporation of the Notice of Conversion (the "Delivery Date"). In the event the Common Stock is electronically transferable, then delivery of the Common Stock must be made by electronic transfer provided request for such electronic transfer has been made by the Holder. A Series B Preferred Stock certificate representing the balance of the Series B Preferred Stock not so converted will be provided by the Corporation to the Holder if requested by Holder, provided the Holder has delivered the original Series B Preferred Stock certificate to the Corporation. To the extent that a Holder elects not to surrender Series B Preferred Stock for reissuance upon partial payment or conversion, the Holder hereby indemnifies the Corporation against any and all loss or damage attributable to a third-party claim in an amount in excess of the actual amount of the Series B Stated Value then owned by the Holder.

In the case of the exercise of the conversion rights set forth in paragraph 3(a) the conversion privilege shall be deemed to have been exercised and the shares of Common Stock issuable upon such conversion shall be deemed to have been issued upon the date of receipt by the Corporation of the Notice of Conversion. The person or entity entitled to receive Common Stock issuable upon such conversion shall, on the date such conversion privilege is deemed to have been exercised and thereafter, be treated for all purposes as the recordholder of such Common Stock and shall on the same date cease to be treated for any purpose as the record Holder of such shares of Series B Preferred Stock so converted.

Upon the conversion of any shares of Series B Preferred Stock no adjustment or payment shall be made with respect to such converted shares on account of any dividend on the Common Stock, except that the Holder of such converted shares shall be entitled to be paid any dividends declared on shares of Common Stock after conversion thereof.

The Corporation shall not be required, in connection with any conversion of Series B Preferred Stock, and payment of dividends on Series B Preferred Stock to issue a fraction of a share of its Series B Preferred Stock or Common Stock and may instead deliver a stock certificate representing the next whole number.

The Holder shall not have the right to convert this Series B Preferred Stock pursuant to the terms and conditions hereof and any such conversion shall be null and void and treated as if never made, to the extent that after giving effect to such conversion, the Holder together with any affiliates to the Holder collectively would beneficially own in excess of 4.99% (the "Maximum Percentage") of the shares of Common Stock outstanding immediately after giving effect to such conversion. For purposes of the foregoing sentence, the aggregate number of shares of Common Stock beneficially owned by the Holder and other affiliates to the Holder shall include the number of shares of Common Stock held by the Holder and all other affiliates to the Holder plus the number of shares of Common Stock issuable upon conversion of this Series B Preferred Stock with respect to which the determination of such sentence is being made, but shall exclude shares of Common Stock which would be issuable upon (A) conversion of the remaining, non-converted portion of this Series B Preferred Stock beneficially owned by the Holder or any other affiliates to the Holder and (B) exercise or conversion of the unexercised or non-converted portion of any other securities of the Company (including, without limitation, any convertible notes or convertible preferred stock or warrants) beneficially owned by the Holder or any other Attribution Party to the Holder subject to a limitation on conversion or exercise analogous to the limitation contained in this paragraph 3(c). For purposes of this paragraph 3(c), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act. For purposes of determining the number of outstanding shares of Common Stock the Holder may acquire upon the conversion of this Series B Preferred Stock without exceeding the Maximum Percentage, the Holder may rely on the number of outstanding shares of Common Stock as reflected in (x) the Company's most recent Annual Report on Form 10-K, Quarterly Report on Form 10-Q, Current Report on Form 8-K or other public filing with the SEC, as the case may be, (y) a more recent public announcement by the Company or (z) any other written notice by the Company or its transfer agent, if any, setting forth the number of shares of Common Stock outstanding (the "Reported Outstanding Share Number"). If the Company receives a Conversion Notice from the Holder at a time when the actual number of outstanding shares of Common Stock is less than the Reported Outstanding Share Number, the Company shall notify the Holder in writing of the number of shares of Common Stock then outstanding and, to the extent that such Conversion Notice would otherwise cause the Holder's beneficial ownership, as determined pursuant to this paragraph 3(c), to exceed the Maximum Percentage, the Holder must notify the Company of a reduced number of shares of Common Stock to be purchased pursuant to such Conversion Notice. For any reason at any time, upon the written or oral request of the Holder, the Company shall within one (1) Business Day confirm orally and in writing or by electronic mail to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including any portion of this Series B Preferred Stock, by the Holder and any other Attribution Party since the date as of which the Reported Outstanding Share Number was reported. In the event that the issuance of shares of Common Stock to the Holder upon conversion of any portion of this Series B Preferred Stock results in the Holder and the other affiliates to the Holder being deemed to beneficially own, in the aggregate, more than the Maximum Percentage of the number of outstanding shares of

Common Stock (as determined under Section 13(d) of the Exchange Act), the number of shares so issued by which the Holder's and the other affiliates to the Holder's aggregate beneficial ownership exceeds the Maximum Percentage (the "Excess Shares") shall be deemed null and void and shall be cancelled *ab initio*, and the Holder shall not have the power to vote or to transfer the Excess Shares. For purposes of clarity, the shares of Common Stock issuable upon conversion of this Series B Preferred Stock in excess of the Maximum Percentage shall not be deemed to be beneficially owned by the Holder for any purpose including for purposes of Section 13(d) or Rule 16a-1(a)(1) of the Exchange Act. No prior inability to convert any portion of this Series B Preferred Stock pursuant to this paragraph shall have any effect on the applicability of the provisions of this paragraph with respect to any subsequent determination of convertibility. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this paragraph 3(c) to the extent necessary to correct this paragraph (or any portion of this paragraph) which may be defective or inconsistent with the intended beneficial ownership limitation contained in this paragraph 3(c) or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitation contained in this paragraph may not be waived and shall apply to each successor holder of this Series B Preferred Stock.

(d) The Conversion Price determined pursuant to Paragraph 3(b) shall be subject to adjustment from time to time as follows:

(i) In case the Corporation shall at any time (A) declare any dividend or distribution on its Common Stock or other securities of the Corporation other than the Series B Preferred Stock, (B) split or subdivide the outstanding Common Stock, (C) combine the outstanding Common Stock into a smaller number of shares, or (D) issue by reclassification of its Common Stock any shares or other securities of the Corporation, then in each such event the Conversion Price shall be adjusted proportionately so that the Holders of Series B Preferred Stock shall be entitled to receive the kind and number of shares or other securities of the Corporation which such Holders would have owned or have been entitled to receive after the happening of any of the events described above had such shares of Series B Preferred Stock been converted immediately prior to the happening of such event (or any record date with respect thereto). Such adjustment shall be made whenever any of the events listed above shall occur. An adjustment made to the Conversion Price pursuant to this paragraph 3(d)(i) shall become effective immediately after the effective date of the event.

(ii) For so long as the Series B Preferred Stock is outstanding, other than in the case of an "Excepted Issuance" (as defined below), if the Corporation shall issue any Common Stock, prior to the complete conversion of the Series B Preferred Stock for a consideration less than the Conversion Price that would be in effect at the time of such issue, then, and thereafter successively upon each such issuance, the Conversion Price shall be reduced to such other lower issue price. For purposes of this adjustment, the issuance of any security or debt instrument of the Corporation, carrying the right to convert such security or debt instrument into Common Stock or of any warrant, right or option to purchase Common Stock or the modification of any of the foregoing which may be outstanding shall result in an adjustment to the Conversion Price upon the modification or issuance of the above-described security, debt instrument, warrant, right, or option and

again upon the issuance of shares of Common Stock upon exercise of such conversion or purchase rights if such issuance is at a price lower than the then applicable Conversion Price. "Excepted Issuances" shall include the Corporation's issuance of (i) options to purchase Common Stock pursuant to stock option plans and employee stock purchase plans and any options to purchase Common Stock pursuant to stock option plans and employee stock purchase plans created thereafter, so long as such new plans are approved by the Corporation's shareholders, (ii) Common Stock upon exercise of the options referred to in clause (i), (iii) Common Stock upon the exercise of warrants or other convertible securities outstanding prior to the date hereof, (iv) securities which results in an adjustment to the Conversion Price under paragraph 3(d)(i) above, (v) Series B Preferred Stock or any shares of Common Stock on conversion thereof, and (vi) securities as payment of liquidated damages in respect of the Series B Preferred Stock.

(e) (i) In case of any merger of the Corporation with or into any other corporation (other than a merger in which the Corporation is the surviving or continuing corporation and which does not result in any reclassification, conversion, or change of the outstanding shares of Common Stock) then unless the right to convert shares of Series B Preferred Stock shall have terminated as part of such merger, lawful provision shall be made so that Holders of Series B Preferred Stock shall thereafter have the right to convert each share of Series B Preferred Stock into the kind and amount of shares of stock and/or other securities or property receivable upon such merger by a Holder of the number of shares of Common Stock into which such shares of Series B Preferred Stock might have been converted immediately prior to such consolidation or merger. Such provision shall also provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in subparagraph (d) of this paragraph 3. The foregoing provisions of this paragraph shall similarly apply to successive mergers.

(ii) In case of any sale or conveyance to another person or entity of the property of the Corporation as an entirety, or substantially as an entirety, in connection with which shares or other securities or cash or other property shall be issuable, distributable, payable, or deliverable for outstanding shares of Common Stock, then, unless the right to convert such shares shall have terminated, lawful provision shall be made so that the Holders of Series B Preferred Stock shall thereafter have the right to convert each share of the Series B Preferred Stock into the kind and amount of shares of stock or other securities or property that shall be issuable, distributable, payable, or deliverable upon such sale or conveyance with respect to each share of Common Stock immediately prior to such conveyance.

(f) Whenever the number of shares to be issued upon conversion of the Series B Preferred Stock is required to be adjusted as provided in this paragraph, the Corporation shall forthwith compute the adjusted number of shares to be so issued and prepare a certificate setting forth such adjusted conversion amount and the facts upon which such adjustment is based, and such certificate shall forthwith be filed with the Transfer Agent for the Series B Preferred Stock and the Common Stock; and the Corporation shall mail to each Holder of record of Series B Preferred Stock notice of such adjusted conversion price not later than the first business day after the event, giving rise to the adjustment.

(g) In case at any time the Corporation shall propose:

(i) to offer for subscription to the Holders of its Common Stock any additional shares of any class or any other rights; or

(ii) any capital reorganization or reclassification of its shares or the merger of the Corporation with another corporation (other than a merger in which the Corporation is the surviving or continuing corporation and which does not result in any reclassification, conversion, or change of the outstanding shares of Common Stock); or

(iii) the voluntary dissolution, liquidation or winding-up of the Corporation;

then, and in any one or more of said cases, the Corporation shall cause at least five (5) days prior notice of the date on which (A) the books of the Corporation shall close or a record be taken for such stock dividend, distribution, or subscription rights, or (B) such capital reorganization, reclassification, merger, dissolution, liquidation or winding-up shall take place, as the case may be, to be mailed to the Holders of record of the Series B Preferred Stock.

(h) The term "Common Stock" as used in this Certificate of Designation shall mean the \$0.001 par value Common Stock of the Corporation as such stock is constituted at the date of issuance thereof or as it may from time to time be changed, or shares of stock of any class or other securities and/or property into which the shares of the Series B Preferred Stock shall at any time become convertible pursuant to the provisions of this paragraph.

(i) The Corporation shall pay the amount of any and all issue taxes (but not income taxes) which may be imposed in respect of any issue or delivery of stock upon the conversion of any shares of Series B Preferred Stock, but all transfer taxes and income taxes that may be payable in respect of any change of ownership of Series B Preferred Stock or any rights represented thereby or of stock receivable upon conversion thereof shall be paid by the person or persons surrendering such stock for conversion.

(j) In the event a Holder shall elect to convert any shares of Series B Preferred Stock as provided herein, the Corporation may not refuse conversion based on any claim that such Holder or any one associated or affiliated with such Holder has been engaged in any violation of law, or for any other reason unless, an injunction from a court, on notice, restraining and or enjoining conversion of all or part of said shares of Series B Preferred Stock shall have been sought and obtained by the Corporation or at the Corporation's request or with the Corporation's assistance and the Corporation posts a surety bond for the benefit of such Holder equal to 120% of the Stated Value sought to be converted, which is subject to the injunction, which bond shall remain in effect until the completion of arbitration/litigation of the dispute and the proceeds of which shall be payable to such Holder in the event it obtains judgment.

(k) In addition to any other rights available to the Holder, if the Corporation fails to deliver to the Holder such certificate or certificates pursuant to Section 3(c) by the Delivery Date and if within five (5) business days after the Delivery Date the Holder purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by such Holder of the Common Stock which the Holder anticipated receiving upon such conversion (a "Buy-In"), then the Corporation shall pay in cash to the Holder (in addition to any remedies available to or elected by the Holder) within five (5) business days after written notice from the Holder, the amount by which (A) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (B) the aggregate Stated Value of the shares of Series B Preferred Stock for which such conversion

was not timely honored. The Holder shall provide the Corporation written notice indicating the amounts payable to the Holder in respect of the Buy-In.

(1) The Corporation represents to the Holders of shares of Series B Preferred Stock that for purposes of "tacking" under Rule 144 promulgated under the Securities Act of 1933 the original date of ownership of any shares of Series B Preferred Stock shall be the date of original ownership by such Holder of the shares of Common Stock owned by such Holder which were surrendered in exchange for shares of Series B Preferred Stock. The Corporation also covenants to comply with all applicable requirements of an issuer for its equity securities to be eligible for resale under Rule 144 (including, but not limited to, requirements as to current reporting).

4. Voting Rights. The Holders of shares of Series B Preferred Stock shall vote together with the holders of the Common Stock on an as converted basis and shall have one vote per share for each share of Common Stock it would have as if the Holder's shares of Series B Preferred Stock had been converted into Common Stock prior to the vote.

EXHIBIT A

NOTICE OF CONVERSION

(To Be Executed By the Registered Holder in Order to Convert Series B Preferred Stock of Optex Systems, Inc.)

The undersigned hereby irrevocably elects to convert \$ _____ of the Stated Value of the above Series B Preferred Stock into shares of Common Stock of Optex Systems Holdings, Inc. (the "Corporation") according to the conditions hereof, as of the date written below.

Date of Conversion: _____

Applicable Conversion Price Per Share: _____

Number of Common Shares Issuable Upon This Conversion: _____

Select one:

- A Series B Convertible Preferred Stock certificate is being delivered herewith. The unconverted portion of such certificate should be reissued and delivered to the undersigned.
- A Series B Convertible Preferred Stock certificate is not being delivered to Optex Systems Holdings, Inc.

Signature: _____

Print Name: _____

Address: _____

Deliveries Pursuant to this Notice of Conversion Should Be Made to:



**STATE OF DELAWARE
CERTIFICATE OF CORRECTION**

Optex Systems Holdings, Inc., a
corporation organized and existing under and by virtue of the General Corporation Law of
the State of Delaware.

DOES HEREBY CERTIFY:

1. The name of the corporation is Optex Systems Holdings, Inc.
2. That a Certificate of DESIGNATION OF SERIES B PREFERRED STOCK
(Title of Certificate Being Corrected)
was filed by the Secretary of State of Delaware on March 26, 2015
and that said Certificate requires correction as permitted by Section 103 of the
General Corporation Law of the State of Delaware.

3. The inaccuracy or defect of said Certificate is: (must be specific)

Para. 3(b) of Att. A to the Cert. lists conv. price as
\$.0000025. It should be \$.0025.

4. Article Par 3 (b), Att A of the Certificate is corrected to read as follows:

See Exhibit A attached hereto.

IN WITNESS WHEREOF, said corporation has caused this Certificate of Correction
this 1st day of April, A.D. 2015.

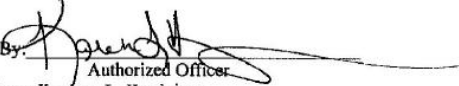
By: 
Authorized Officer
Name: Karen L Hawkins
Print or Type
Title: CFO

EXHIBIT A TO CERTIFICATE OF CORRECTION DATED APRIL 1, 2015

(b) The number of shares of Common Stock issuable upon conversion of the Series B Preferred Stock shall be the number of shares of Series B Preferred Stock being converted multiplied by the Stated Value per share being converted divided by the Conversion Price. The Conversion Price of the Series B Preferred Stock shall initially be \$0.0025 per share. The Conversion Price shall also be subject to adjustment as described below.

CERTIFICATE of AMENDMENT of

CERTIFICATE of INCORPORATION

OF

OPTEX SYSTEMS HOLDINGS, INC.

The corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware does hereby certify:

FIRST: That at a meeting of the Board of Directors of Optex Systems Holdings, Inc., (the "Corporation") resolutions were duly adopted setting forth proposed amendment of the Certificate of Incorporation of the Corporation, declaring said amendment to be advisable and requesting consent of the stockholders of the Corporation to adopt said amendment. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that the Certificate of Incorporation of the Corporation be amended by changing Article thereof numbered FOURTH which is amended by:

AMENDMENT 1: adding the following paragraph at the end thereof:

"Upon the Effective Date of this Certificate of Amendment, each 600 shares of Common Stock issued and outstanding on the Effective Date (the "Old Common Stock") shall be converted into one (1) share of Common Stock, respectively (the "New Common Stock"), subject to the treatment of fractional share interests as described below. A holder of 600 shares shall be entitled to receive, upon surrender of a stock certificate or stock certificates representing such Old Common Stock (the "Old Certificates," whether one or more) to the Corporation for cancellation, a certificate or certificates (the "New Certificates," whether one or more) representing the number of whole shares of the New Common Stock into which and for which the shares of the Old Common Stock formerly represented by such Old Certificates so surrendered are reclassified under the terms hereof. No certificates representing fractional share interests in New Common Stock will be issued, and no such fractional share interest will entitle the holder thereof to vote, or to any rights of a stockholder of the Corporation. In lieu of such fractional shares, each holder of Common Stock who or that would otherwise have been entitled to a fraction of a share of such common stock upon surrender of such holder's Old Certificates will be entitled to receive one whole share of such common stock. If more than one Old Certificate shall be surrendered at one time for the account of the same stockholder, the number of full shares of New Common Stock for which New Certificates shall be issued shall be computed on the basis of the aggregate number of shares represented by the Old Certificates so surrendered. In the event that the Corporation determines that a holder of Old Certificates has not tendered all his or her certificates for exchange, the Corporation shall carry forward any fractional share until all certificates of that holder have been presented for exchange such that any stockholder will not be entitled to receive more than one share of New Common Stock in lieu of fractional shares. In order to preserve all round lots, holders of less than 100 shares before the Reverse Split shall have the same number of shares after the Reverse Split as before the Reverse Split, and holder of 100 shares to 60,000 shares before the Reverse Split shall have 100 shares after the Reverse Split. From and after the Effective Date, the amount of capital represented by the shares of the New Common Stock into which and for which the shares of the Old Common Stock are reclassified under the terms hereof shall be the same as the amount of capital represented by the shares of Old Common Stock so reclassified, until thereafter reduced or increased in accordance with applicable law".

SECOND: That thereafter, pursuant to resolution of its Board of Directors, the Company received the requisite consent of its stockholders to adopt said amendment by written consent in lieu of a meeting.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the undersigned have executed this Certificate on the 22nd day of July, 2015.

/s/ Karen Hawkins
Karen Hawkins, CFO

State of Delaware
Secretary of State
Division of Corporations
Delivered 04:32 PM 09/29/2015
FILED 04:32 PM 09/29/2015
SR 20150311893 - FileNumber 4140386

CERTIFICATE of AMENDMENT of
CERTIFICATE of INCORPORATION
OF
OPTEX SYSTEMS HOLDINGS, INC.

The corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware does hereby certify:

FIRST: That at a meeting of the Board of Directors of Optex Systems Holdings, Inc., (the "Corporation") resolutions were duly adopted setting forth proposed amendment of the Certificate of Incorporation of the Corporation, declaring said amendment to be advisable and requesting consent of the stockholders of the Corporation to adopt said amendment, which shall be effective on October 7, 2015. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that the Certificate of Incorporation of the Corporation be amended by changing Article thereof numbered FOURTH which is amended by:

AMENDMENT 1: adding the following paragraph at the end thereof:

"Upon the Effective Date of this Certificate of Amendment, each 1,000 shares of Common Stock issued and outstanding on the Effective Date (the "Old Common Stock") shall be converted into one (1) share of Common Stock, respectively (the "New Common Stock"), subject to the treatment of fractional share interests as described below. A holder of 1,000 shares shall be entitled to receive, upon surrender of a stock certificate or stock certificates representing such Old Common Stock (the "Old Certificates," whether one or more) to the Corporation for cancellation, a certificate or certificates (the "New Certificates," whether one or more) representing the number of whole shares of the New Common Stock into which and for which the shares of the Old Common Stock formerly represented by such Old Certificates so surrendered are reclassified under the terms hereof. No certificates representing fractional share interests in New Common Stock will be issued, and no such fractional share interest will entitle the holder thereof to vote, or to any rights of a stockholder of the Corporation. In lieu of such fractional shares, each holder of Common Stock who or that would otherwise have been entitled to a fraction of a share of such common stock upon surrender of such holder's Old Certificates will be entitled to receive one whole share of such common stock. If more than one Old Certificate shall be surrendered at one time for the account of the same stockholder, the number of full shares of New Common Stock for which New Certificates shall be issued shall be computed on the basis of the aggregate number of shares represented by the Old Certificates so surrendered. In the event that the Corporation determines that a holder of Old Certificates has not tendered all his or her certificates for exchange, the Corporation shall carry forward any fractional share until all certificates of that holder have been presented for exchange such that any stockholder will not be entitled to receive more than one share of New Common Stock in lieu of fractional shares. In order to preserve all round lots, holders of less than 100 shares before the Reverse Split shall have the same number of shares after the Reverse Split as before the Reverse Split, and holder of 100 shares to 100,000 shares before the Reverse Split shall have 100 shares after the Reverse Split. From and after the Effective Date, the amount of capital represented by the shares of the New Common Stock into which and for which the shares of the Old Common Stock are reclassified under the terms hereof shall be the same as the amount of capital represented by the shares of Old Common Stock so reclassified, until thereafter reduced or increased in accordance with applicable law".

SECOND: That thereafter, pursuant to resolution of its Board of Directors, the Company received the requisite consent of its stockholders to adopt said amendment by written consent in lieu of a meeting.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the undersigned have executed this Certificate on the 29th day of September, 2015.

/s/ Karen Hawkins
Karen Hawkins, CFO

State of Delaware
Secretary of State
Division of Corporations
Delivered 05:01 PM 08/23/2016
FILED 05:01 PM 08/23/2016
SR 20165488267 - FileNumber 4140386

OPTEX SYSTEMS HOLDINGS, INC.

**CERTIFICATE OF DESIGNATION OF PREFERENCES,
RIGHTS AND LIMITATIONS
OF
SERIES C CONVERTIBLE PREFERRED STOCK**

PURSUANT TO SECTION 151 OF THE
DELAWARE GENERAL CORPORATION LAW

The undersigned, Danny Schoening and Karen Hawkins, do hereby certify that:

1. They are the Chief Executive Officer and Chief Financial Officer, respectively, of Optex Systems Holdings, Inc., a Delaware corporation (the "Corporation").
2. The Corporation is authorized to issue 5,000 shares of preferred stock, 1,338.4 of which have been issued.
3. The following resolutions were duly adopted by the board of directors of the Corporation (the "Board of Directors"):

WHEREAS, the certificate of incorporation of the Corporation provides for a class of its authorized stock known as preferred stock, consisting of 400 shares, \$0.001 par value per share, issuable from time to time in one or more series;

WHEREAS, the Board of Directors is authorized to fix the dividend rights, dividend rate, voting rights, conversion rights, rights and terms of redemption and liquidation preferences of any wholly unissued series of preferred stock and the number of shares constituting any series and the designation thereof, of any of them; and

WHEREAS, it is the desire of the Board of Directors, pursuant to its authority as aforesaid, to fix the rights, preferences, restrictions and other matters relating to a series of the preferred stock, which shall consist of, except as otherwise set forth in the Underwriting Agreement, up to 400 shares of the preferred stock which the Corporation has the authority to issue, as follows:

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors does hereby provide for the issuance of a series of preferred stock for cash or exchange of other securities, rights or property and does hereby fix and determine the rights, preferences, restrictions and other matters relating to such series of preferred stock as follows:

TERMS OF PREFERRED STOCK

Section 1. Definitions. For the purposes hereof, the following terms shall have the following meanings:

“Affiliate” means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 of the Securities Act.

“Alternate Consideration” shall have the meaning set forth in Section 7(d).

“Beneficial Ownership Limitation” shall have the meaning set forth in Section 6(d).

“Business Day” means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

“Buy-In” shall have the meaning set forth in Section 6(c)(iv).

“Commission” means the United States Securities and Exchange Commission.

“Common Stock” means the Corporation’s common stock, par value \$0.001 per share, and stock of any other class of securities into which such securities may hereafter be reclassified or changed.

“Common Stock Equivalents” means any securities of the Corporation or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

“Conversion Amount” means the sum of the Stated Value at issue.

“Conversion Date” shall have the meaning set forth in Section 6(a).

“Conversion Price” shall have the meaning set forth in Section 6(b).

“Conversion Shares” means, collectively, the shares of Common Stock issuable upon conversion of the shares of Preferred Stock in accordance with the terms hereof.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Fundamental Transaction” shall have the meaning set forth in Section 7(d).

“GAAP” means United States generally accepted accounting principles.

“Holder” shall have the meaning given such term in Section 2.

“New York Courts” shall have the meaning set forth in Section 8(d).

“Notice of Conversion” shall have the meaning set forth in Section 6(a).

“Original Issue Date” means the date of the first issuance of any shares of the Preferred Stock regardless of the number of transfers of any particular shares of Preferred Stock and regardless of the number of certificates which may be issued to evidence such Preferred Stock.

“Person” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

“Preferred Stock” shall have the meaning set forth in Section 2.

“Representative” means Joseph Gunnar & Co., LLC.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Share Delivery Date” shall have the meaning set forth in Section 6(c).

“Stated Value” shall have the meaning set forth in Section 2, as the same may be increased pursuant to Section 3.

“Subsidiary” means any subsidiary of the Corporation and shall, where applicable, also include any direct or indirect subsidiary of the Corporation formed or acquired after the date hereof.

“Successor Entity” shall have the meaning set forth in Section 7(d).

“Trading Day” means a day on which the principal Trading Market is open for business.

“Trading Market” means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, OTCQB or OTCQX (or any successors to any of the foregoing).

“Transfer Agent” means Equity Stock Transfer, LLC, the current transfer agent of the Corporation, with a mailing address of 237 West 37th Street, Suite 601, New York, New York 10018 and a facsimile number of (347) 584-3644, and any successor transfer agent of the Corporation.

“Underwriting Agreement” means the underwriting agreement, dated as of August 22, 2016, between the Corporation and the Representative as representative of the underwriters named therein, as amended, modified or supplemented from time to time in accordance with its terms.

Section 2. Designation, Amount and Par Value. The series of preferred stock shall be designated as its Series C Convertible Preferred Stock (the “Preferred Stock”) and the number of shares so designated shall be up to 400 (which shall not be subject to increase without the written consent of all of the holders of the Preferred Stock (each, a “Holder” and collectively, the “Holders”). Each share of Preferred Stock shall have a par value of \$0.001 per share and a stated value equal to \$5,000 (the “Stated Value”). The shares of Preferred Stock shall initially be issued and maintained in the form of securities held in book-entry form and the Depository Trust Company or its nominee (“DTC”) shall initially be the sole registered holder of the shares of Preferred Stock. In the event fractional shares of Preferred Stock are issued to Holders and the fractional shares cannot be transferred by DTC or its nominee, such fractional shares shall be rounded up to the next whole share.

Section 3. Dividends. Except for stock dividends or distributions for which adjustments are to be made pursuant to Section 7, Holders shall be entitled to receive, and the Corporation shall pay, dividends on shares of Preferred Stock equal (on an as-if-converted-to-Common-Stock basis (without giving effect to the Beneficial Ownership Limitation)) to and in the same form as dividends actually paid on shares of the Common Stock when, as and if such dividends are paid on shares of the Common Stock. Other than as set forth in the previous sentence, no other dividends shall be paid on shares of Preferred Stock, and the Corporation shall pay no dividends (other than dividends in the form of Common Stock) on shares of the Common Stock unless it simultaneously complies with the previous sentence.

Section 4. Voting Rights. Except as otherwise provided herein or as otherwise required by law, the Preferred Stock shall have no voting rights. However, as long as any shares of Preferred Stock are outstanding, the Corporation shall not, without the affirmative vote of the Holders of a majority of the then outstanding shares of the Preferred Stock, (a) alter or change adversely the powers, preferences or rights given to the Preferred Stock or alter or amend this Certificate of Designation, (b) amend its certificate of incorporation or other charter documents in any manner that adversely affects any rights of the Holders, (c) increase the number of authorized shares of Preferred Stock, or (d) enter into any agreement with respect to any of the foregoing.

Section 5. Liquidation. Upon any liquidation, dissolution or winding-up of Corporation, whether voluntary or involuntary (a “Liquidation”), the Holders shall be entitled to participate on an as-converted-to-Common Stock basis (without giving effect to the Beneficial

Ownership Limitation) with holders of the Common Stock in any distribution of assets of the Corporation to the holders of the Common Stock.

Section 6. Conversion.

- a) Conversions at Option of Holder. Each share of Preferred Stock shall be convertible, at any time and from time to time from and after the Original Issue Date at the option of the Holder thereof, into that number of shares of Common Stock (subject to the limitations set forth in Section 6(d)) determined by dividing the Stated Value of such share of Preferred Stock by the Conversion Price. Holders shall effect conversions by providing the Corporation with the form of conversion notice attached hereto as Annex A (a "Notice of Conversion"). Each Notice of Conversion shall specify the number of shares of Preferred Stock to be converted, the number of shares of Preferred Stock owned prior to the conversion at issue, the number of shares of Preferred Stock owned subsequent to the conversion at issue and the date on which such conversion is to be effected, which date may not be prior to the date the applicable Holder delivers by facsimile or e-mail such Notice of Conversion to the Corporation (such date, the "Conversion Date"). Upon delivery of the Notice of Conversion, the Holder shall be deemed for all corporate purposes to have become the holder of record of the Conversion Shares with respect to which the shares of Preferred Stock have been converted irrespective of the date of delivery of the Conversion Shares, provided that the Holder shall deliver such converted shares of Preferred Stock to the Transfer Agent via the DTC's Deposit/Withdrawal at Custodian system within two Trading Days of delivery of the Notice of Conversion. If no Conversion Date is specified in a Notice of Conversion, the Conversion Date shall be the date that such Notice of Conversion to the Corporation is deemed delivered hereunder. No ink-original Notice of Conversion shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of any Notice of Conversion form be required. The calculations and entries set forth in the Notice of Conversion shall control in the absence of manifest or mathematical error. To effect conversions of shares of Preferred Stock, a Holder shall not be required to surrender the certificate(s) representing the shares of Preferred Stock to the Corporation unless all of the shares of Preferred Stock represented thereby are so converted, in which case such Holder shall deliver the certificate representing such shares of Preferred Stock promptly following the Conversion Date at issue. Shares of Preferred Stock converted into Common Stock or redeemed in accordance with the terms hereof shall be canceled and shall not be reissued.

Without limiting the rights and remedies of a holder of Preferred Stock hereunder and without limiting the right of a Holder to deliver a Notice of Conversion to the Corporation, a holder whose interest in the shares of Preferred Stock is a beneficial interest in certificate(s) representing the shares

of Preferred Stock held in book-entry form through DTC (or another established clearing corporation performing similar functions), may effect conversions made pursuant to this Section 6(a) by delivering to DTC (or such other clearing corporation, as applicable) the appropriate instruction form for conversion, complying with the procedures to effect conversions that are required by DTC (or such other clearing corporation, as applicable).

b) Conversion Price. The conversion price for the Preferred Stock shall equal **\$1.20**, subject to adjustment herein (the "Conversion Price").

c) Mechanics of Conversion

i. Delivery of Conversion Shares Upon Conversion. Not later than three (3) Trading Days after each Conversion Date (the "Share Delivery Date"), the Corporation shall deliver, or cause to be delivered, to the converting Holder the number of Conversion Shares being acquired upon the conversion of the Preferred Stock, which Conversion Shares shall be free of restrictive legends and trading restrictions and a bank check in the amount of accrued and unpaid dividends, if any. The Corporation shall deliver (or cause to be delivered) the Conversion Shares electronically through the Depository Trust Company or another established clearing corporation performing similar functions.

ii. Failure to Deliver Conversion Shares. If, in the case of any Notice of Conversion, such Conversion Shares are not delivered to or as directed by the applicable Holder by the Share Delivery Date, in addition to any other rights herein, the Holder shall be entitled to elect by written notice to the Corporation at any time on or before its receipt of such Conversion Shares, to rescind such Conversion, in which event the Corporation shall promptly return to the Holder any original Preferred Stock certificate delivered to the Corporation and the Holder shall promptly return to the Corporation the Conversion Shares issued to such Holder pursuant to the rescinded Conversion Notice.

iii. Obligation Absolute; Partial Liquidated Damages. The Corporation's obligation to issue and deliver the Conversion Shares upon conversion of Preferred Stock in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by a Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by such Holder or any other Person of any obligation to the Corporation or any violation or alleged violation of law by such Holder or any other person, and irrespective of any other circumstance which might otherwise limit such obligation of the Corporation to such Holder in connection with the issuance of such Conversion Shares; provided, however, that such delivery shall

not operate as a waiver by the Corporation of any such action that the Corporation may have against such Holder. In the event a Holder shall elect to convert any or all of the Stated Value of its Preferred Stock, the Corporation may not refuse conversion based on any claim that such Holder or any one associated or affiliated with such Holder has been engaged in any violation of law, agreement or for any other reason, unless an injunction from a court, on notice to Holder, restraining and/or enjoining conversion of all or part of the Preferred Stock of such Holder shall have been sought and obtained, and the Corporation posts a surety bond for the benefit of such Holder in the amount of 150% of the Stated Value of Preferred Stock which is subject to the injunction, which bond shall remain in effect until the completion of arbitration/litigation of the underlying dispute and the proceeds of which shall be payable to such Holder to the extent it obtains judgment. In the absence of such injunction, the Corporation shall issue Conversion Shares and, if applicable, cash, upon a properly noticed conversion. If the Corporation fails to deliver to a Holder such Conversion Shares pursuant to Section 6(c)(i) on the Share Delivery Date applicable to such conversion, the Corporation shall pay to such Holder, in cash, as liquidated damages and not as a penalty, for each \$1,000 of Stated Value of Preferred Stock being converted, \$10 per Trading Day (increasing to \$20 per Trading Day on the third Trading Day and increasing to \$40 per Trading Day on the sixth Trading Day after such damages begin to accrue) for each Trading Day after the Share Delivery Date until such Conversion Shares are delivered or Holder rescinds such conversion. Nothing herein shall limit a Holder's right to pursue actual damages for the Corporation's failure to deliver Conversion Shares within the period specified herein and such Holder shall have the right to pursue all remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief. The exercise of any such rights shall not prohibit a Holder from seeking to enforce damages pursuant to any other Section hereof or under applicable law.

iv. Compensation for Buy-In on Failure to Timely Deliver Conversion Shares Upon Conversion. In addition to any other rights available to the Holder, if the Corporation fails for any reason to deliver to a Holder the applicable Conversion Shares by the Share Delivery Date pursuant to Section 6(c)(i), and if after such Share Delivery Date such Holder is required by its brokerage firm to purchase (in an open market transaction or otherwise), or the Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by such Holder of the Conversion Shares which such Holder was entitled to receive upon the conversion relating to such Share Delivery Date (a "Buy-In"), then the Corporation shall (A) pay in cash to such Holder (in addition to any other remedies available to or elected by such Holder) the amount, if any, by which (x) such Holder's total purchase price (including any brokerage commissions) for the Common Stock so purchased exceeds (y) the product of (1) the aggregate number of shares of Common Stock that such Holder was entitled to receive from the conversion at issue multiplied by (2) the actual sale price at which the sell order

giving rise to such purchase obligation was executed (including any brokerage commissions) and (B) at the option of such Holder, either reissue (if surrendered) the shares of Preferred Stock equal to the number of shares of Preferred Stock submitted for conversion (in which case, such conversion shall be deemed rescinded) or deliver to such Holder the number of shares of Common Stock that would have been issued if the Corporation had timely complied with its delivery requirements under Section 6(c)(i). For example, if a Holder purchases shares of Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted conversion of shares of Preferred Stock with respect to which the actual sale price of the Conversion Shares (including any brokerage commissions) giving rise to such purchase obligation was a total of \$10,000 under clause (A) of the immediately preceding sentence, the Corporation shall be required to pay such Holder \$1,000. The Holder shall provide the Corporation written notice indicating the amounts payable to such Holder in respect of the Buy-In and, upon request of the Corporation, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Corporation's failure to timely deliver the Conversion Shares upon conversion of the shares of Preferred Stock as required pursuant to the terms hereof.

v. Reservation of Shares Issuable Upon Conversion. The Corporation covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock for the sole purpose of issuance upon conversion of the Preferred Stock as herein provided, free from preemptive rights or any other actual contingent purchase rights of Persons other than the Holder (and the other holders of the Preferred Stock), not less than such aggregate number of shares of the Common Stock as shall be issuable (taking into account the adjustments and restrictions of Section 7) upon the conversion of the then outstanding shares of Preferred Stock. The Corporation covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly authorized, validly issued, fully paid and nonassessable.

vi. Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the conversion of the Preferred Stock. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such conversion, the Corporation shall at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Conversion Price or round up to the next whole share.

vii. Transfer Taxes and Expenses. The issuance of Conversion Shares on conversion of this Preferred Stock shall be made without charge to any Holder for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such Conversion Shares, provided that the Corporation shall not be required to pay any tax that may be payable in respect of any transfer

involved in the issuance and delivery of any such Conversion Shares upon conversion in a name other than that of the Holders of such shares of Preferred Stock and the Corporation shall not be required to issue or deliver such Conversion Shares unless or until the Person or Persons requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid. The Corporation shall pay all Transfer Agent fees required for same-day processing of any Notice of Conversion and all fees to the Depository Trust Company (or another established clearing corporation performing similar functions) required for same-day electronic delivery of the Conversion Shares.

d) **Beneficial Ownership Limitation.** The Corporation shall not effect any conversion of the Preferred Stock, and a Holder shall not have the right to convert any portion of the Preferred Stock, to the extent that, after giving effect to the conversion set forth on the applicable Notice of Conversion, such Holder (together with such Holder's Affiliates, and any Persons acting as a group together with such Holder or any of such Holder's Affiliates (such Persons, "Attribution Parties")) would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by such Holder and its Affiliates and Attribution Parties shall include the number of shares of Common Stock issuable upon conversion of the Preferred Stock with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which are issuable upon (i) conversion of the remaining, unconverted Stated Value of Preferred Stock beneficially owned by such Holder or any of its Affiliates or Attribution Parties and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Corporation subject to a limitation on conversion or exercise analogous to the limitation contained herein (including, without limitation, the Preferred Stock or the Warrants) beneficially owned by such Holder or any of its Affiliates or Attribution Parties. Except as set forth in the preceding sentence, for purposes of this Section 6(d), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. To the extent that the limitation contained in this Section 6(d) applies, the determination of whether the Preferred Stock is convertible (in relation to other securities owned by such Holder together with any Affiliates and Attribution Parties) and of how many shares of Preferred Stock are convertible shall be in the sole discretion of such Holder, and the submission of a Notice of Conversion shall be deemed to be such Holder's determination of whether the shares of Preferred Stock may be converted (in relation to other securities owned by such Holder together with any Affiliates and Attribution Parties) and how many shares of the Preferred Stock are convertible, in each case subject to the Beneficial Ownership Limitation. To ensure compliance with this restriction, each Holder will be deemed to represent to the Corporation each time it delivers a Notice of Conversion that such Notice of Conversion has not violated the restrictions set forth in this paragraph and the Corporation shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules

and regulations promulgated thereunder. For purposes of this Section 6(d), in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as stated in the most recent of the following: (i) the Corporation's most recent periodic or annual report filed with the Commission, as the case may be, (ii) a more recent public announcement by the Corporation or (iii) a more recent written notice by the Corporation or the Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Holder (which may be via email), the Corporation shall within two Trading Days confirm orally and in writing to such Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Corporation, including the Preferred Stock, by such Holder or its Affiliates or Attribution Parties since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon conversion of Preferred Stock held by the applicable Holder. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 6(d) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation contained herein or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of Preferred Stock.

Section 7. Certain Adjustments.

a) Stock Dividends and Stock Splits. If the Corporation, at any time while this Preferred Stock is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions payable in shares of Common Stock on shares of Common Stock or any other Common Stock Equivalents (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Corporation upon conversion of, or payment of a dividend on, this Preferred Stock), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of a reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (iv) issues, in the event of a reclassification of shares of the Common Stock, any shares of capital stock of the Corporation, then the Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding any treasury shares of the Corporation) outstanding immediately before such event, and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to this Section 7(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Subsequent Rights Offerings. In addition to any adjustments pursuant to Section 7(a) above, if at any time the Corporation grants, issues or sells any Common Stock Equivalents or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of shares of Common Stock (the "Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete conversion of such Holder's Preferred Stock (without regard to any limitations on exercise hereof, including without limitation, the Beneficial Ownership Limitation) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights (provided, however, to the extent that the Holder's right to participate in any such Purchase Right would result in the Holder exceeding the Beneficial Ownership Limitation, then the Holder shall not be entitled to participate in such Purchase Right to such extent (or beneficial ownership of such shares of Common Stock as a result of such Purchase Right to such extent) and such Purchase Right to such extent shall be held in abeyance for the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Beneficial Ownership Limitation)

c) Pro Rata Distributions. During such time as this Preferred Stock is outstanding, if the Corporation declares or makes any dividend or other distribution of its assets (or rights to acquire its assets) to holders of shares of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "Distribution"), at any time after the issuance of this Preferred Stock, then, in each such case, the Holder shall be entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of shares of Common Stock acquirable upon complete conversion of this Preferred Stock (without regard to any limitations on conversion hereof, including without limitation, the Beneficial Ownership Limitation) immediately before the date of which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the participation in such Distribution (provided, however, to the extent that the Holder's right to participate in any such Distribution would result in the Holder exceeding the Beneficial Ownership Limitation, then the Holder shall not be entitled to participate in such Distribution to such extent (or in the beneficial ownership of any shares of Common Stock as a result of such Distribution to such extent) and the portion of such Distribution shall be held in abeyance for the benefit of the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Beneficial Ownership Limitation).

d) Fundamental Transaction. If, at any time while this Preferred Stock is outstanding, (i) the Corporation, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Corporation with or into another Person, (ii)

the Corporation, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Corporation or another Person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) the Corporation, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property, or (v) the Corporation, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) (each a "Fundamental Transaction"), then, upon any subsequent conversion of this Preferred Stock, the Holder shall have the right to receive, for each Conversion Share that would have been issuable upon such conversion immediately prior to the occurrence of such Fundamental Transaction (without regard to any limitation in Section 6(d) on the conversion of this Preferred Stock), the number of shares of Common Stock of the successor or acquiring corporation or of the Corporation, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Preferred Stock is convertible immediately prior to such Fundamental Transaction (without regard to any limitation in Section 6(d) on the conversion of this Preferred Stock). For purposes of any such conversion, the determination of the Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Corporation shall apportion the Conversion Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any conversion of this Preferred Stock following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Corporation or surviving entity in such Fundamental Transaction shall file a new Certificate of Designation with the same terms and conditions and issue to the Holders new preferred stock consistent with the foregoing provisions and evidencing the Holders' right to convert such preferred stock into Alternate Consideration. The Corporation shall cause any successor entity in a Fundamental Transaction in which the Corporation is not the survivor (the "Successor Entity") to assume in writing all of the obligations of the Corporation under this Certificate of Designation in accordance with the provisions of

this Section 7(d) pursuant to written agreements in form and substance reasonably satisfactory to the Holder and approved by the Holder (without unreasonable delay) prior to such Fundamental Transaction and shall, at the option of the holder of this Preferred Stock, deliver to the Holder in exchange for this Preferred Stock a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Preferred Stock which is convertible for a corresponding number of shares of capital stock of such Successor Entity (or its parent entity) equivalent to the shares of Common Stock acquirable and receivable upon conversion of this Preferred Stock (without regard to any limitations on the conversion of this Preferred Stock) prior to such Fundamental Transaction, and with a conversion price which applies the conversion price hereunder to such shares of capital stock (but taking into account the relative value of the shares of Common Stock pursuant to such Fundamental Transaction and the value of such shares of capital stock, such number of shares of capital stock and such conversion price being for the purpose of protecting the economic value of this Preferred Stock immediately prior to the consummation of such Fundamental Transaction), and which is reasonably satisfactory in form and substance to the Holder. Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Certificate of Designation referring to the "Corporation" shall refer instead to the Successor Entity), and may exercise every right and power of the Corporation and shall assume all of the obligations of the Corporation under this Certificate of Designation with the same effect as if such Successor Entity had been named as the Corporation herein.

e) Calculations. All calculations under this Section 7 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 7, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding any treasury shares of the Corporation) issued and outstanding.

f) Notice to the Holders.

i. Adjustment to Conversion Price. Whenever the Conversion Price is adjusted pursuant to any provision of this Section 7, the Corporation shall promptly deliver to each Holder by facsimile or email a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Conversion by Holder. If (A) the Corporation shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) the Corporation shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) the Corporation shall authorize the granting to all holders of the Common Stock of rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of the Corporation shall be required in connection with any reclassification of the Common Stock, any consolidation or

merger to which the Corporation is a party, any sale or transfer of all or substantially all of the assets of the Corporation, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property or (E) the Corporation shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Corporation, then, in each case, the Corporation shall cause to be filed at each office or agency maintained for the purpose of conversion of this Preferred Stock, and shall cause to be delivered by facsimile or email to each Holder at its last facsimile number or email address as it shall appear upon the stock books of the Corporation, at least twenty (20) calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange, provided that the failure to deliver such notice or any defect therein or in the delivery thereof shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding the Corporation or any of the Subsidiaries, the Corporation shall simultaneously file such notice with the Commission pursuant to a Current Report on Form 8-K. The Holder shall remain entitled to convert the Conversion Amount of this Preferred Stock (or any part hereof) during the 20-day period commencing on the date of such notice through the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

Section 8. Miscellaneous.

a) Notices. Any and all notices or other communications or deliveries to be provided by the Holders hereunder including, without limitation, any Notice of Conversion, shall be in writing and delivered personally, by facsimile, by e-mail or sent by a nationally recognized overnight courier service, addressed to the Corporation at 1420 Presidential Drive, Richardson, Texas 75081-2439, Attention: Karen Hawkins, facsimile number: (972) 234-3544, email address: khawkins@optexsys.com, or such other facsimile number, e-mail address or address as the Corporation may specify for such purposes by notice to the Holders delivered in accordance with this Section 8. Any and all notices or other communications or deliveries to be provided by the Corporation hereunder shall be in writing and delivered personally, by facsimile, by e-mail or sent by a nationally recognized overnight courier service addressed to each Holder at the facsimile number or address of such Holder appearing on the books of the Corporation,

or if no such facsimile number or address appears on the books of the Corporation, at the principal place of business of such Holder. Any notice or other communication or deliveries hereunder shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number or via e-mail at the e-mail address set forth in this Section prior to 5:30 p.m. (New York City time) on any date, (ii) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number or via e-mail at the e-mail address set forth in this Section on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) on any Trading Day, (iii) the second Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given. To the extent that any notice provided pursuant to this Certificate of Designation constitutes, or contains, material, non-public information regarding the Corporation or any Subsidiaries, the Corporation shall simultaneously file such notice with the Commission pursuant to a Current Report on Form 8-K. Notwithstanding any other provision of this Certificate of Designation, where this Certificate of Designation provides for notice of any event to a Holder, if the Preferred Stock is held in global form by DTC (or any successor depository), such notice may be delivered via DTC (or such successor depository) pursuant to the procedures of DTC (or such successor depository).

b) Absolute Obligation. Except as expressly provided herein, no provision of this Certificate of Designation shall alter or impair the obligation of the Corporation, which is absolute and unconditional, to pay liquidated damages and accrued dividends, as applicable, on the shares of Preferred Stock at the time, place, and rate, and in the coin or currency, herein prescribed.

c) Lost or Mutilated Preferred Stock Certificate. If a Holder's Preferred Stock certificate shall be mutilated, lost, stolen or destroyed, the Corporation shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated certificate, or in lieu of or in substitution for a lost, stolen or destroyed certificate, a new certificate for the shares of Preferred Stock so mutilated, lost, stolen or destroyed, but only upon receipt of evidence of such loss, theft or destruction of such certificate, and of the ownership hereof reasonably satisfactory to the Corporation.

d) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Certificate of Designation shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware, without regard to the principles of conflict of laws thereof. Each party agrees that all legal proceedings concerning the interpretation, enforcement and defense of the transactions contemplated by this Certificate of Designation (whether brought against a party hereto or its respective Affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state and federal courts sitting in the City of New York, Borough of Manhattan (the "New York Courts"). Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction

contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of such New York Courts, or such New York Courts are improper or inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Certificate of Designation and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by applicable law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Certificate of Designation or the transactions contemplated hereby. If any party shall commence an action or proceeding to enforce any provisions of this Certificate of Designation, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys' fees and other costs and expenses incurred in the investigation, preparation and prosecution of such action or proceeding.

e) Waiver. Any waiver by the Corporation or a Holder of a breach of any provision of this Certificate of Designation shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Certificate of Designation or a waiver by any other Holders. The failure of the Corporation or a Holder to insist upon strict adherence to any term of this Certificate of Designation on one or more occasions shall not be considered a waiver or deprive that party (or any other Holder) of the right thereafter to insist upon strict adherence to that term or any other term of this Certificate of Designation on any other occasion. Any waiver by the Corporation or a Holder must be in writing.

f) Severability. If any provision of this Certificate of Designation is invalid, illegal or unenforceable, the balance of this Certificate of Designation shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum rate of interest permitted under applicable law.

g) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

h) Headings. The headings contained herein are for convenience only, do not constitute a part of this Certificate of Designation and shall not be deemed to limit or affect any of the provisions hereof.

i) Status of Converted or Redeemed Preferred Stock. If any shares of Preferred Stock shall be converted, redeemed or reacquired by the Corporation, such shares shall resume the status of authorized but unissued shares of preferred stock and shall no longer be designated as Series C Convertible Preferred Stock.

RESOLVED, FURTHER, that the Chief Executive Officer and the Chief Financial Officer of the Corporation be and they hereby are authorized and directed to prepare and file this Certificate of Designation of Preferences, Rights and Limitations in accordance with the foregoing resolution and the provisions of Delaware law.

IN WITNESS WHEREOF, the undersigned have executed this Certificate this 23rd day of August 2016.

/s/ Danny Schoening
Name: Danny Schoening
Title: Chief Executive Officer

/s/ Karen L. Hawkins
Name: Karen L. Hawkins
Title: Chief Financial Officer

ANNEX A

NOTICE OF CONVERSION

(TO BE EXECUTED BY THE REGISTERED HOLDER IN ORDER TO CONVERT SHARES OF PREFERRED STOCK)

The undersigned hereby elects to convert the number of shares of Series C Convertible Preferred Stock indicated below into shares of common stock, par value \$0.001 per share (the "Common Stock"), of Optex Systems Holdings, Inc., a Delaware corporation (the "Corporation"), according to the conditions hereof, as of the date written below. If shares of Common Stock are to be issued in the name of a Person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto. No fee will be charged to the Holders for any conversion, except for any such transfer taxes.

Conversion calculations:

Date to Effect Conversion: _____

Number of shares of Preferred Stock owned prior to Conversion: _____

Number of shares of Preferred Stock to be Converted: _____

Stated Value of shares of Preferred Stock to be Converted: _____

Number of shares of Common Stock to be Issued: _____

Applicable Conversion Price: _____

Number of shares of Preferred Stock subsequent to Conversion: _____

Address for Delivery: _____

Or

DWAC Instructions:

Broker no: _____

Account no: _____

[HOLDER

By: _____

Name:

Title:

**STATE OF DELAWARE
CERTIFICATE FOR REVIVAL OF CHARTER**

The corporation organized under the laws of the State of Delaware, the charter of which was voided for non-payment of taxes and/or for failure to file a complete annual report, now desires to procure a revival of its charter pursuant to Section 312 of the General Corporation Law of the State of Delaware, and hereby certifies as follows:

1. The name of the corporation is Optex Systems Holdings, Inc.

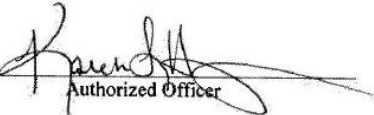
and, if different, the name under which the corporation was originally incorporated
SUSTUT EXPLORATION INC.

2. The Registered Office of the corporation in the State of Delaware is located at
251 LITTLE FALLS DRIVE (street),
in the City of WILMINGTON, County of NEW CASTLE
Zip Code 19808. The name of the Registered Agent at such address upon
whom process against this Corporation may be served is Corporation Service Company

3. The date of filing of the Corporation's original Certificate of Incorporation in
Delaware was 04/11/2008

4. The corporation desiring to be revived and so reviving its certificate of
incorporation was organized under the laws of this State.

5. The corporation was duly organized and carried on the business authorized by its
charter until the 01 day of March A.D. 2020, at which time its
charter became inoperative and void for non-payment of taxes and/or failure to file a
complete annual report and the certificate for revival is filed by authority of the duly
elected directors of the corporation in accordance with the laws of the State of Delaware.

By: 
Authorized Officer

Name: Karen L. Hawkins, CFO
Print or Type

State of Delaware
Secretary of State
Division of Corporations
Delivered 04:03 PM 03/27/2020
FILED 04:03 PM 03/27/2020
SR 20202429671 - File Number 4140386

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12
OF THE SECURITIES EXCHANGE ACT OF 1934**

Introduction

The following is a summary of information concerning the capital stock of Optex Systems Holdings, Inc. (the "Company"). This discussion is subject to the relevant provisions of Delaware law and is qualified in its entirety by reference to the Company's Certificate of Incorporation, Bylaws, Certificate of Designation of Series A Convertible Preferred Stock ("Series A Certificate of Designation"), Certificate of Designation, Number, Powers, Preferences and Relative, Participating, Optional, and other Special Rights and the Qualifications, Limitations, Restrictions, and other Distinguishing Characteristics of Series B Preferred Stock ("Series B Certificate of Designation"), and Certificate of Designation of Preferences, Rights and Limitations of Series C Convertible Preferred Stock ("Series C Certificate of Designation"). The Company's Certificate of Incorporation, Bylaws, Series A Certificate of Designation, Series B Certificate of Designation and Series C Certificate of Designation include more details regarding the provisions described below and other provisions. The Company has filed copies of those documents with the United States Securities and Exchange Commission ("SEC").

Authorized Capital Stock

The Company's authorized capital stock consists of 2,000,000,000 shares of common stock, par value \$0.001 per share ("Common Stock"), and 5,000 shares of preferred stock, par value \$0.001 per share ("Preferred Stock"), of which (i) 1,027 are designed as Series A Convertible Preferred Stock ("Series A Shares"), (ii) 1,010 are designed as Series B Convertible Preferred Stock ("Series B Shares"), and (iii) 400 are designed as Series C Convertible Preferred Stock ("Series C Shares").

Common Stock

Dividends. Holders of shares of our Common Stock will be entitled to receive dividends when, as and if declared by the Company's Board of Directors (the "Board") at its discretion out of funds legally available for that purpose, subject to the preferential rights of any outstanding shares of Preferred Stock. The timing, declaration, amount and payment of future dividends depends on the Company's financial condition, earnings, capital requirements and debt service obligations, as well as legal requirements, regulatory constraints, industry practice and other factors that the Board deems relevant. The Company's Board makes all decisions regarding its payment of dividends from time-to-time in accordance with applicable law.

Voting Rights. The holders of the Company's Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. With certain exceptions, a majority of the votes cast at a stockholder meeting at which a quorum is present must approve all stockholder matters. Except with respect to vacancies or new directorships, the Company's Bylaws provide that directors are elected by a plurality of the votes cast on the election of directors at a stockholder meeting at which a quorum is present. The holders of the Company's Common Stock do not have cumulative voting rights for the election of directors or for any other purpose.

Other Rights. Subject to any preferential liquidation rights of holders of Preferred Stock that may be outstanding, upon the Company's dissolution, the holders of Common Stock will be entitled to share ratably in its assets legally available for distribution to the Company's stockholders. The holders of the Common Stock do not have preemptive rights or preferential rights to subscribe for shares of the Company's capital stock.

Fully Paid. The issued and outstanding shares of Common Stock are fully paid and non-assessable. Any additional shares of Common Stock that may be issued in the future will also be fully paid and non-assessable.

Undesignated Preferred Stock

The Company currently has no outstanding shares of Preferred Stock, with all previously issued Series A Shares, Series B Shares and Series C Shares having been converted or redeemed. The Board has no present intention to issue any shares of Preferred Stock. The Company is authorized to issue up to 5,000 shares of Preferred Stock in one or more class or series. An aggregate of 2,437 shares of Preferred Stock were previously designated as Series A Shares, Series B Shares or Series C Shares, so only 2,563 shares of authorized Preferred Stock remain available for issuance in a new class or series. The Board, without further action by the holders of the Common Stock, may issue shares of Preferred Stock. The Board is vested with the authority to fix by resolution the designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions of any Preferred Stock issued, including, without limitation, redemption rights, dividend rights, liquidation preferences and conversion or exchange rights of any class or series of Preferred Stock, and to fix the number of classes or series of Preferred Stock, the number of shares constituting each class or series and the voting powers for each class or series.

Anti-Takeover Provisions of the Company's Certificate of Incorporation and Bylaws and Delaware Law

The Company's Certificate of Incorporation and Bylaws include a number of provisions that may have the effect of delaying, deferring or preventing another party from acquiring control of it and encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with the Company's Board rather than pursue non-negotiated takeover attempts. These provisions include the items described below.

Filling Vacancies. Any vacancy on the Board, however occurring, including a vacancy resulting from an increase in the size of the Board, may be filled by the affirmative vote of a majority of the Board's directors then in office, even if less than a quorum. The treatment of vacancies may have the effect of making it more difficult for stockholders to change the composition of the Board.

Section 203 of the Delaware General Corporation Law. The Company is subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a three-year period following the time that this stockholder becomes an interested stockholder, unless the business combination is approved in a prescribed manner. Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions:

- before the stockholder became interested, the Board approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the Company’s voting stock outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, shares owned by persons who are directors and also officers, and employee stock plans, in some instances, but not the outstanding voting stock owned by the interested stockholder; or
- at or after the time the stockholder became interested, the business combination was approved by the Board and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

Section 203 defines a business combination to include:

- any merger or consolidation involving the Company and the interested stockholder;
- any sale, transfer, lease, pledge or other disposition involving the interested stockholder of 10% or more of the Company’s our assets;
- subject to exceptions, any transaction that results in the issuance or transfer by the Company of any of its stock to the interested stockholder;
- subject to exceptions, any transaction involving the Company that has the effect of increasing the proportionate share of the stock of any of the Company’s class or series beneficially owned by the interested stockholder; and
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the Company.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the Company and any entity or person affiliated with or controlling or controlled by the entity or person.

Undesignated Preferred Stock. The Company’s Certificate of Incorporation provides for 5,000 authorized shares of Preferred Stock, with 2,563 of such Preferred Stock remaining available for designation and issuance in a new class or series. The existence of authorized but unissued shares of Preferred Stock may enable the Board to discourage an attempt to obtain control of the Company by means of a merger, tender offer, proxy contest or otherwise. For example, if in the due exercise of its fiduciary obligations, the Board were to determine that a takeover proposal is not in the best interests of the Company’s stockholders, the Board could cause shares of Preferred Stock to be issued without stockholder approval in one or more private offerings or other transactions that might dilute the voting or other rights of the proposed acquirer or insurgent stockholder or stockholder group. In this regard, the Company’s Certificate of Incorporation grants the Board broad power to establish the rights and preferences of authorized and unissued shares of Preferred Stock. The issuance of shares of Preferred Stock could decrease the amount of earnings and assets available for distribution to holders of shares of Common Stock. The issuance may also adversely affect the rights and powers, including voting rights, of these holders and may have the effect of delaying, deterring or preventing a change in control of the Company.

Transfer Agent

Our transfer agent is Equity Stock Transfer LLC.

Listing

Our Common Stock is quoted on the OTCQB under the symbol “OPXS”.

FILE COPY

**SIXTH AMENDMENT
TO LEASE AGREEMENT**

This Sixth Amendment to Lease Agreement is entered into as of the 11 day of January, 2021, by and between, FLT Acquiport-Campus, LLC, a Delaware limited liability company, successor in interest to MP Acquiport Industrial, LLC (hereinafter called the "Landlord"), and Optex Systems Inc, a Texas Corporation,

WITNESSETH:

WHEREAS, Landlord and Optex Systems, Inc., ("Tenant"), entered into that certain Lease bearing the Lease Reference Date of August 14, 2003 as amended by that certain First Amendment to Lease ("First Amendment") dated effective as of November 26, 2003, and as amended by that certain Second Amendment to Lease ("Second Amendment") dated effective January 7, 2005; as amended by that certain Third Amendment to Lease ("Third Amendment") dated January 4, 2010, and as amended by that certain Fourth Amendment to Lease ("Fourth Amendment") dated July 8, 2013 and as amended by that certain Fifth Amendment to Lease ("Fifth Amendment") dated December 10, 2013 pursuant to which Tenant leases from Landlord (a) approximately 48,838 square feet ("Original Premises") being comprised of (i) 34,076 square feet of industrial space known as 1420 Presidential, Richardson Texas 75081 and (ii) 14,762 square feet of industrial space known as Suite 120, 1400 Presidential, Richardson, Texas 75081; and

WHEREAS, the expiration date of the Lease Agreement is March 31, 2021, and Landlord and Tenant desire to amend the Lease as hereinafter set forth and extend the Lease by adding an additional period of Eighty-Six (86) months ("Extension Period") continuing through March 31, 2028;

WHEREAS, to Tenant's knowledge and belief as of the date hereof, no defaults exist under said Lease by either party, including all rentals having been paid through the end of January 31, 2021

WHEREAS, all parties hereto desire, through this instrument to permit a valid amendment of said Lease.

NOW THEREFORE, in consideration of the foregoing recitals and the other covenants and promises made herein, the sufficiency of which is hereby acknowledged the Lease is hereby amended, and is AGREED AS FOLLOWS:

Term Landlord hereby agrees and consents to the extension and modification of said Lease to Tenant commencing on April 1, 2021 and ending on May 31, 2028, (hereinafter called "Extension Period"). Both parties acknowledge that this Sixth Amendment to Lease Agreement represents Tenant's final remaining Renewal Option and shall hereafter be deleted in its entirety and of no further force or effect.

Premises 48,838 square feet known as 1420 Presidential and Suite 120, 1400 Presidential, Richardson, Texas 75081. Landlord and Tenant acknowledge that Tenant has been occupying the Premises pursuant to the Lease, and Tenant shall continue to accept the Premises in its presently existing, "AS-IS" condition, and

Base Rent	Months	Monthly Rent
	4/1/2021 through 5/31/2021	\$25,273.67 (\$6.21/SF) Abated
	6/1/2021 through 3/31/2022	\$25,273.67 (\$6.21/SF)
	4/1/2022 through 3/31/2023	\$26,031.87 (\$6.40/SF)
	4/1/2023 through 3/31/2024	\$26,812.83 (\$6.59/SF)
	4/1/2024 through 3/31/2025	\$27,617.22 (\$6.79/SF)
	4/1/2025 through 3/31/2026	\$28,445.73 (\$6.99/SF)
	4/1/2026 through 3/31/2027	\$29,299.10 (\$7.20/SF)
	4/1/2027 through 5/31/2028	\$30,178.08 (\$7.42/SF)

Landlord has agreed that Tenant's Base rent shall be abated for Month one, April 1, 2021 through April 31, 2021 totaling \$25,273.67 and Month two, May 1, 2021 through May 31, 2021 totaling \$25,273.67. Upon any event of monetary default under the terms of this lease (that remains uncured after any applicable grace or cure period), any abatement rent shall be immediately due and payable to Landlord. Tenant will continue to pay the Operating Expenses during any abated rent period.

Tenant Work: Landlord shall not be obligated to construct or install any improvements or facilities of any kind in the Premises and Tenant shall accept the Premises in its currently-existing, "as-is" condition. Immediately following the full execution and delivery of this Lease by Landlord and Tenant, Tenant shall have the right to construct, at its sole cost and expense (but subject to the following terms of this Tenant Work Letter), alterations and improvements which are permanently affixed to the Premises (the "Tenant Improvements"). Prior to commencing any Tenant Improvements, Tenant will provide Landlord with (i) proof of general liability insurance for each contractor and subcontractor in an amount not less than \$1,000,000 per occurrence, (ii) detailed construction drawings for Landlord's approval, (iii) a construction permit issued by the City of Richardson and (iv) the name and qualifications of Tenant's chosen general contractor. Notwithstanding the foregoing, effective as of the date of this Lease, Tenant shall be entitled to a one-time tenant improvement allowance (the "Tenant Improvement Allowance") equal to Three Hundred and Forty-One Thousand Eight Hundred Sixty-Six and 00/100 Dollars (\$341,866.00) for costs relating to the design and construction of such Tenant Improvements. The Tenant Improvement Allowance will be disbursed by Landlord once the Tenant provides Landlord with a certificate of occupancy for the Premises and, without limitation, following Landlord's receipt of evidence (i.e., invoices or other documentation reasonably satisfactory to Landlord) of payment for the Tenant Improvements, and fully executed, unconditional lien releases from all contractors, subcontractors, laborers, materialmen, and suppliers used by Tenant in connection with the Tenant Improvements. In no event shall Landlord be obligated to disburse any portion of the Tenant Improvement Allowance after December 31, 2021, nor shall Landlord be obligated to disburse any amount in excess of the Tenant Improvement Allowance in connection with the construction of the Tenant Improvements. No portion of the Tenant Improvement Allowance, if any, remaining after the construction of the Tenant Improvements shall be available for use by Tenant.

Confidentiality. Tenant acknowledges and agrees that the terms of this Sixth Amendment to Lease Agreement are confidential and constitute proprietary information of Landlord. Disclosure of the terms hereof could adversely affect the ability of Landlord to negotiate other leases with respect to the Project and may impair Landlord's relationship with other Tenants of the Project. Tenant agrees that it and its partners, officers, directors, employees, brokers, and attorneys, if any, shall not disclose the terms and conditions of this Lease to any other person or entity without the prior written consent of Landlord, which shall not be unreasonably withheld. It is understood and agreed that damages alone would be an inadequate remedy for the breach of this provision by Tenant, and Landlord shall also have the right to seek specific performance of this provision and to seek injunctive relief to prevent its breach or continued breach.

Broker's Fee. Tenant and Landlord each represent and warrant to the other that neither has had any dealings or entered into any agreements with any person, entity, broker or finder in connection with the negotiation of this Sixth Amendment other than Swearingen Realty and Tenant and Landlord each agree to indemnify, defend and hold the other harmless from and against any claims, damages, costs, expenses, attorneys' fees or liability for compensation or charges which may be claimed by any such broker, finder or other similar party by reason of any dealings, actions or agreements of the indemnifying party.

Except as modified herein, all of the terms, conditions and covenants of the existing Lease and any previous amendments thereto shall remain unchanged and in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first hereinabove stated.

LANDLORD

FLT Acquiport-Campus, LLC
a Delaware limited liability company

By: _____
Michael B. Earl, Vice President

FLT Acquiport-College, LLC
a Delaware limited liability company

By: _____
Michael B. Earl, Vice President

FLT Acquiport-Palmilla, LLC
a Delaware limited liability company

By: _____
Michael B. Earl, Vice President

TENANT

Optex Systems, Inc, a Texas Corporation

By: 

Printed Name: DANNY SCHEMM

Title: CEO



FIRST AMENDMENT TO LEASE

This First Amendment to Lease (this "**Amendment**") is executed as of January 11, 2021 (the "**Effective Date**"), between G&I IX CHARTWELL LLC, a Delaware limited liability company ("**Landlord**"), and OPTEX SYSTEMS, INC., a Delaware corporation ("**Tenant**"), for the purpose of amending the Industrial Lease Agreement between Landlord's predecessor-in-interest and Tenant dated October 21, 2016 (the "**Lease**"). Capitalized terms used herein but not defined shall be given the meanings assigned to them in the Lease.

RECITALS:

Pursuant to the terms of the Lease, Tenant is currently leasing approximately 44,867 square feet at 9827 Chartwell Drive (the "**Premises**") in the building having an address of 9855 – 9879 Chartwell Drive, Dallas, Texas 75243 (the "**Building**"). Tenant desires to extend the Term, and Landlord has agreed to lease such space to Tenant and extend the Term on the terms and conditions contained herein.

AGREEMENTS:

For valuable consideration, whose receipt and sufficiency are acknowledged, Landlord and Tenant agree as follows:

1. **Extension of Lease Term.** The Lease Term is hereby extended for a period of eighty-six (86) months beginning on November 1, 2021 (the "**Renewal Effective Date**") such that it expires on December 31, 2028 (the "**Expiration Date**"), on the terms and conditions of the Lease, as modified hereby. Tenant shall have no further rights to extend or renew the Term except as expressly provided in this Amendment; accordingly, any unexercised options to extend or renew the Lease Term (including the Renewal Options set forth on Addendum 6 to the Lease) are hereby deleted and shall be of no further force of effect.

2. **Base Rent.** During the period from the Effective Date through October 31, 2021, Tenant shall continue to pay Base Rent as set forth in the Lease. Beginning on the Renewal Effective Date and continuing through the Expiration Date, the monthly installments of Base Rent under the Lease for the Premises shall be as follows:

Time Period	Annual Base Rent Rate Per Square Foot	Monthly Installments of Base Rent
11/01/21 – 12/31/21	\$0.00*	\$0.00*
01/01/22 – 12/31/22	\$6.30	\$23,555.18
01/01/23 – 12/31/23	\$6.47	\$24,202.94
01/01/24 – 12/31/24	\$6.65	\$24,868.52
01/01/25 – 12/31/25	\$6.83	\$25,552.41
01/01/26 – 12/31/26	\$7.02	\$26,255.10
01/01/27 – 12/31/27	\$7.22	\$26,977.11
01/01/28 – 12/31/28	\$7.41	\$27,718.98

3. **Additional Rent.** At all times during the Lease Term as extended hereby, including during the period from November 1, 2021 through December 31, 2021, Tenant shall continue to pay all other sums due and payable under the Lease, other than Base Rent, including without limitation Tenant's Share of Operating Expenses, in accordance with the terms of the Lease, as amended hereby.

4. **Acceptance of Premises.** Tenant accepts the Premises in their "AS-IS" condition and Landlord shall have no obligation to improve, repair, restore or refurbish the Premises except as otherwise specifically provided in the Lease. Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty, except as otherwise expressly provided in this Amendment, with respect to the Premises or any other portion of the Property including, without limitation, any representation or warranty with respect to the suitability or fitness of the Premises or any other portion of the Property for the conduct of Tenant's business.

5. **Tenant Improvements.** Landlord shall perform tenant improvements in the Premises and Landlord shall provide a construction allowance all in accordance with **Exhibit A** hereto. Tenant acknowledges that Landlord may perform the Work (as defined in Exhibit A) in the Premises during normal business hours following the Effective Date. Landlord and Tenant agree to cooperate with each other in order to enable the Work to be performed in a timely manner and with as little inconvenience to the operation of Tenant's business as is reasonably possible. Notwithstanding anything herein to the contrary, any inconvenience suffered by Tenant during the performance of the Work shall not subject Landlord to any liability for any loss or damage resulting therefrom, or constitute a constructive eviction, or entitle Tenant to any credit, abatement or adjustment of rent or other sums payable under the Lease, as amended hereby.

6. **Tenant's Insurance.** Effective as of the Renewal Effective Date:

a. Exhibit C attached to the Original Lease is deleted, and **Section 9(b)(iii)** of the Original Lease is deleted and the following substituted therefor:

"commercial general liability insurance in amounts of \$1,000,000 per occurrence, \$2,000,000 general aggregate, \$2,000,000 products/completed operations aggregate, \$1,000,000 "premises rented to you", or, following the expiration of the initial Term, such other amounts as Landlord may from time to time reasonably require, with an Excess Limits (Umbrella) Policy in the amount of \$2,000,000 (and, if the use and occupancy of the Premises include any activity or matter that is or may be excluded from coverage under a commercial general liability policy [e.g., the sale, service or consumption of alcoholic beverages], Tenant shall obtain such endorsements to the commercial general liability policy or otherwise obtain insurance to insure all liability arising from such activity or matter [including liquor liability, if applicable] in such amounts as Landlord may reasonably require)."

b. the second and third paragraphs of **Section 9(b)** of the Original Lease are deleted and the following substituted therefor:

"The property insurance to be maintained by Tenant may have a deductible of no more than \$10,000 per occurrence; and, all other insurance to be maintained by Tenant shall have no deductible. All of Tenant's insurance policies, except workers' compensation and employer's liability, shall include Landlord, its members, managers, parent, affiliates, subsidiaries and their respective successors and assigns, and Landlord's property manager and Landlord's mortgagee (if requested by Landlord) as additional insureds or loss payees as their interests may appear. Tenant's insurance shall provide primary coverage to

Landlord when any policy issued to Landlord provides duplicate or similar coverage, and in such circumstance Landlord's policy will be excess over Tenant's policy. Tenant shall furnish to Landlord certificates of such insurance and such other evidence satisfactory to Landlord of the maintenance of all insurance coverages required hereunder at least ten (10) days prior to the earlier of the Commencement Date or the date Tenant enters or occupies the Premises, and at least fifteen (15) days prior to each renewal of said insurance, and Tenant shall obtain a written obligation on the part of each insurance company to notify Landlord at least thirty (30) days before cancellation or a material change of any such insurance policies (but at least ten [10] days before cancellation for non-payment of premiums). All such insurance policies shall be in form, and issued by companies with an AM Best's rating of A-: VIII or better, reasonably satisfactory to Landlord. If, in the opinion of Landlord's insurance advisor, the amount of scope of such coverage is deemed inadequate at any time during the Term, Tenant shall increase such coverage to such reasonable amounts or scope as Landlord's insurance advisor deems adequate. If Tenant fails to comply with the foregoing insurance requirements or to deliver to Landlord the certificates or evidence of coverage required herein, Landlord, in addition to any other remedy available pursuant to this Lease or otherwise, may, but shall not be obligated to, obtain such insurance and Tenant shall pay to Landlord on demand the premium costs thereof, plus an administrative fee of fifteen percent (15%) of such cost."

7. **Renewal Option.** Notwithstanding anything in this Amendment to the contrary, Tenant shall have the option to further renew the Lease Term subject to and in accordance with **Exhibit B** attached to this Amendment.

8. **Confidentiality.** Tenant acknowledges the terms and conditions of the Lease (as amended hereby) are to remain confidential for Landlord's benefit and may not be disclosed by Tenant to anyone, by any manner or means, directly or indirectly, without Landlord's prior written consent. The consent by Landlord to any disclosures shall not be deemed to be a waiver on the part of Landlord of any prohibition against any future disclosure.

9. **Limitation of Liability.** In addition to any other limitations of Landlord's liability as contained in the Lease, as amended to date, the liability of Landlord (and its partners, shareholders or members) to Tenant (or any person or entity claiming by, through or under Tenant) for any default by Landlord under the terms of the Lease or any matter relating to or arising out of the occupancy or use of the Premises and/or other areas of the Building shall be limited to Tenant's actual direct, but not consequential, damages therefor and shall be recoverable only from the interest of Landlord in the Building, and Landlord (and its partners, shareholders or members) shall not be personally liable for any deficiency.

10. **Address for Rent Payments.** All amounts payable by Tenant to Landlord shall, until further notice from Landlord, be paid to Landlord pursuant to the following instructions:

If by ACH or Wire Transfer:

Account Name: DRA G&I Fund
Financial Institution: Wells Fargo Bank, N.A.
ACH Routing Number: 121000248
Wire Routing Number: 121000248
Account Number: 4330958273

If by check:

DRA G&I Fund IX Industrial LLC
P.O. Box 206812
Dallas, Texas 75320-6826

Overnight Delivery:

Lockbox Services 206812
DRA G&I Fund IX Industrial LLC
2975 Regent Blvd
Irving, TX 75063

11. **Notices.** All notices and other communications given pursuant to the Lease shall be in writing and shall be (a) mailed by first class, United States mail, postage prepaid, certified, with return receipt requested, and addressed to the parties hereto at the address listed below, (b) hand delivered to the intended addressee, or (c) sent by nationally recognized overnight courier. Notice sent by certified mail, postage prepaid, shall be effective three business days after being deposited in the United States mail; all other notices shall be effective upon delivery to the address of the addressee (even if such addressee refuses delivery thereof). The parties hereto may change their addresses by giving notice thereof to the other in conformity with this provision. Landlord and Tenant hereby agree not to conduct the transactions or communications contemplated by the Lease, as amended hereby, by electronic means; nor shall the use of the phrase "in writing" or the word "written" be construed to include electronic communications. The addresses for notice set forth below shall supersede and replace any addresses for notice set forth in the Lease.

Landlord: c/o Stream Realty Partners – DFW, L.P.
2001 Ross Ave., Suite 400
Dallas, Texas 75201
Attention: Property Manager

with a copy to c/o DRA Advisors LLC
575 Fifth Avenue (38th Floor)
New York, NY 10017
Attn: Asset Management

12. **Brokerage.** Landlord and Tenant each warrant to the other that is has not dealt with any broker or agent in connection with the negotiation or execution of this Amendment other than Stream Realty Partners – DFW, L.P., representing Landlord, and Swearingen Realty Group, LLC, representing Tenant, whose commissions shall be paid by Landlord pursuant to separate written agreements. Tenant and Landlord shall each indemnify the other against all costs, expenses, attorneys' fees, and other liability for commissions or other compensation claimed by any other broker or agent claiming the same by, through, or under the indemnifying party.

13. **Prohibited Persons and Transactions.** Tenant represents and warrants to Landlord that Tenant is currently in compliance with and shall at all times during the Term (including any extension thereof) remain in compliance with the regulations of the Office of Foreign Assets Control ("**OFAC**") of the Department of the Treasury (including those named on OFAC's Specially Designated Nationals and Blocked Persons List) and any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism), or other governmental action relating thereto.

14. **Ratification.** Tenant hereby ratifies and confirms its obligations under the Lease, and

represents and warrants to Landlord that it has no defenses thereto. Additionally, Tenant further confirms and ratifies that, as of the date hereof, (a) the Lease is and remains in good standing and in full force and effect, (b) Tenant has no claims, counterclaims, set-offs or defenses against Landlord arising out of the Lease or in any way relating thereto or arising out of any other transaction between Landlord and Tenant, and (c) except as expressly provided for in this Amendment, all tenant finish-work allowances provided to Tenant under the Lease or otherwise, if any, have been paid in full by Landlord to Tenant, and Landlord has no further obligations with respect thereto.

15. **WAIVER OF JURY TRIAL.** TO THE MAXIMUM EXTENT PERMITTED BY LAW, LANDLORD AND TENANT EACH WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY LITIGATION OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE ARISING OUT OF OR WITH RESPECT TO THE LEASE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED HERETO.

16. **Recordation of Lease.** Tenant shall not record the Lease or any memorandum of the Lease without the prior written consent of Landlord, which consent may be withheld or denied in the sole and absolute discretion of Landlord, and any recordation by Tenant shall be a material breach of the Lease. Tenant grants to Landlord a power of attorney to execute and record a release releasing any such recorded instrument of record that was recorded without the prior written consent of Landlord.

17. **Calculation of Charges.** Landlord and Tenant agree that each provision of the Lease for determining charges and amounts payable by Tenant (including provisions regarding Operating Expenses) is commercially reasonable and, as to each such charge or amount, constitutes a statement of the amount of the charge or a method by which the charge is to be computed for purposes of Section 93.012 of the Texas Property Code.

18. **Headings.** The headings or captions of the paragraphs in this Amendment are for convenience only and shall not act and shall not be implied to act to limit or expand the construction and intent of the contents of the respective paragraph.

19. **Binding Effect; Governing Law.** Except as modified hereby, the Lease shall remain in full effect and this Amendment shall be binding upon Landlord and Tenant and their respective successors and assigns. If any inconsistency exists or arises between the terms of this Amendment and the terms of the Lease, the terms of this Amendment shall prevail. This Amendment shall be governed by the laws of the State in which the Premises are located.

20. **Counterparts.** This Amendment may be executed in multiple counterparts, each of which shall constitute an original, but all of which shall constitute one document. This Amendment may be executed by electronic signature, which shall be considered as an original signature for all purposes and shall have the same force and effect as an original signature. For these purposes, "electronic signature" shall mean electronically scanned and transmitted versions (e.g., via pdf file) of an original signature, signatures electronically inserted and verified by software such as Adobe Sign, or faxed versions of an original signature.

21. **Submission of Amendment Not Offer.** The submission by Landlord to Tenant of this Amendment for Tenant's consideration shall have no binding force or effect, and shall not confer any rights upon Tenant or impose any obligations upon Landlord irrespective of any reliance thereon by Tenant, change of position, partial performance, or any correspondence among either party or its authorized representatives. This Amendment is effective and binding on Landlord only upon the execution and delivery of this Amendment by Landlord and Tenant.

[remainder of page intentionally left blank]

This Amendment is executed on the respective dates set forth below, but for reference and effectiveness purposes this Amendment shall be dated as of the Effective Date. If the execution date is left blank, this Amendment shall be deemed executed as of the Effective Date.

LANDLORD:

G&I IX CHARTWELL LLC,
a Delaware limited liability company

By: Valla Brown
Name: Valla Brown
Title: Vice President

Execution Date: Effective Date

TENANT:

OPTEX SYSTEMS, INC.,
a Delaware corporation

By: [Signature]
Name: DANNY SCHWIMM
Title: CEO

Execution Date: 1/11, ~~2020~~
2021 [Signature]

EXHIBIT A

WORK LETTER

1. **Acceptance of Premises.** Except for Landlord's obligation to disburse the Construction Allowance as set forth in this **Exhibit A**, Tenant accepts the Premises in their "**AS-IS**" condition on the date that this Amendment is entered into.

2. **Space Plans.**

(a) **Preparation and Delivery.** Tenant shall deliver to Landlord a space plan prepared by a design consultant engaged directly by Tenant and reasonably acceptable to Landlord (the "**Architect**") depicting improvements to be installed in the Premises (the "**Space Plans**").

(b) **Approval Process.** Landlord shall notify Tenant whether it approves of the submitted Space Plans within five business days after Tenant's submission thereof. If Landlord disapproves of such Space Plans, then Landlord shall notify Tenant thereof specifying in reasonable detail the reasons for such disapproval, in which case Tenant shall, within three business days after such notice, revise such Space Plans in accordance with Landlord's objections and submit to Landlord for its review and approval. Landlord shall notify Tenant in writing whether it approves of the resubmitted Space Plans within three business days after its receipt thereof. This process shall be repeated until the Space Plans have been finally approved by Landlord and Tenant. If Landlord fails to notify Tenant that it disapproves of the initial Space Plans within five business days (or, in the case of resubmitted Space Plans, within three business days) after the submission thereof, then Landlord shall be deemed to have approved the Space Plans in question.

3. **Working Drawings.**

(a) **Preparation and Delivery.** On or before the tenth day following the date on which the Space Plans are approved (or deemed approved) by Landlord and Tenant, Tenant shall provide to Landlord for its approval final working drawings, prepared by the Architect, of all improvements that Tenant proposes to install in the Premises; such working drawings shall include the partition layout, ceiling plan, electrical outlets and switches, telephone outlets, drawings for any modifications to the mechanical and plumbing systems of the Building, and detailed plans and specifications for the construction of the improvements called for under this Exhibit in accordance with all applicable Laws.

(b) **Approval Process.** Landlord shall notify Tenant whether it approves of the submitted working drawings within ten business days after Tenant's submission thereof. If Landlord disapproves of such working drawings, then Landlord shall notify Tenant thereof specifying in reasonable detail the reasons for such disapproval, in which case Tenant shall, within three business days after such notice, revise such working drawings in accordance with Landlord's objections and submit the revised working drawings to Landlord for its review and approval. Landlord shall notify Tenant in writing whether it approves of the resubmitted working drawings within five business days after its receipt thereof. This process shall be repeated until the working drawings have been finally approved by Tenant and Landlord. If Landlord fails to notify Tenant that it disapproves of the initial working drawings within ten business days (or, in the case of resubmitted working drawings, within five business days) after the submission thereof, then Landlord shall be deemed to have approved the working drawings in question.

(c) **Landlord's Approval; Performance of Work.** If any of Tenant's proposed construction work will affect the Building's structure or the Building's systems, then the working drawings pertaining thereto must be approved by the Building's engineer of record. Landlord's approval of such working drawings shall not be unreasonably withheld, provided that (1) they comply with all Laws, (2) the

improvements depicted thereon do not adversely affect (in the sole discretion of Landlord) the Building's structure or the Building's systems (including the Building's restrooms or mechanical rooms), the exterior appearance of the Building, or the appearance of the Building's common areas or elevator lobby areas, (3) such working drawings are sufficiently detailed to allow construction of the improvements in a good and workmanlike manner, and (4) the improvements depicted thereon conform to the rules and regulations promulgated from time to time by Landlord for the construction of tenant improvements (a copy of which has been delivered to Tenant). As used herein, "**Working Drawings**" means the final working drawings approved by Landlord, as amended from time to time by any approved changes thereto, and "**Work**" means all improvements to be constructed in accordance with and as indicated on the Working Drawings, together with any work required by governmental authorities to be made to other areas of the Building as a result of the improvements indicated by the Working Drawings. Landlord's approval of the Working Drawings shall not be a representation or warranty of Landlord that such drawings are adequate for any use or comply with any Law, but shall merely be the consent of Landlord thereto. Tenant shall, at Landlord's request, sign the Working Drawings to evidence its review and approval thereof. After the Working Drawings have been approved, Landlord shall cause the Work to be performed in accordance with the Working Drawings.

4. **Bidding of Work.** Prior to commencing the Work, Landlord shall competitively bid the Work to three contractors approved by Landlord. If the estimated Total Construction Costs are expected to exceed the Construction Allowance, Tenant shall be allowed to review the submitted bids from such contractors to value engineer any of Tenant's requested alterations. In such case, Tenant shall notify Landlord of any items in the Working Drawings that Tenant desires to change within two business days after Landlord's submission thereof to Tenant. If Tenant fails to notify Landlord of its election within such two business day period, Tenant shall be deemed to have approved the bids. Within five business days following Landlord's submission of the initial construction bids to Tenant under the foregoing provisions (if applicable), Tenant shall have completed all of the following items: (a) finalized with Landlord's representative and the proposed contractor, the pricing of any requested revisions to the bids for the Work, and (b) approved in writing any overage in the Total Construction Costs in excess of the Construction Allowance.

5. **Change Orders.** Tenant may initiate changes in the Work. Each such change must receive the prior written approval of Landlord, such approval not to be unreasonably withheld or delayed; however, if such requested change would adversely affect (in the sole discretion of Landlord) (1) the Building's structure or the Building's systems (including the Building's restrooms or mechanical rooms), (2) the exterior appearance of the Building, or (3) the appearance of the Building's common areas or elevator lobby areas, Landlord may withhold its consent in its sole and absolute discretion. Tenant shall, upon completion of the Work, cause the Architect to prepare an accurate architectural "as-built" plan of the Work as constructed, which plan shall be incorporated into this Exhibit by this reference for all purposes. If Tenant requests any changes to the Work described in the Space Plans or the Working Drawings, then such increased costs and any additional design costs incurred in connection therewith as the result of any such change shall be added to the Total Construction Costs.

6. **Definitions.** As used herein "**Substantial Completion**," "**Substantially Completed**," and any derivations thereof mean the Work in the Premises is substantially completed (as reasonably determined by Landlord) in accordance with the Working Drawings. Substantial Completion shall have occurred even though minor details of construction, decoration, landscaping and mechanical adjustments remain to be completed.

7. **Walk-Through; Punchlist.** When Landlord considers the Work in the Premises to be Substantially Completed, Landlord will notify Tenant and, within three business days thereafter, Landlord's representative and Tenant's representative shall conduct a walk-through of the Premises and identify any necessary touch-up work, repairs and minor completion items that are necessary for final completion of the

Work. Neither Landlord's representative nor Tenant's representative shall unreasonably withhold his or her agreement on punchlist items. Landlord shall use reasonable efforts to cause the contractor performing the Work to complete all punchlist items within 30 days after agreement thereon; however, Landlord shall not be obligated to engage overtime labor in order to complete such items.

8. **Excess Costs.** The entire cost of performing the Work (including design of and space planning for the Work and preparation of the Working Drawings and the final "as-built" plan of the Work, costs of construction labor and materials, electrical usage during construction, additional janitorial services, general tenant signage, related taxes and insurance costs, licenses, permits, certifications, surveys and other approvals required by Law, and the construction supervision fee referenced in Section 10 of this Exhibit, all of which costs are herein collectively called the "**Total Construction Costs**") in excess of the Construction Allowance (hereinafter defined) shall be paid by Tenant. Upon approval of the Working Drawings and selection of a contractor, Tenant shall promptly (a) execute a work order agreement prepared by Landlord which identifies such drawings and itemizes the Total Construction Costs and sets forth the Construction Allowance, and (b) pay to Landlord the amount by which Total Construction Costs are expected to exceed the Construction Allowance. Upon Substantial Completion of the Work Tenant shall pay to Landlord an amount equal to the Total Construction Costs (as adjusted for any approved changes to the Work), less (1) the amount of the advance payment already made by Tenant, and (2) the amount of the Construction Allowance. In the event of default of payment of such excess costs, Landlord (in addition to all other remedies) shall have the same rights as for an event of default under the Lease.

9. **Construction Allowance.** Landlord shall provide to Tenant a construction allowance not to exceed \$179,468.00 per rentable square foot in the Premises (the "**Construction Allowance**") to be applied toward the Total Construction Costs, as adjusted for any changes to the Work. The Construction Allowance shall not be disbursed to Tenant in cash, but shall be applied by Landlord to the payment of the Total Construction Costs, if, as, and when the cost of the Work is actually incurred and paid by Landlord. The Construction Allowance must be used (that is, the Work must be fully complete and the Construction Allowance disbursed) within one (1) year following the Effective Date or shall be deemed forfeited with no further obligation by Landlord with respect thereto, time being of the essence with respect thereto. Any unused Construction Allowance shall be retained by Landlord.

Notwithstanding anything in this Exhibit to the contrary, in the event the Total Construction Costs exceed the Construction Allowance, Landlord shall make available to Tenant, at Tenant's sole election, additional funds not to exceed \$2.00 per square foot in the Premises (i.e., \$89,734.00) ("**Additional Allowance**") to be applied toward the Total Construction Costs in the same manner and subject to the same procedures as set forth above. In the event that Tenant elects to utilize any Additional Allowance, any such amount so utilized shall be amortized over the extended Lease Term at eight percent (8%) annual interest, and Tenant shall pay to Landlord the amortized amount (including interest) in equal monthly amounts together with its rental payments under the Lease as amended by this Amendment.

10. **Construction Management.** Stream Realty Partners – DFW, L.P., on behalf of Landlord, and Swearingen Realty Group, LLC, on behalf of Tenant, shall jointly supervise the Work; in consideration for Landlord's and Tenant's construction supervision services, Tenant shall pay a construction supervision fee equal to five percent (5%) of the Total Construction Costs, to be split equally between Landlord's and Tenant's agents.

11. **Construction Representatives.** Landlord's and Tenant's representatives for coordination of construction and approval of change orders will be as follows, provided that either party may change its representative upon written notice to the other:

Landlord's Representative:

c/o _____

Telephone: _____

Email: _____

Tenant's Representative:

c/o _____

Telephone: _____

Email: _____

EXHIBIT B

RENEWAL OPTION

Provided no Event of Default exists and Tenant is occupying the entire Premises at the time of such election, Tenant may renew the Lease for one (1) additional period of five (5) years, by delivering written notice of the exercise thereof to Landlord not earlier than twelve (12) months nor later than nine (9) months before the expiration of the Lease Term. The Base Rent payable for each month during such extended Lease Term shall be the greater of (a) the prevailing rental rate (the "**Prevailing Rental Rate**"), at the commencement of such extended Lease Term, for renewals of space in the Building of equivalent quality, size, utility and location, with the length of the extended Lease Term, the "AS IS" nature of the renewal, and the credit standing of Tenant to be taken into account, and (b) the then current Base Rent rate. Within thirty (30) days after receipt of Tenant's notice to renew, Landlord shall deliver to Tenant written notice of the Prevailing Rental Rate and shall advise Tenant of the required adjustment to Base Rent, if any, and the other terms and conditions offered. Tenant shall, within ten (10) days after receipt of Landlord's notice, notify Landlord in writing whether Tenant accepts or rejects Landlord's determination of the Prevailing Rental Rate. If Tenant timely notifies Landlord that Tenant accepts Landlord's determination of the Prevailing Rental Rate, then, on or before the commencement date of the extended Lease Term, Landlord and Tenant shall execute an amendment to the Lease extending the Lease Term on the same terms provided in the Lease, except as follows:

- (a) Base Rent shall be adjusted to the Prevailing Rental Rate (in the event the Prevailing Rental Rate is greater than the then current Base Rent rate);
- (b) Tenant shall have no further renewal option unless expressly granted by Landlord in writing; and
- (c) Landlord shall lease to Tenant the Premises in their then-current condition, and Landlord shall not provide to Tenant any allowances (e.g., moving allowance, construction allowance, and the like) or other tenant inducements.

If Tenant rejects Landlord's determination of the Prevailing Rental Rate and timely notifies Landlord thereof, Tenant may, in its notice to Landlord, require that the determination of the Prevailing Rental Rate be made by brokers (and if Tenant makes such election, Tenant shall be deemed to have irrevocably renewed the Lease Term, subject only to the determination of the Prevailing Rental Rate as provided below). In such event, within ten (10) days thereafter, each party shall select a qualified commercial real estate broker with at least ten (10) years' experience in leasing property and buildings in the city or submarket in which the Premises are located. The two brokers shall give their opinion of prevailing rental rates within twenty (20) days after their retention. In no event, however, shall the Base Rent in the renewal term be less than the then current Base Rent rate per rentable square foot in effect hereunder. In the event the opinions of the two brokers differ and, after good faith efforts over the succeeding twenty (20)-day period, they cannot mutually agree, the brokers shall immediately and jointly appoint a third broker with the qualifications specified above. This third broker shall immediately (within five (5) days) choose either the determination of Landlord's broker or Tenant's broker and such choice of this third broker shall be final and binding on Landlord and Tenant. Each party shall pay its own costs for its real estate broker. Following the determination of the Prevailing Rental Rate by the brokers, the parties shall equally share the costs of any third broker. The parties shall immediately execute an amendment as set forth above. If Tenant fails to timely notify Landlord in writing that Tenant accepts or rejects Landlord's determination of the Prevailing Rental Rate, time being of the essence with respect thereto, Tenant's rights under this Exhibit shall terminate and Tenant shall have no right to renew the Lease.

Tenant's rights under this Exhibit shall terminate if (1) the Lease or Tenant's right to possession of the Premises is terminated, (2) Tenant assigns any of its interest in the Lease or sublets any portion of the Premises, or (3) Tenant fails to timely exercise its option under this Exhibit, time being of the essence with respect to Tenant's exercise thereof.



BBVA USA
P.O. Box 4444
Houston, Texas 77210-4444
713-499-8842/8943 - Fax 713-499-8659
Toll Free 888-627-8860 Fax 888-627-8861
SWIFT ID:CPASUS44XXX
International Trade Services

IRREVOCABLE STANDBY LETTER OF CREDIT NO. A32701T

PLACE AND DATE OF ISSUE:
HOUSTON, TEXAS APRIL 20, 2020

DATE AND PLACE OF EXPIRY:
APRIL 20, 2021 HOUSTON, TX
OR ANY EXTENDED DATE

APPLICANT:
OPTEX SYSTEMS, INC.
1420 PRESIDENTIAL DRIVE
RICHARDSON, TX 75081

BENEFICIARY:
G&I IX CHARTWELL, LLC
C/O DRA ADVISORS
220 E. 42ND STREET, 27TH FLOOR
NEW YORK, NY 10017

AMOUNT: USD125,000.00
(ONE HUNDRED TWENTY-FIVE THOUSAND AND
00/100 UNITED STATES DOLLARS)

GENTLEMEN:

BBVA USA ("ISSUER") HEREBY ISSUES OUR UNCONDITIONAL AND IRREVOCABLE LETTER OF CREDIT NO. A32701T IN FAVOR OF G&I IX CHARTWELL, LLC IN THE AMOUNT OF ONE HUNDRED TWENTY-FIVE THOUSAND AND 00/100 U.S. DOLLARS (USD125,000.00) AVAILABLE BY YOUR SIGHT DRAFTS DRAWN ON US AND ACCOMPANIED BY THE DOCUMENTS SPECIFIED BELOW, WHICH SHALL BE PRESENTED TO BBVA USA, INTERNATIONAL TRADE SERVICES, 2200 POST OAK BLVD., 17TH FLOOR, MAIL CODE: TX-HO-HT-INT, HOUSTON, TX 77056, U.S.A.:

(1) A SIGHT DRAFT AND BENEFICIARY CERTIFICATION ON LETTERHEAD SHALL CONTAIN ONE OR MORE OF THE FOLLOWING STATEMENTS OF BENEFICIARY WITH RESPECT TO ITS DRAWING UNDER THE LETTER OF CREDIT;

EITHER: "THE UNDERSIGNED CERTIFIES THAT G&I IX CHARTWELL, LLC IS ENTITLED TO DRAW UNDER THE IRREVOCABLE LETTER OF CREDIT A32701T PURSUANT TO THE TERMS OF A LEASE, DATED 09/30/2016 AS AMENDED, BETWEEN G&I IX CHARTWELL, LLC AND APPLICANT."

OR: "THE UNDERSIGNED CERTIFIES THAT G&I IX CHARTWELL, LLC IS ENTITLED TO DRAW UNDER THE IRREVOCABLE LETTER OF CREDIT NO. A32701T BECAUSE APPLICANT HAS FILED A VOLUNTARY BANKRUPTCY PETITION UNDER 11 USC 101 ET SEQ., AS AMENDED, OR UNDER THE INSOLVENCY LAWS OF ANY JURISDICTION."

OR: "THE UNDERSIGNED CERTIFIES THAT G&I IX CHARTWELL, LLC IS ENTITLED TO DRAW UNDER THE IRREVOCABLE LETTER OF CREDIT NO. A32701T BECAUSE AN INVOLUNTARY PETITION UNDER 11 USC 101 ET. SEQ., AS AMENDED, OR UNDER THE INSOLVENCY LAWS OF ANY JURISDICTION HAS BEEN FILED AGAINST THE APPLICANT."

OR: "BENEFICIARY HAS RECEIVED A NOTICE FROM ISSUER THAT THE IRREVOCABLE LETTER OF CREDIT NO. A32701T WILL NOT BE EXTENDED AND/OR APPLICANT HAS FAILED TO PROVIDE A NEW LETTER OF CREDIT SATISFACTORY TO BENEFICIARY AT LEAST SIXTY (60) DAYS PRIOR TO THE CURRENT EXPIRY DATE."

PARTIAL DRAWINGS AND MULTIPLE PRESENTATIONS ARE PERMITTED.

ANY DRAFT(S) AND DOCUMENTS DRAWN BY YOU UNDER THIS IRREVOCABLE LETTER OF CREDIT MUST BEAR UPON ITS FACE, THE CLAUSE "DRAWN UNDER BBVA USA IRREVOCABLE LETTER OF CREDIT NO. A32701T DATED APRIL 20, 2020." WE ENGAGE WITH YOU THAT ALL DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS IRREVOCABLE LETTER OF CREDIT WILL BE DULY HONORED IF PRESENTED TO US ON OR BEFORE THE EXPIRATION DATE SET FORTH HEREIN.

COPY

THIS LETTER OF CREDIT EXPIRES AT OUR ABOVE OFFICE ON APRIL 20, 2021, UNLESS EXTENDED AS SET FORTH HEREIN.


IT IS A CONDITION OF THIS IRREVOCABLE LETTER OF CREDIT THAT IT SHALL BE DEEMED AUTOMATICALLY EXTENDED WITHOUT AMENDMENT FOR ADDITIONAL SUCCESSIVE ONE YEAR PERIODS FROM THE EXPIRATION DATE HEREOF, OR ANY FUTURE EXPIRATION DATE, UNLESS SIXTY (60) DAYS PRIOR TO ANY EXPIRATION DATE WE NOTIFY YOU BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED, OR OVERNIGHT COURIER AT THE ADDRESS SHOWN ABOVE THAT WE ELECT NOT TO CONSIDER THIS IRREVOCABLE LETTER OF CREDIT EXTENDED FOR ANY SUCH ADDITIONAL PERIOD.

THIS STANDBY LETTER OF CREDIT MAY BE SUCCESSIVELY TRANSFERRED IN ITS ENTIRETY (BUT NOT IN PART) UP TO THE THEN AVAILABLE AMOUNT IN FAVOR OF A NOMINATED TRANSFEREE ("TRANSFEREE") ASSUMING SUCH TRANSFER TO SUCH TRANSFEREE IS IN COMPLIANCE WITH ALL APPLICABLE U.S. LAWS AND REGULATIONS. IF TRANSFERRED, THIS STANDBY LETTER OF CREDIT MUST BE RETURNED TO US TOGETHER WITH OUR TRANSFER FORM (AVAILABLE UPON REQUEST), DULY EXECUTED. WE ARE UNDER NO OBLIGATION TO TRANSFER THIS STANDBY LETTER OF CREDIT, EXCEPT TO THE EXTENT AND MANNER EXPRESSLY CONSENTED TO BY US, AND UNTIL ALL CHARGES FOR THE TRANSFER ARE PAID BY THE APPLICANT. IN CASE OF ANY TRANSFER, THE DRAFT (IF APPLICABLE) AND ANY REQUIRED STATEMENT MUST BE EXECUTED BY THE TRANSFEREE AND WHERE THE BENEFICIARY'S NAME APPEARS WITHIN THIS STANDBY LETTER OF CREDIT, THE TRANSFEREE'S NAME IS AUTOMATICALLY SUBSTITUTED. AT THE TIME OF THE TRANSFER REQUEST, THE ORIGINAL OF THIS STANDBY LETTER OF CREDIT AND ANY AMENDMENT(S) THERETO MUST BE PROVIDED. BBVA USA WILL NOT ASSUME OR UNDERTAKE ANY LIABILITY OR RESPONSIBILITY FOR VERIFYING, VALIDATING, OR AUTHENTICATING THE AUTHORITY OR RIGHTS OF ANY PARTY(IES) REQUESTING THE TRANSFER OF THIS STANDBY LETTER OF CREDIT OR EXECUTING ANY DOCUMENT(S) IN CONNECTION THEREWITH.

THIS IRREVOCABLE LETTER OF CREDIT SETS FORTH IN FULL THE TERMS OF OUR UNDERTAKING, AND SUCH UNDERTAKING SHALL NOT IN ANY WAY BE LIMITED, MODIFIED, AMENDED OR AMPLIFIED BY REFERENCE TO ANY DOCUMENTS, INSTRUMENT OR AGREEMENT REFERRED TO HEREIN OR IN WHICH THIS LETTER OF CREDIT RELATES AND ANY SUCH REFERENCE SHALL NOT BE DEEMED TO INCORPORATE HEREIN BY REFERENCE ANY DOCUMENT, INSTRUMENT OR AGREEMENT.

THIS LETTER OF CREDIT CANNOT BE MODIFIED OR REVOKED WITHOUT THE WRITTEN CONSENT OF THE BENEFICIARY PRIOR TO THE EXPIRATION DATE OF THIS LETTER OF CREDIT.

EXCEPT AS OTHERWISE, EXPRESSLY STATED HEREIN, THIS IRREVOCABLE LETTER OF CREDIT IS SUBJECT TO THE LAWS OF THE STATE OF TEXAS, THE "INTERNATIONAL STANDBY PRACTICES" (ISP98) INTERNATIONAL CHAMBER OF COMMERCE ("ICC") PUBLICATION NO. 590 OR INTERNATIONAL STANDBY PRACTICES OF ICC PUBLICATION WHICH IS APPLICABLE ON THE DATE OF ISSUE. IN THE EVENT OF ANY CONFLICT, THE LAWS OF THE STATE OF TEXAS WILL CONTROL.

BBVA USA

Tina Cox
Vice President
OR

COPY

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

I, Danny Schoening, certify that:

1. I have reviewed this Form 10-K 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: December 20, 2021

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

I, Karen Hawkins, certify that:

1. I have reviewed this Form 10-K 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: December 20, 2021

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

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

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Danny Schoening

Danny Schoening
Principal Executive Officer

Dated: December 20, 2021

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

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

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: */s/ Karen Hawkins*

Karen Hawkins
Principal Financial Officer and Principal Accounting Officer

Dated: December 20, 2021
