

**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 1, 2023

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

For the transition period from \_\_\_ until \_\_\_

Commission File Number 001-41644

**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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	OPXS	The Nasdaq Stock Market LLC

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 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.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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 4,765,068 shares of voting stock held by non-affiliates of the registrant based on the Nasdaq closing price on March 31, 2023 was \$14,669,411.

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**  
Common Stock

**Shares Outstanding**  
December 18, 2023  
6,784,130

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for the annual meeting of stockholders to be filed pursuant to Regulation 14A or an amendment to this Annual Report on Form 10-K are incorporated by reference into Items 10, 11, 12, 13, and 14 of Part III of this report. The registrant expects to file its definitive proxy statement or an amendment to this Annual Report on Form 10-K with the Securities and Exchange Commission within 120 days of October 1, 2023.

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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 Annual Report on Form 10-K that are not statements of historical fact may be deemed to be forward-looking statements. When used in this Annual 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 growth strategy; product and development programs; financial performance and financial condition (including revenue, net income, profit margins and working capital); orders and backlog; expected timing of contract deliveries to customers and corresponding revenue recognition; increases in the cost of materials and labor; costs remaining to fulfill contracts; contract loss reserves; labor shortages; follow-on orders; supply chain challenges; the continuation of historical trends; the sufficiency of our cash balances for future liquidity and capital resource needs; the expected impact of changes in accounting policies on our results of operations, financial condition or cash flows; anticipated problems and our plans for future operations; and the economy in general or the future of the defense industry.

We caution that these statements by their nature involve risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors. Such risks and uncertainties include, but are not limited to, continued funding of defense programs and military spending, the timing of such funding, general economic and business conditions, including unforeseen weakness in the Company’s markets, effects of continued geopolitical unrest and regional conflicts, competition, changes in technology and methods of marketing, delays in completing engineering and manufacturing programs, changes in customer order patterns, changes in product mix, continued success in technological advances and delivering technological innovations, changes in the U.S. Government’s interpretation of federal procurement rules and regulations, changes in spending due to policy changes in any new federal presidential administration, market acceptance of the Company’s products, shortages in components, production delays due to performance quality issues with outsourced components, inability to fully realize the expected benefits from acquisitions and restructurings or delays in realizing such benefits, challenges in integrating acquired businesses and achieving anticipated synergies, changes to export regulations, increases in tax rates, changes to generally accepted accounting principles, difficulties in retaining key employees and customers, unanticipated costs under fixed-price service and system integration engagements, changes in the market for microcap stocks regardless of growth and value and various other factors beyond our control. Some of these risks and uncertainties are identified in this Management’s Discussion and Analysis of Financial Condition and Results of Operations and the section “*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. Business

#### Current Lines of Business

We manufacture optical sighting systems and assemblies for the U.S. Department of Defense, foreign military applications and commercial markets. Our products are installed on a variety of U.S. military land vehicles, such as the Abrams and Bradley fighting vehicles, light armored and advanced security vehicles and 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

##### *May 2023 Grants*

On May 9, 2023, the Board of Directors approved a grant of 40,000 shares of restricted stock to independent board member Dayton Judd. The shares vest 50% on each of January 1, 2024 and January 1, 2025. As of the grant date, the fair value of the shares was \$124 thousand, to be amortized on a straight-line basis through December 31, 2024.

On May 3, 2023, the Board of Directors approved a grant of 100,000 and 35,000 performance shares to Danny Schoening, CEO, and Karen Hawkins, CFO, respectively. Each performance share represents a contingent right to receive one share of common stock. The performance shares vest in five equal increments if, in each case and during a five-year performance period beginning on October 2, 2023, the average VWAP per share of common stock over a 30 consecutive trading day period equals or exceeds \$3.70, \$4.45, \$5.35, \$6.40, or \$7.70. The fair value of the shares as of the grant date was \$320 thousand and will be amortized through December 31, 2025 based on the derived service periods using a Monte Carlo simulation valuation model. On October 2, 2023, 20,000 of Mr. Schoening's performance shares and 7,000 of Ms. Hawkins' performance shares vested, resulting in the net issuance of 15,600 and 5,460 shares of common stock, respectively.

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

### ***New Loan Agreement***

On March 22, 2023, the Company and its subsidiary, Optex Systems, Inc. (collectively with the Company, the “Borrowers”), entered into a Business Loan Agreement (the “Loan Agreement”) with Texas Capital Bank (the “Lender”), pursuant to which the Lender will make available to the Borrowers a revolving line of credit in the principal amount of \$3 million (the “Texas Capital Facility”). The Texas Capital Facility replaced the Borrowers’ previous line of credit facility with PNC Bank, National Association, successor to BBVA USA, which had been increased from \$1.125 million to \$2 million on November 21, 2022.

The commitment period for advances under the Texas Capital Facility is twenty-six months expiring on May 22, 2025. We refer to the expiration of that time period as the “Maturity Date.” Outstanding advances under the Texas Capital Facility will accrue interest at a rate equal to the secured overnight financing rate (SOFR) plus a specified margin, subject to a specified floor interest rate. As of October 1, 2023 the interest rate was 8.07% per annum and is currently 8.08% per annum.

The Loan Agreement contains customary events of default (including a 25% change in ownership) and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes (including changes in management), investments, and restricted payments (including cash dividends). The Loan Agreement also requires the Borrowers to maintain a fixed charge coverage ratio of at least 1.25:1 and a total leverage ratio of 3.00:1. The Texas Capital Facility is secured by substantially all of the operating assets of the Borrowers as collateral. The Borrowers’ obligations under the Texas Capital Facility are subject to acceleration upon the occurrence of an event of default as defined in the Loan Agreement. The Loan Agreement further provides for a \$125,000 Letter of Credit sublimit.

The outstanding balance under the Texas Capital Facility was \$1.0 million as of October 1, 2023.

### ***NASDAQ Listing***

On March 14, 2023, the Company’s shares of common stock were listed on the NASDAQ Capital Market under the ticker symbol “OPXS.”

### ***2023 Equity Incentive Plan***

On February 16, 2023, the Company’s shareholders approved the Company’s 2023 Equity Incentive Plan (the “2023 Plan”), under which 600,000 shares of common stock are reserved for issuance. The 2023 Plan permits the grant of stock options, performance shares, performance units, restricted stock, restricted stock units and stock appreciation rights to officers, other employees, individuals engaged to become officers or employees, consultants, advisors and non-executive directors of the Company. In connection with the approval of the 2023 Plan, the Company’s 2016 Restricted Stock Unit Plan and 2009 Stock Option Plan were both canceled.

### ***Recent Orders***

- On November 14, 2023, the Company announced the award of a new contract from a U.S. Government Prime Contractor for Sighting Systems for \$2.9 Million. The Sighting Systems are critical in protecting armored vehicles fielded by the U.S. Military. These units will be manufactured at our Optex Division of Optex Systems, Inc. in Richardson.
- On November 13, 2023, the Company announced it was awarded a new laser filter unit contract from a U.S. Government Prime Contractor, in support of a visible sighting system. The order value is \$1.3 million and the products for this contract will be manufactured at the Applied Optics Center (AOC) Division of Optex Systems, Inc.
- On October 18, 2023, the Company announced it was awarded a new laser filter unit contract from a U.S. Government Prime Contractor, in support of a visible sighting system. The order value is \$1.1M and the products for this contract will be manufactured at the Applied Optics Center (AOC) Division of Optex Systems, Inc.
- On September 18, 2023, the Company announced it was awarded a 5 year Indefinite Delivery Indefinite Quantity (IDIQ) contract from the U.S. Government, for M22 (7 x 50) Binoculars with an estimated value of \$2.12 million. The products for this contract will be manufactured at the Applied Optics Center (AOC) Division of Optex Systems, Inc.

- On August 21, 2023, the Company announced the award of a \$1.25 million delivery order for Laser Interference Filter (LIF) and Sacrificial Window assemblies. Both are critical in protecting Night Vision Goggle systems fielded by the U.S. Military. The products for this contract will be manufactured at the Applied Optics Center (AOC) Division of Optex Systems, Inc.
- On August 14, 2023, the Company announced an awarded delivery order from a new domestic customer for \$1.4 million of Laser Protected Periscopes. The Periscopes are critical in protecting armored vehicles fielded by the U.S. Military. The products will be manufactured at the Optex Division of Optex Systems, Inc.
- On July 5, 2023, the Company announced it was awarded a delivery order from the U.S. Government for Laser Interference Filter (LIF) assemblies for \$3 million. The LIF is critical in protecting Night Vision Goggle systems fielded by the U.S. Military. The products will be manufactured at the Applied Optics Center (AOC) Division of Optex Systems, Inc.
- On June 27, 2023, the Company announced the award of an Indefinite Delivery Indefinite Quantity (IDIQ) from Defense Logistics Agency (DLA) for five different Optical Assemblies with a maximum value of \$5.3 million. The majority of this work will be performed in the Richardson facility.
- On November 2, 2022, the Company announced it was awarded a maximum order value of \$7.5 million for spare Light Interference Filters associated with various Night Vision Goggle systems. The expected average annual revenue over the five-year period covered by the order is \$1.0 million to \$1.5 million. The products will be manufactured at the Applied Optics Center (AOC) Division of Optex Systems, Inc.
- On November 1, 2022, the Company announced the award of a \$3.4 million order to repair and refurbish night vision equipment for the Government of Israel. The majority of this work will be performed in the Richardson facility.
- On October 24, 2022, the Company announced it was awarded a \$720 thousand order from a major US Prime Contractor in support of the US Army's M10 Booker (Mobile Protected Firepower) tank program. The majority of this work will be performed in the Richardson facility.
- On October 4, 2022, the Company announced it was awarded a \$1.75 million order as part of their continuing support to the M1 Abrams Tank Program. The products will be manufactured at the Applied Optics Center (AOC) Division of Optex Systems, Inc.

### **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.

In addition, the Company offers military specification ("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 the Company in Dallas, Texas.

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:

<b>Product Line</b>	<b>Product Category</b>
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), Sight Assembly Refurbishment (GOI MOD/Aquila)
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 December 6, 2023, approximately 9% of our material requirements are single-sourced across 13 suppliers representing approximately 27% 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 92% 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.

<b>Regulation</b>	<b>Summary</b>
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 Acceptance and Testing 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 above 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 December 1, 2023):

Active ITAR Licenses	Fiscal Year of Expiration	Number of Licenses	Total Contract Value of Licenses
<b>DSP-5</b>			
Issued 2020	2024	3	\$ 51,365
Issued 2021	2025	3	232,630
Issued 2022	2026	4	321,722
Issued 2023 (none issued)	N/A	—	—
<b>Total DSP-5 Licenses</b>		<b>10</b>	<b>\$ 605,717</b>
<b>DSP-6 (no active licenses)</b>	N/A	—	\$ —
<b>DSP-73 (no active licenses)</b>	N/A	—	—
<b>BIS-711</b>			
Issued 2020	2024	5	92,554
Issued 2021	2025	4	323,911
Issued 2022	2026	1	9,372
Issued 2023	2027	10	1,359,344
<b>Total BIS-711 Licenses</b>		<b>20</b>	<b>\$ 1,785,181</b>
<b>Total All Licenses</b>		<b>30</b>	<b>\$ 2,390,898</b>

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 significant contracts as of December 6, 2023, are as follows:

<b>Customer</b>	<b>Customer PO/Contract</b>	<b>Contract Type</b>	<b>Total Award Value (millions)</b>		<b>Remaining Value (millions)</b>		<b>Delivery Period</b>
US Prime Contractor <sup>(1)</sup> Sighting Systems	Subcontract PO 35515590	FFPQ with Option years	\$	4.0	\$	1.2	Oct 2017- Mar 2026
DLA Land and Maritime <sup>(2)</sup> Periscopes	Prime SPE7LX-18-D-0108	IDIQ	\$	2.4	\$	0.6	Feb 2020 - Jun 2024
DLA Land and Maritime <sup>(3)</sup> Periscopes	Prime SPE7LX-19-D-0089	IDIQ	\$	1.5	\$	1.1	Feb 2021 - Jul 2026
DLA Land and Maritime <sup>(4)</sup> Periscopes	Prime SPE7LX-20-D-0020	IDIQ	\$	1.1	\$	0.3	Dec 2021 – Jan 2024
DLA Land and Maritime <sup>(5)</sup> Periscopes	Prime SPE7MX-20-D-0028	IDIQ	\$	-	\$	-	No task awards as of current date
DLA Land and Maritime <sup>(6)</sup> Periscopes	Prime SPE7MX-20-D-0032	IDIQ	\$	-	\$	-	No task awards as of current date
U.S. Prime Contractor <sup>(7)</sup> XM10 Aiming Circles	Subcontract PO 63659	FFPQ	\$	2.3	\$	2.3	Delayed Schedule Pending
DLA Land and Maritime <sup>(8)</sup> Periscopes	Prime SPE7LX-21-D-0057	IDIQ	\$	4.2	\$	1.2	Sept 2021 – May 2024
U.S. Prime Contractor <sup>(9)</sup> Laser Filter Units (AOC)	Subcontract PO 631537	FFPQ	\$	8.4	\$	2.6	Aug 2021 - July 2024
US Prime Contractor <sup>(10)</sup> Periscopes	Subcontract PO 40389248,40389250	FFPQ	\$	1.7	\$	0.2	Feb 2022 - Jan 2024
US Prime Contractor <sup>(11)</sup> Laser Filter Unit (AOC)	Subcontract PO 52960	FFPQ	\$	1.0	\$	0.3	Nov 2022 - Dec 2023
Commercial Customer <sup>(12)</sup> Optical Assemblies (AOC)	Subcontract PO 28012	FFPQ	\$	2.2	\$	0.6	Apr 2023 - Apr 2024
Commercial Customer <sup>(13)</sup> Optical Assemblies (AOC)	Subcontract PO 28043	FFPQ	\$	1.1	\$	0.5	Jun 2023 - May 2024

US Prime Contractor <sup>(14)</sup> Day Windows (AOC)	Subcontract PO 40385578	IDIQ	\$	1.9	\$	1.6	Dec 2022 - Sep 2025
US Prime Contractor <sup>(15)</sup> Periscopes	Subcontract PO 319216	FFPQ	\$	0.7	\$	0.6	Jun 2023 - Aug 2024
Government of Israel MOD <sup>(16)</sup> Refurbish Night Vision Equip	Foreign Military Sales PO 4441236828	FFPQ	\$	3.4	\$	3.4	Pending Revision (Jan 2024 - 2025)
DLA Land at Aberdeen <sup>(17)</sup> Light Interference Filters (AOC)	Prime SPRBL1-23-D-0001	IDIQ	\$	3.6	\$	3.5	May 2023-May 2025
DLA Land and Maritime <sup>(18)</sup> Periscopes	Prime SPE7LX-23-D-0092	IDIQ	\$	1.6	\$	1.6	Mar 2024 – Jun 2024
DLA Land and Maritime <sup>(19)</sup> Periscopes	Prime SPE7LX-23-D-0093	IDIQ	\$	0.2	\$	0.2	May 2024 – Jun 2024
US Prime Contractor <sup>(20)</sup> Periscopes	Subcontract PO 23148	FFPQ	\$	1.4	\$	1.4	Apr 2024 – Dec 2024
US Prime Contractor <sup>(21)</sup> Laser Interface Filters (AOC)	Subcontract PO 921328	FFPQ	\$	1.0	\$	1.0	Nov 2023 - Dec 2024
ACC-DTA <sup>(22)</sup> M22 Binoculars (AOC)	Prime W56HZV-23-D-0071	IDIQ	\$	0.5	\$	0.5	Aug 2024
US Prime Contractor <sup>(23)</sup> Laser Filter Units (AOC)	Subcontract PO 450005346	FFPQ	\$	1.1	\$	1.1	Jun 2024 - Jun 2025
US Prime Contractor <sup>(24)</sup> Laser Filter Units (AOC)	Subcontract PO 4500045781	FFPQ	\$	1.2	\$	1.2	Apr 2024 - Aug 2025
US Prime Contractor <sup>(25)</sup> Periscopes	Subcontract PO 40431189	FFPQ	\$	1.7	\$	1.7	May 2024 - May 2025
US Prime Contractor <sup>(26)</sup> Sighting Systems	Subcontract PO 40431702	FFPQ	\$	1.3	\$	1.3	Jul 2025 - Dec 2026

(1) 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 2026 for their existing fleet of Light Armored Vehicles.

(2) 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. On June 23, 2022 the customer exercised the option for the final option year 2. The ordering period for option year 2 expired as of September 10, 2023.

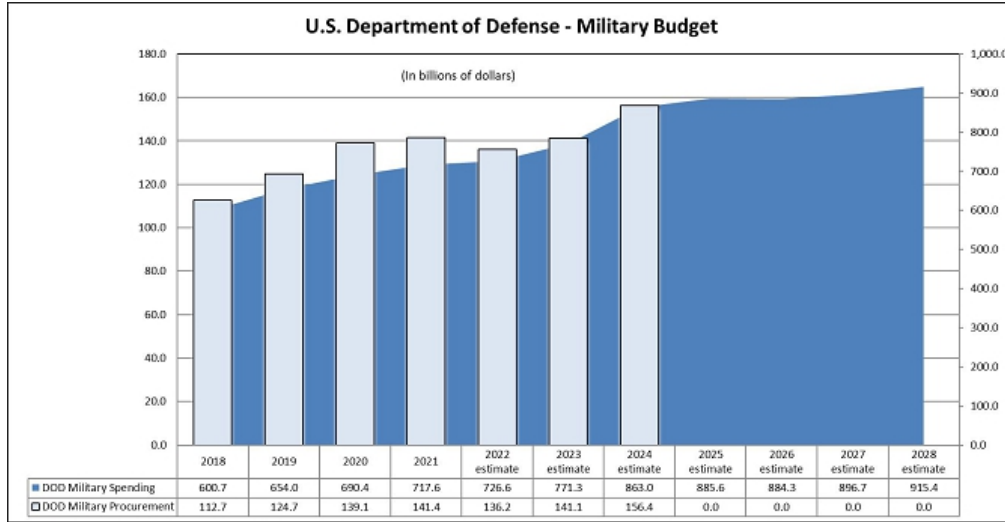
- (3) *Contract awarded March 4, 2019. This is a long-term, Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of a base period of three (3) years plus two (2) firm fixed priced option years for a potential total of (5) five years. On February 27, 2023, the customer exercised the second of two option years extending the ordering period of the contract through March 3, 2024.*
- (4) *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. The ordering period for the base award expired on November 11, 2022 with no option years. The current remaining value of \$0.3 million is pending cancellation as the orders were executed in error by the customer.*
- (5) *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 1, 2023, there have been no task orders released against the base contract award. On January 24, 2023, the customer exercised the first of two option years extending the ordering period of the contract through January 23, 2024.*
- (6) *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 1, 2023, there have been no task orders released against the base contract award. On February 6, 2023, the customer exercised the first of two option years extending the ordering period of the contract through February 12, 2024.*
- (7) *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 September 14, 2020 and includes non-recurring engineering, first article testing and production deliveries. Contract has been delayed pending receipt of customer furnished material and is pending changes to the contract delivery schedule.*
- (8) *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. On November 29, 2023 Optex Systems Inc. received formal letter notification of the DLA's intent to exercise the first of two option years extending the ordering period from January 6, 2024 through January 5, 2025. The contract modification for the option exercise is pending as of December 6, 2023.*
- (9) *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 July 2024.*
- (10) *Purchase Orders awarded September 24, 2021 by a U.S. prime contractor in support of U.S. government contracts.*
- (11) *Purchase Orders awarded June 28, 2022 from a U.S. defense contractor in support of laser filter units.*
- (12) *Purchase Orders awarded August 26, 2022 from a commercial customer in support of optical assemblies.*
- (13) *Purchase Orders awarded August 31, 2022 from a commercial customer in support of optical assemblies.*

- (14) *Purchase Orders awarded August 29, 2021 and modified with a significant quantity increase on September 28, 2022 by a U.S. prime contractor in support of U.S. government contracts.*
- (15) *Purchase Orders awarded September 16, 2022 by a U.S. prime contractor in support of U.S. government contracts.*
- (16) *Purchase Orders awarded October 27, 2022 to repair and refurbish night vision equipment for the Government of Israel which includes an option for an additional quantity up to 100%. The Contract is pending a firm delivery schedule pending receipt of the export license. Deliveries are expected to begin in January 2024.*
- (17) *Contract awarded on November 2, 2022 for spare Light Interference Filters associated with various Night Vision Goggle systems. This is a five year Indefinite Delivery Indefinite Quantity (IDIQ) Contract with firm fixed pricing for the duration of the contract. The award has a maximum order value of \$7.5 million with an expected average annual revenue over the following five year period of \$1.0 million to \$1.5 million.*
- (18) *Contract awarded on June 27, 2023. 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. The award has a maximum order value of \$2.1 million.*
- (19) *Contract awarded on June 28, 2023. 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. The award has a maximum order value of \$1.8 million.*
- (20) *Purchase Order awarded on August 2, 2023 by a U.S. prime contractor in support of U.S. government contracts.*
- (21) *Purchase Order awarded on August 17, 2023 by a U.S. prime contractor in support of U.S. government contracts.*
- (22) *Contract awarded on September 15, 2023. 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 binoculars and includes first article testing and production deliveries. The award has an estimated value of \$2.1 million across the five-year period.*
- (23) *Purchase Order awarded on October 16, 2023 by a U.S. prime contractor in support of U.S. government contracts.*
- (24) *Purchase Order awarded on November 9, 2023 by a U.S. prime contractor in support of U.S. government contracts.*
- (25) *Purchase Order awarded on November 10, 2023 by a U.S. prime contractor in support of U.S. government contracts.*
- (26) *Purchase Order awarded on November 6, 2023 by a U.S. prime contractor in support of U.S. government contracts.*

**Market Opportunity — U.S. Military**

During the twelve months ended October 1, 2023, approximately 74% 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 2018 through 2023 and estimated spending through 2028. 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 2024, the total projected military spending is estimated at \$863 billion, an overall increase of 11.9% over estimated 2023 spending. The chart below also depicts increased spending through 2028 of 6.1% from the 2024 plan level, reflecting an average increase of 1.5% per year for years 2025 through 2028. Military procurement spending, a subset of total military spending, depicts an overall increase of \$15.3 billion, or 10.8%, in fiscal year 2024 as compared to the estimated spending in fiscal year 2023.

The National Defense Authorization Act (NDAA) for Fiscal Year 2024 was enacted by Congress in December 2023 for \$886 billion, an increase of \$28 billion, or 3% over the prior year NDAA. The 2024 NDAA includes DOD military procurement of \$169 billion, 8% above the Department of Defense procurement budget request of \$156.4 billion. The Chart below depicts the original estimated funding levels from the U.S. Department of Defense based on the FY2024 budget request.



Source: Government Publishing Office, U.S. Budget Historical Tables, FY 2024, Table 3.2 Outlays by function and sub function, 1962-2028.

The table below depicts the U.S. Department of Defense budget request for fiscal year 2024 for major ground system programs. The last five years have experienced a significant reduction in spending for U.S. ground system military programs, and more specifically on the Abrams Tank Modifications/Upgrades, which has a direct impact on the Optex Systems Richardson segment revenue. The total fiscal year 2024 budget request for major ground system programs decreased by 2.3% from the fiscal year 2023 levels and by 10.8% 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.

<b>(\$ in Millions)</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023F</b>	<b>FY2024B</b>
Joint Light Tactical Vehicle	\$ 1,716.5	\$ 1,408.3	\$ 1,046.6	\$ 1,005.1	\$ 1,183.8
<b>ARMY</b>					
Abrams Tank Modification/Upgrade	2,186.0	1,404.2	1,264.3	1,308.5	896.5
Armored Multi-Purpose Vehicle	525.2	132.1	984.6	380.7	554.8
Paladin Integrated Management	744.5	681.4	662.9	703.2	511.6
Family of Medium Tactical Vehicles	141.4	211.2	144.4	143.9	142.9
Family Of Heavy Tactical Vehicles	50.8	28.8	214.0	292.6	110.6
Next Generation Squad Weapon	86.2	125.3	127.6	201.7	328.1
Ground Mobility Vehicle	-	-	-	-	-
Stryker	953.2	1,186.3	1,112.7	957.8	639.1
<b>USMC</b>					
Amphibious Combat Vehicle	349.3	478.1	591.9	618.6	660.8
<b>Total Ground Systems Vehicles (millions)</b>	<b>\$ 6,753.1</b>	<b>\$ 5,655.7</b>	<b>\$ 6,343.9</b>	<b>\$ 6,167.0</b>	<b>\$ 6,024.9</b>

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 2024 Budget Request", March 2023 and "Program Acquisition Cost by Weapon System, United States Department of Defense, Fiscal Year 2023 Budget Request", April 2022 and "Program Acquisition Cost by Weapon System, United States Department of Defense, Fiscal Year 2022 Budget Request", May 2021.

The 2024 Department of Defense Budget indicates an overall decrease in ground system vehicle program spending in the fiscal year 2023 and 2024 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 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.

We were successful with the Israeli Ministry of Defense (IMOD) in refurbishing a small quantity of their Night Vision Rifle Scopes. Given this success, in November 2022, the IMOD awarded us a \$3.4 million follow on contract to continue this activity. We anticipate deliveries against the contract to begin during the second quarter of fiscal year 2024. If we successfully execute this contract, we would expect another contract award of similar size and duration.



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 Applied Optics Segment sales during the last five years.

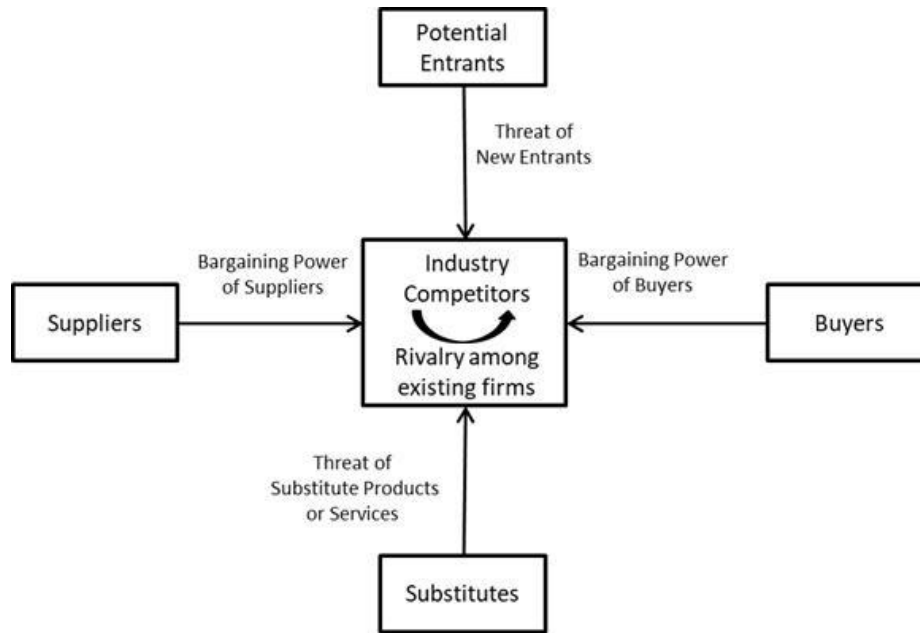
### **Customer Base**

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, Enterprise Cabling and Vortex Optics), as a military supplier to foreign governments (Israel, Australia, South America and Canada) and also as a commercial optical assembly supplier (Nightforce Optics, Gables Engineering, Amazon). During the twelve months ended October 1, 2023, we derived approximately 72% of our gross business revenue from five major customers: U.S. government agencies (22%), three U.S. defense contractors (14%, 7%, and 6%) and one major commercial customer (23%). We have approximately 151 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 it was first fielded in 1980, the Abrams tank has undergone near-continuous upgrades and improvements; however, as illustrated above, spending on modifications and upgrades of the Abrams tank by the U.S. military has significantly decreased in the past five years and we expect this trend to continue. 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 approximately 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>
<b>New Products</b>	<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
<b>Existing Products</b>	<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 and 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. Conversely, 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.

### **Sources and Availability of Raw Materials**

Disclosure responsive to this item is incorporated herein by reference to “*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.*”

## **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 three 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 April 4, 2023, we were issued U.S. Patent No. 11,619,824 B2 titled “Selectable Offset Image Wedge” which is a mechanical wedge used to offset the image anywhere in the selectable range of circular travel within the defined offset field of view. This application is a continuation-in-part of U.S. Patent No. 10,324,298 and claims priority to U.S. Patent No. 10,324,298, issued on June 18, 2019.

On November 4, 2021 we were issued U.S. Patent No. 2021/0341746A1 titled “Selectable Offset Image Wedge” which is a mechanical wedge used to offset the image anywhere in the selectable range of circular travel within the defined offset field of view. This application is a continuation-in-part of U.S. Patent No. 10,324,298 and claims priority to U.S. Patent No. 10,324,298, issued on June 18, 2019.

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” (issued in 2011 and 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. 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 substantially greater 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 106 full time equivalent employees as of October 1, 2023 and 102 employees as of December 6, 2023, 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.

### **Corporate History**

Optex Systems Holdings, Inc. is a Delaware corporation originally organized in Delaware as Sustut Exploration, Inc. in April 2006. Optex Systems, Inc. is a Delaware corporation organized in September 2008. In March 2009, Optex Systems, Inc. engaged in a reverse merger with Sustut Exploration, Inc., in connection with which the latter was renamed Optex Systems Holdings, Inc. and the former became a wholly-owned subsidiary of Optex Systems Holdings, Inc.

## **Internet Address**

The Company maintains an internet website at the following address: [www.optexsys.com](http://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**

***Our results of operations could be adversely affected by economic and political conditions globally and the effects of these conditions on our customers' businesses and levels of business activity.***

Economic and political events in the past few years have altered the landscape in which we and other U.S. companies operate in a variety of ways. In response to inflationary pressures, the U.S. Federal Reserve has raised interest rates, resulting in an increase in the cost of borrowing for us, our customers, our suppliers, and other companies relying on debt financing. World events, such as the Russian invasion of Ukraine and the resulting economic sanctions, have impacted the global economy, including by exacerbating inflationary and other pressures linked to COVID-related supply chain disruptions. In addition, the threat of a larger war in the Middle East after the Hamas terrorist attacks on Israel could affect oil prices and have other, potentially recessionary, effects on the global economy. Prolonged inflationary conditions and prolonged periods of high interest rates could further negatively affect U.S. and international commerce and exacerbate or prolong the period of high energy prices and supply chain constraints. At this time, the extent and duration of these economic and political events and their effects on the economy and the Company are impossible to predict.

***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 and 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 the fixed costs determined under 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.

We have several multiyear IDIQ contracts at fixed prices which have open ordering periods and are currently at low profit rates or in a loss condition. These contracts are typically three-year IDIQ contracts with two optional award years, and as such, we are obligated to accept new task awards against these contracts until the contract expiration. Should contract costs continue to increase above the negotiated selling price, or in the event the customer should release substantial quantities against these existing loss contracts, the losses could be material. For contracts currently in a loss status based on the estimated per unit contract costs, losses are booked immediately on new task order awards. As of October 1, 2023, there was \$243 thousand in accrued loss provisions for loss contracts or cost overruns.

Approximately 92% 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 either executive officer or any other key employee could have a material adverse effect on our business. We currently have only two employment agreements. We do not presently maintain "key man" insurance on any other key employees. 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 and Russia’s invasion of Ukraine and the related sanctions, combined with raw material shortages, labor shortages, transportation delays and inflationary pressures, to continue for the foreseeable future. These conditions have strained our suppliers and extended supplier delivery lead times, affecting their ability to sustain operations. We are experiencing 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. In addition, we have experienced supplier schedule delays for other key components which are driven by supplier labor and material shortages. In several cases, spotty supply and material shortages have resulted in stocking higher inventory “safety stock” levels to ensure adequate lead time to replenish critical supplies.

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 December 1, 2023, approximately 9% of our material requirements are single-sourced across 13 suppliers representing approximately 27% 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 December 6, 2023.

<b>Product Line</b>	<b>Supply Item</b>	<b>Risk</b>	<b>Purchase Orders</b>
Sighting Systems M36 DDAN	Digital camera system	Alternative source would take in excess of six months to qualify	Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements.
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 working with current vendor to keep supply of these parts
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.
Beamsplitter	Glass tight dimensions and Special Coating	Limited number of suppliers that can meet tight customer specifications without deviation	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.
Applied Optics Center LIF Assembly	Container Wrench and Retaining Ring	Mold tooling was manufactured by and used by one source. Tooling would not fit other potential supplier's equipment. Finding another source would be very expensive and take approximately 1 year to transition	Current firm fixed price and quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule.
Applied Optics Center LIF Assembly	Rubber Seal	Mold tooling was manufactured by and used by one source. Tooling would not fit other potential supplier's equipment. Finding another source would be very expensive and take approximately 1 year to transition	Current firm fixed price and quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule.
Applied Optics Center Assorted LFU Assemblies	ARD (Anti-Reflective Device)	Only one approved Government source of supply at this time	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 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 1, 2023, the Company's consolidated revenues were derived from U.S. government agencies (22%), three U.S. defense contractors (14%, 7%, and 6%), one major commercial customer (23%) and all other customers (28%). Approximately 95% of total Company revenue is generated from domestic customers and 5% 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 72% 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 151 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 six 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 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 may need 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 Credit Facility and Liquidity**

*Our level of debt and restrictions in our credit agreement could negatively affect our operations and limit our liquidity and our ability to react to changes in the economy.*

Our Loan Agreement with Texas Capital Bank contains restrictive covenants that require us to maintain a fixed charge coverage ratio of at least 1.25:1 and a total leverage ratio of 3.00:1, which we may fail to meet if there is a material decrease in our profitability or liquidity. In addition, the Loan Agreement contains restrictive covenants governing indebtedness, liens, fundamental changes (including changes in management), investments, and restricted payments (including cash dividends). The borrowings under the Loan Agreement are secured by substantially all of our operating assets as collateral.

A breach of any of the restrictions and covenants could result in a default under our Loan Agreement, which, if not cured or waived, could cause any outstanding indebtedness under the agreement (or under any future financing arrangements) to become immediately due and payable, and result in the termination of commitments to extend further credit. We may not have sufficient funds on hand to repay the loan, and if we are forced to refinance these borrowings on less favorable terms, or are unable to refinance at all, our results of operations and financial condition could be materially adversely affected by increased costs and rates.

If our debt level significantly increases in the future, it could have significant consequences on our ongoing operations including requiring us to dedicate a significant portion of our cash flow from operations to servicing debt rather than using it to execute our strategic initiatives; limiting our ability to obtain additional debt financing for future working capital, capital expenditures, or other worthwhile endeavors; and limiting our ability to react to changes in the market.

## Risks Related to Our Stock

***Our stock typically trades in low volumes daily which could lead to illiquidity, volatility, or depressed stock price.***

Our stock is listed on Nasdaq, but typically trades in low daily volumes. Because of a history of low trading volume, our stock is relatively illiquid and its price may be volatile. This may make it more difficult for our stockholders to resell shares when desired or at attractive prices. Some investors view low-volume stocks as unduly speculative and therefore not appropriate candidates for investment. Also, due to the low volume of shares traded on any trading day, persons buying or selling in relatively small quantities may easily influence prices of our stock.

***Any analysts covering our stock could negatively impact the stock price.***

The trading market for our common stock will likely be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any such analysts downgrade their evaluation of our stock, the price of our stock could decline. Furthermore, if our operating results fail to meet analysts' expectations, our stock price would likely decline.

***Our stock price has been and will likely continue to be extremely volatile, and, as a result, stockholders may not be able to resell shares at or above their purchase price, and we may be more vulnerable to securities class action litigation.***

Since our common stock was listed on Nasdaq in March 2023, our stock price, as reported by Nasdaq, has ranged from a low of \$2.87 to a high of \$4.47. As a result, the market price and trading volume of our common stock is likely to be similarly volatile in the future, and investors in our common stock may experience a decrease, which could be substantial, in the value of their stock, including decreases unrelated to our results of operations or prospects, and could lose part or all of their investment.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Because of the potential volatility of our stock price, we may become the target of securities litigation in the future. If we were to become involved in securities litigation, it could result in substantial costs, divert management's attention and resources from our business and adversely affect our business.

***We are a "smaller reporting company" as defined in SEC regulations, and the reduced disclosure requirements applicable to smaller reporting companies may make our common stock less attractive to investors.***

We are a "smaller reporting company" as defined under SEC regulations and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not smaller reporting companies including, among other things, reduced financial disclosure requirements including being permitted to provide only two years of audited financial statements and reduced disclosure obligations regarding executive compensation. As a result, our stockholders may not have access to certain information that they may deem important. We could remain a smaller reporting company indefinitely. As a smaller reporting company, investors may deem our stock less attractive and, as a result, there may be less active trading of our common stock, and our stock price may be more volatile.

## 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.

*Adverse developments affecting the financial services industry, including events or concerns involving liquidity, defaults or non-performance by financial institutions or transactional counterparties, could adversely affect our business, results of operations or financial condition.*

Events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transactional counterparties or other companies in the financial services industry, or concerns or rumors about any events of these kinds or other similar risks, have in the past and may in the future lead to market-wide liquidity problems. For example, on March 10, 2023, Silicon Valley Bank ("SVB") was closed by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation ("FDIC") as receiver; on March 12, 2023, Signature Bank and Silvergate Capital Corp. were each swept into receivership; and on May 1, 2023, First Republic Bank failed and regulators sold substantially all of its assets to JPMorgan Chase & Co. The failure of First Republic Bank occurred despite a previous attempt by some of the nation's largest banks to shore up First Republic's capital. Although we assess our banking and customer relationships as we believe necessary or appropriate, our access to funding sources and other credit arrangements in amounts adequate to finance or capitalize our current and projected future business operations could be significantly impacted.

In addition, investor concerns regarding the U.S. or international financial systems could result in less favorable commercial financing terms, including higher interest rates or costs and tighter financial and operating covenants, or systemic limitations on access to credit and liquidity sources, thereby making it more difficult for us to acquire financing on acceptable terms or at all. Any decline in available funding or access to our cash and liquidity resources could, among other risks, adversely impact our ability to meet our operating expenses, financial obligations or other obligations, result in breaches of our contractual obligations or result in violations of federal or state wage and hour laws. Any of these impacts, or any other impacts resulting from the factors described above or other related or similar factors not described above, could have material adverse impacts on our liquidity and our business, results of operations or financial condition.

## **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 listed on the Nasdaq Capital Market under the symbol “OPXS”.

On December 15, 2023, the closing price for our common stock was \$4.15 per share.

#### Securities outstanding and holders of record

On December 15, 2023, there were approximately 80 shareholders of record for our common stock and 6,784,130 shares of our common stock issued and 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 May 9, 2023, the Board of Directors approved a grant of 40,000 shares of restricted stock to independent board member Dayton Judd. The shares vest 50% on each of January 1, 2024 and January 1, 2025. As of the grant date, the fair value of the shares was \$124 thousand, to be amortized on a straight-line basis through January 1, 2025. The grant was exempt from registration under the Securities Act of 1933, as amended, in reliance on Section 4(a)(2) of such act and Rule 506 thereunder.

#### Issuer Purchases of Equity Securities

There were no purchases made by or on behalf of the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) of its common stock under the Exchange Act) during the three months ended October 1, 2023.

#### 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 1, 2023, 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 1, 2023, 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 2022 or 2023 with respect to our financial position and results of operations are to our fiscal years ended October 2, 2022 or October 1, 2023, respectively.*



## Background

Optex Systems, Inc. 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 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 NAMS 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 material 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.

## Material Trends and Recent Developments

Recent supply chain disruptions 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, which has affected our net income in the year ended October 1, 2023 and is expected to continue to have a negative effect on the margins expected to be generated under our long-term fixed contracts over the next three years. See also "*Item 1A. Risk Factors – Risks Related to Our Business - Certain of our products are dependent on specialized sources of supply potentially subject to disruption which could have a material, adverse impact on our business.*"

We have experienced significant material shortages during the year ended October 1, 2023 and extending into the first three months of fiscal year 2024 from several significant suppliers of our periscope covers and housings. These shortages affect several of our periscope products at the Optex Richardson segment. The delays in key components, combined with labor shortages during the year ended October 1, 2023, which continue into the first three months of fiscal year 2024, have negatively impacted our production levels and have pushed the expected delivery dates into the first half of fiscal year 2024. We are aggressively seeking alternative sources and actively expediting our current suppliers for these components as well as increasing employee recruitment initiatives and overtime to attempt to mitigate any continuing risks to the periscope line. While we are encouraged by recent improvements in supplier performance for the Optex Richardson segment periscope line which yielded increased revenue performance during the second through fourth quarters, our suppliers have yet to ramp up deliveries sufficiently to keep pace with our current customer demands. As such, we cannot give any assurances that expected customer delivery dates for our periscope products will not experience further delays.

In March 2023, we moved our line of credit from PNC Bank to Texas Capital Bank and increased our available line of credit to \$3.0 million from the previous \$2.0 million line with PNC. The increase in credit limit helps us meet our working capital requirements in light of the increased backlog and delay of revenues from the fiscal year 2023.

We refer also 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 and disclosure on the significant reduction in spending for U.S ground system military programs, which has a direct impact on the Optex Systems Richardson segment revenue, all of which is incorporated herein by reference.

We refer to “*Item 1. Business – Recent Events*” of this report for recent developments affecting the Company.

## Results of Operations by Segment

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 1, 2023 and October 2, 2022 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 1, 2023				October 2, 2022			
	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	\$ 12,120	\$ 13,539	\$ -	\$ 25,659	\$ 9,533	\$ 12,850	\$ -	\$ 22,383
Intersegment Revenues	-	893	(893)	-	-	879	(879)	-
<b>Total Segment Revenue</b>	<b>12,120</b>	<b>14,432</b>	<b>(893)</b>	<b>25,659</b>	<b>9,533</b>	<b>13,729</b>	<b>(879)</b>	<b>22,383</b>
Total Cost of Sales	9,729	10,204	(893)	19,040	8,441	9,924	(879)	17,486
<b>Gross Profit</b>	<b>2,391</b>	<b>4,228</b>	<b>-</b>	<b>6,619</b>	<b>1,092</b>	<b>3,805</b>	<b>-</b>	<b>4,897</b>
<b>Gross Margin %</b>	<b>19.7%</b>	<b>29.3%</b>	<b>-</b>	<b>25.8%</b>	<b>11.5%</b>	<b>27.7%</b>	<b>-</b>	<b>21.9%</b>
General and Administrative Expense	3,121	464	247	3,832	2,613	475	162	3,250
Segment Allocated G&A Expense	(1,338)	1,338	-	-	(1,141)	1,141	-	-
Net General & Administrative Expense	1,783	1,802	247	3,832	1,472	1,616	162	3,250
<b>Operating Income (Loss)</b>	<b>608</b>	<b>2,426</b>	<b>(247)</b>	<b>2,787</b>	<b>(380)</b>	<b>2,189</b>	<b>(162)</b>	<b>1,647</b>
<b>Operating Income (Loss) %</b>	<b>5.0%</b>	<b>16.8%</b>	<b>-</b>	<b>10.9%</b>	<b>(4.0)%</b>	<b>15.9%</b>	<b>-</b>	<b>7.4%</b>
Interest Expense	-	-	(55)	(55)	-	-	-	-
<b>Income (Loss) before taxes</b>	<b>\$ 608</b>	<b>2,426</b>	<b>(302)</b>	<b>2,732</b>	<b>\$ (380)</b>	<b>2,189</b>	<b>(162)</b>	<b>1,647</b>
<b>Income (loss) before taxes %</b>	<b>5.0%</b>	<b>16.8%</b>	<b>-</b>	<b>10.6%</b>	<b>(4.0)%</b>	<b>15.9%</b>	<b>-</b>	<b>7.4%</b>

Our total external sales revenues increased by \$3.3 million in the fiscal year 2023, or 14.6% compared to the 2022 fiscal year. The Optex Systems segment realized a \$2.6 million, or 27.1% increase, and the Applied Optics Center segment realized an increase of \$0.7 million, or 5.4%, in external revenue compared to the prior year period. Intersegment revenues were \$0.9 million for 2023 and 2022. 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 profit increased \$1.7 million and the gross margin percentage increased by 3.9 points from 21.9% in the 2022 fiscal year to 25.8% in the 2023 fiscal year. Optex Systems gross profit increased by \$1.3 million and the gross margin percentage increased to 19.7% as compared to 11.5% in the prior year period on significantly higher revenue. Applied Optics Center gross profit increased by \$0.4 million and the gross margin percentage increased to 29.3% as compared to 27.7% in the prior year period. The increase in consolidated gross profit is primarily attributable to higher absorption of the fixed overhead cost base associated with higher revenue levels at both operating segments combined with shifts in revenue mix in the Applied Optics Center.

Consolidated general and administrative costs increased from \$3.2 million for the twelve months ended October 2, 2022 to \$3.8 million for the twelve months ended October 1, 2023. During the years ended 2023 and 2022, Applied Optics Center absorbed \$1.3 million and \$1.1 million, respectively, of fixed general and administrative costs incurred by Optex Systems for support services. The increase in allocated general and administrative expenses during the 2023 year is directly attributable to the increase of \$0.6 million in general and administrative spending during the twelve-month period combined with a shift in revenue volume between segments. 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.

Consolidated operating income increased by \$1.2 million in the year ended October 1, 2023 to an income of \$2.8 million as compared to the prior year operating income of \$1.6 million. The increase in operating income is primarily attributable to operating income of \$1.0 million at the Optex Systems segment and increased operating income of \$0.2 million at the Applied Optics Center segment on higher revenue and gross profit. The increased segment operating income is slightly offset by a decrease in operating income of (\$0.1) million in other unallocated costs for increases in general and administrative and interest costs as compared to the prior year.

Income before taxes increased \$1.1 million, to \$2.7 million in the 2023 fiscal year from a prior year income before taxes of \$1.6 million. The increase in income before taxes year over year is primarily due to the increase in revenue and gross profit in both segments.

### **New Orders and Backlog**

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

During the twelve months ended October 1, 2023, the Company booked \$34.6 million in new orders, representing a 23.6% increase from the prior year period orders of \$28.0 million. The orders for the most recently completed twelve months consist of \$23.3 million for our Optex Richardson segment and \$11.3 million attributable to the Applied Optics Center segment.

The following table depicts the new customer orders for the twelve months ending October 1, 2023 as compared to the prior year period in millions of dollars:

Product Line	(Millions)			
	Twelve months ended	Twelve months ended	Variance	% Chg
	October 1, 2023	October 2, 2022		
Periscopes	\$ 15.9	\$ 9.2	\$ 6.7	72.8%
Sighting Systems	4.0	0.7	3.3	471.4%
Howitzer	-	-	-	-%
Other	3.4	3.6	(0.2)	(5.6)%
<b>Optex Systems – Richardson</b>	<b>23.3</b>	<b>13.5</b>	<b>9.8</b>	<b>72.6%</b>
Optical Assemblies	1.9	6.7	(4.8)	(71.6)%
Laser Filters	7.6	4.7	2.9	61.7%
Day Windows	0.3	1.9	(1.6)	(84.2)%
Other	1.5	1.2	0.3	25.0%
<b>Applied Optics Center – Dallas</b>	<b>11.3</b>	<b>14.5</b>	<b>(3.2)</b>	<b>(22.1)%</b>
<b>Total Customer Orders</b>	<b>\$ 34.6</b>	<b>\$ 28.0</b>	<b>\$ 6.6</b>	<b>23.6%</b>

The Company has seen significant increases in orders for many of its defense products during the fiscal year 2023 inclusive of two new customers for our sighting systems and filter programs. On November 1, 2022, the Company announced it has been awarded a \$3.4 million sighting system order to repair and refurbish night vision equipment for the Government of Israel. The order represents a significant increase in our Optex Richardson sighting systems business base for a new customer and includes an additional potential award value with a 100% optional award quantity clause. Deliveries under this contract are expected to begin in the second quarter of fiscal year 2024. Our Optex Richardson periscope orders have increased \$6.7 million, or 72.8% over the prior year, including \$9.0 million in task delivery awards against our long term IDIQ contracts. On June 30, 2023, we booked a \$3.0 million delivery order at our Applied Optics segment for the delivery of laser interface filters against a five-year IDIQ contract. On September 18, 2023, the Company announced it was awarded a five-year Indefinite Delivery Indefinite Quantity (IDIQ) contract from the U.S. Government, for M22 (7 x 50) Binoculars with an estimated value of \$2.12 million. As of October 1, 2023, the Applied Optics Center had received task orders valuing \$0.5 million against this award.

The Optex Systems Richardson segment currently has six open US Government IDIQ type military contracts for periscopes and two open IDIQ contracts with another prime contractor for periscopes and unity mirrors with unspent funding which covers base year and option year requirement periods into 2029. We anticipate additional orders throughout the next five years for these ongoing contracts. In addition, the Company has three open bid requests for new multi-year IDIQ contracts pending with the U.S. Government for additional periscopes that are expected to be awarded in the next twelve months.

Backlog as of October 1, 2023 was \$41.8 million as compared to a backlog of \$32.9 million as of October 2, 2022, representing an increase of 27.1%. The following table depicts the current expected delivery by quarter of all contracts awarded as of October 1, 2023, as well as the October 1, 2023 backlog as compared to the backlog on October 2, 2022.

(Millions)

Product Line	Q1	Q2	Q3	Q4	2024	2025+	Total	Total	Variance	% Chg
	2024	2024	2024	2024	Delivery	Delivery	Backlog	Backlog		
							10/1/2023	10/2/2022		
Periscopes	\$ 2.1	\$ 2.5	\$ 3.5	\$ 3.9	\$ 12.1	\$ 2.8	\$ 14.9	\$ 7.6	\$ 7.3	96.1%
Sighting Systems	0.1	0.5	0.4	0.5	1.6	3.1	4.7	1.7	3.0	176.5%
Howitzer	-	-	-	-	-	2.3	2.3	2.3	-	-%
Other	1.1	1.3	0.7	0.3	3.2	1.4	4.6	3.4	1.2	35.3%
<b>Optex Systems – Richardson</b>	<b>3.3</b>	<b>4.3</b>	<b>4.6</b>	<b>4.7</b>	<b>16.9</b>	<b>9.6</b>	<b>26.5</b>	<b>15.0</b>	<b>11.5</b>	<b>76.7%</b>
Optical Assemblies	1.2	1.1	0.2	0.3	2.8	-	2.8	6.8	(4.0)	(58.8)
Laser Filters	1.9	2.1	2.3	1.8	8.1	1.8	9.9	8.7	1.2	13.8
Day Windows	0.2	0.3	0.2	0.2	0.9	0.8	1.7	2.0	(0.3)	(15.0)
Other	0.2	0.2	0.1	0.3	0.8	0.1	0.9	0.4	0.5	125.0
<b>Applied Optics Center – Dallas</b>	<b>3.5</b>	<b>3.7</b>	<b>2.8</b>	<b>2.6</b>	<b>12.6</b>	<b>2.7</b>	<b>15.3</b>	<b>17.9</b>	<b>(2.6)</b>	<b>(14.5)%</b>
<b>Total Backlog</b>	<b>\$ 6.8</b>	<b>\$ 8.0</b>	<b>\$ 7.4</b>	<b>\$ 7.3</b>	<b>\$ 29.5</b>	<b>\$ 12.3</b>	<b>\$ 41.8</b>	<b>\$ 32.9</b>	<b>\$ 8.9</b>	<b>27.1%</b>

*Optex Systems - Richardson*

During the twelve months ended October 1, 2023, backlog for our Optex Richardson segment increased by 76.7%, or \$11.5 million to \$26.5 million, as compared to the prior year ending backlog of \$15.0 million.

Backlog for our periscope product line has increased 96.1% or \$7.3 million to \$14.9 million, from our 2022 fiscal year end level of \$7.6 million, primarily on new order releases against our long term IDIQ contracts. Our projected periscope revenue over the next twelve months is currently exceeding our supplier and headcount capacity. We are currently working with our suppliers to ramp up material deliveries in addition to adding automated buffing equipment and manpower to increase production capacity in line with our increasing customer demands over the next twelve months.

Sighting Systems product line backlog increased 176.5%, or \$3.0 million, to \$4.7 million, from our 2022 fiscal year end level of \$1.7 million. The increased backlog is primarily driven by the \$3.4 million order from Israel for the repair and refurbishment of night vision equipment. Deliveries against the new award are expected to begin in the second fiscal quarter of 2024, pending the approval of export licenses.

The Howitzer contract awarded in July 2020 continues to experience customer driven delays related to customer furnished materials. This program is currently on hold pending statement of work changes and materials furnished by the customer.

Our backlog in other product groups increased by \$1.2 million or 35.3% from \$3.4 million in 2022 to \$4.6 million in 2023 on new orders booked during the twelve months ended October 1, 2023, primarily for muzzle reference systems and spare components for a major U.S. defense contractor, combined with \$0.3 million in optical wedge assemblies for a commercial customer.

*Applied Optics Center – Dallas*

The Applied Optics Center backlog decreased by \$2.6 million, or 14.5%, for the year ended October 1, 2023, from \$17.9 million in 2022 to \$15.3 million in 2023.

Backlog for our optical assemblies decreased by \$4.0 million, or 58.8%, as compared to the prior year on lower customer demand from one of our commercial customers. We anticipate new order bookings during the next six months, although we are projecting an overall revenue reduction in optical assemblies of approximately 40% over the next twelve months compared to fiscal year 2023.

Laser filter backlog increased by \$1.2 million, or 13.8%, during the year due to \$3.5 million in new order releases against our U.S. Government long term laser interface filter contract in addition to several new orders booked from other U.S. defense contractors for laser interface filters and laser filter units. We are anticipating additional order bookings for delivery in the fourth fiscal quarter of 2024 and a substantial increase in laser filter revenue of 55-60% over the next twelve months from the 2023 levels.

Day window backlog decreased by \$0.3 million during the period as compared to the prior year as we continue to deliver against the existing orders from our ending 2022 backlog. We anticipate a slight increase in deliveries for day windows over the next twelve months based on the customer contract schedules.

Other Applied Optics backlog increased by \$0.5 million, or 125.0% for the year ended October 1, 2023, on new orders booked during the period for M22 binoculars. On September 18, 2023, the Company announced it was awarded a 5-year IDIQ contract from the U.S. Government, for M22 (7 x 50) Binoculars with an estimated value of \$2.12 million and during the month of September, the Company received \$0.5 million in task award orders against this contract. Deliveries against the contract are expected to begin in the fourth fiscal quarter of 2024.

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

The Company continues to pursue domestic, international and commercial opportunities in addition to maintaining its current footprint with U.S. vehicle manufactures, with existing as well as new product lines. We are also reviewing potential products outside our traditional product lines. 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 months ended October 1, 2023 compared to the twelve months ended October 2, 2022

##### Revenues

The table below details the revenue changes by segment and product line for the year ended October 1, 2023 as compared to the year ended October 2, 2022.

Product Line	Twelve months ended (Millions)		Variance	% Chg
	October 1, 2023	October 2, 2022		
Periscopes	\$ 8.6	\$ 7.2	\$ 1.4	19.4
Sighting Systems	1.0	0.8	0.2	25.0
Howitzers	-	-	-	-
Other	2.5	1.5	1.0	66.7
<b>Optex Systems – Richardson</b>	<b>12.1</b>	<b>9.5</b>	<b>2.6</b>	<b>27.4</b>
Optical Assemblies	5.6	4.9	0.7	14.3
Laser Filters	6.4	5.9	0.5	8.5
Day Windows	0.6	1.0	(0.4)	(40.0)
Other	1.0	1.1	(0.1)	(9.1)
<b>Applied Optics Center – Dallas</b>	<b>13.6</b>	<b>12.9</b>	<b>0.7</b>	<b>5.4</b>
<b>Total Revenue</b>	<b>\$ 25.7</b>	<b>\$ 22.4</b>	<b>\$ 3.3</b>	<b>14.7</b>

Our total revenues increased by \$3.3 million, or 14.7% in fiscal year 2023 compared to fiscal year 2022. The Optex Systems Richardson segment realized a \$2.6 million, or 27.4%, increase in revenue and the Applied Optics Center segment realized an increase of \$0.7 million, or 5.4%, in revenue compared to the prior year.

### *Optex Systems - Richardson*

Revenues on our periscope line increased \$1.4 million during the twelve months ended October 1, 2023 and October 2, 2022 on higher customer demand and improved supplier deliveries.

Revenues on sighting systems increased by \$0.2 million, or 25.0% from the prior year period due to shipments of \$0.4 million in back up sights during the fourth quarter, offset by lower shipments against our OWSS repair contract.

Optex Systems-Richardson revenue on other product lines increased by \$1.0 million, or 66.7%, compared to revenues in the prior year due to increased revenues for optical wedge assemblies, day camera assemblies, unity mirrors and assorted spare part assemblies for both commercial and U.S. defense contractors.

### *Applied Optics Center - Dallas*

Revenue on optical assemblies increased by \$0.7 million, or 14.3%, during the twelve months ended October 1, 2023 as compared to the prior twelve-month period on higher demand on several rifle scope assemblies from one of our major commercial customers.

Laser filter revenue increased by \$0.5 million, or 8.5%, during the twelve months ended October 1, 2023 as compared to the prior twelve-month period on higher demand for laser interface filters and laser filter units from multiple defense contract customers.

Revenues on our day windows decreased by \$0.4 million, or 40.0%, during the twelve months ended October 1, 2023 as compared to October 2, 2022 as we continue to ship against our existing customer contract schedule.

Applied Optics Center revenue for other product lines decreased by \$0.1 million, or 9.1%, during the twelve months ended October 1, 2023 as compared to the prior twelve-month period on decreased revenue for unity mirrors.

*Gross Margin.* The gross margin for the year ended October 1, 2023 was 25.8% of revenue as compared to a gross margin of 21.9% of revenue for the year ended October 2, 2022. Cost of sales increased by \$1.6 million to \$19.0 million for 2023 compared to \$17.5 million for 2022. The gross profit increased by \$1.7 million to \$6.6 million in 2023 as compared to \$4.9 million in 2022. The increase is primarily due to higher revenue and shifts between segments and product lines combined with higher fixed cost absorption at both the Applied Optics Center and Optex Richardson segments related to increased production volume.

*G&A Expenses.* For the years ended October 1, 2023 and October 2, 2022, we recorded operating expenses of \$3.83 million and \$3.25 million, respectively. General and administrative cost increases of \$0.6 million, or 17.8%, for fiscal year 2023 as compared to the prior year, are primarily attributable to increases of \$0.2 million relating to labor expenses and \$0.2 million relating to office, legal, IT and audit expenses, combined with a \$0.1 million increase in stock compensation and a \$0.1 million increase in bank fees. During the twelve months ended October 1, 2023, approximately \$0.1 million of the increase in office and legal expense are directly related to our uplisting to the NASDAQ market in March 2023.

*Operating Income.* For the year ended October 1, 2023, we recorded operating income of \$2.8 million as compared to operating income of \$1.6 million during the year ended October 2, 2022. The \$1.2 million increase in operating income is primarily due to higher revenue and gross profit, partially offset by increased general and administrative expenses.

*Net income applicable to common shareholders.* During the year ended October 1, 2023, we recorded net income applicable to common shareholders of \$2.3 million as compared to net income applicable to common shareholders of \$1.3 million during the year ended October 2, 2022. The increase of net income of \$1.0 million is primarily attributable to the increase in operating profit, offset by increased interest expense of \$0.1 million and increased income tax expense of \$0.1 million over the prior year period.

### 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 1, 2023 and October 2, 2022, in terms of both the GAAP net income measure and the non-GAAP Adjusted EBITDA measure.

	(Thousands)	
	Twelve months ended	
	October 1, 2023	October 2, 2022
Net Income — GAAP	\$ 2,263	\$ 1,283
<i>Add:</i>		
Federal Income Tax Expense	469	364
Depreciation	345	307
Stock Compensation	247	162
Interest Expense	55	-
<b>Adjusted EBITDA - Non GAAP</b>	<b>\$ 3,379</b>	<b>\$ 2,116</b>

Our Adjusted EBITDA increased by \$1.3 million to \$3.4 million during the twelve months ended October 1, 2023 as compared to \$2.1 million during the twelve months ended October 2, 2022. The increase in EBITDA is primarily driven by increased revenue and operating profit during the current year as compared to the prior year twelve-month period. Operating segment performance is discussed in greater detail throughout the previous sections.

### Liquidity and Capital Resources

As of October 1, 2023, Optex Systems Holdings had working capital of \$13.5 million, as compared to \$10.0 million as of October 2, 2022. During the twelve months ended October 1, 2023, we used operating cash of (\$0.3) million, primarily driven by increased inventory, and spent (\$0.4) million on acquisitions of property and equipment. During the twelve months ended October 1, 2023, our net borrowing against the credit facility was \$1.0 million.

Backlog as of October 1, 2023 was \$41.8 million as compared to a backlog of \$32.9 million as of October 2, 2022, representing an increase of 27.1%. For further details, see “Results of Operations – New Orders and Backlog” above.

The Company has historically funded its operations through cash from operations, convertible notes, common and preferred stock offerings and bank debt. The Company’s ability to generate positive cash flows depends on a variety of factors, including the continued development and successful marketing of the Company’s products. At October 1, 2023, the Company had approximately \$1.2 million in cash and an outstanding payable balance of \$1.0 against its \$3.0 million line of credit. As of October 1, 2023, our outstanding accounts receivable balance was \$3.6 million, which has been collected during the first quarter of fiscal 2024. During the first quarter of 2024, we paid down our credit facility to zero.

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



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

In some instances, new contract awards 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. Currently none of our existing contracts allow for progress payments.

We refer to "Note 7 – Commitments and Contingencies – Rental Payments under Non-cancellable Operating Leases" for a tabular depiction of our remaining minimum lease and estimated CAM payments under such leases as of October 1, 2023, which disclosure is incorporated herein by reference.

The Company expects to generate net income and positive cash flow from operating activities over the next twelve months. To remain profitable, we need to maintain a level of revenue adequate to support our cost structure. Management intends to manage operations commensurate with its level of working capital and line of credit facility during the next twelve months and beyond; however, uneven revenue levels driven by changes in customer delivery demands, first article inspection requirements or other program delays associated with the pandemic could create a working capital shortfall. In the event the Company does not successfully implement its ultimate business plan, certain assets may not be recoverable.

On March 22, 2023, the Company and its subsidiary, Optex Systems, Inc. ("Optex", and with the Company, the "Borrowers"), entered into a Business Loan Agreement (the "Loan Agreement") with Texas Capital Bank (the "Lender"), pursuant to which the Lender will make available to the Borrowers a revolving line of credit in the principal amount of \$3 million (the "Credit Facility"). The commitment period for advances under the Credit Facility is twenty-six months expiring on May 22, 2025. We refer to the expiration of that time period as the "Maturity Date." Outstanding advances under the Credit Facility will accrue interest at a rate equal to the secured overnight financing rate (SOFR) plus a specified margin, subject to a specified floor interest rate. The interest rate is currently at 8.08% per annum. As of October 1, 2023, the interest rate was 8.07% per annum.

The Loan Agreement contains customary events of default (including a 25% change in ownership) and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes (including changes in management), investments, and restricted payments (including cash dividends). The Loan Agreement also requires the Borrowers to maintain a fixed charge coverage ratio of at least 1.25:1 and a total leverage ratio of 3.00:1. The Credit Facility is secured by substantially all of the operating assets of the Borrowers as collateral. The Borrowers' obligations under the Credit Facility are subject to acceleration upon the occurrence of an event of default as defined in the Loan Agreement. The Loan Agreement further provides for a \$125,000 Letter of Credit sublimit. As of October 1, 2023, there was \$1.0 million borrowed under the Credit Facility which was fully repaid during the first three months of fiscal year 2024. As of October 1, 2023, the Company is in compliance with all covenants under the Credit Facility.

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

On September 22, 2021 the Company announced authorization for an additional \$1 million stock repurchase program. As of July 2, 2023, there was an authorized balance of \$560 thousand remaining to be spent against the repurchase program. During the year ended October 1, 2023, there were no stock repurchases against the plan.

During the twelve months ended October 1, 2023 the Company declared and paid no dividends. As of October 1, 2023, there are no outstanding declared and unpaid dividends.

## Critical Accounting Estimates

A critical accounting estimate is an estimate that:

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

Our significant accounting policies are fundamental to understanding our results of operations and financial condition. Some accounting policies require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. These policies are described in Note 2 "Summary of Significant Accounting Policies" of Item 8 "Financial Statements and Supplementary Data" of this report.

Our critical accounting estimates include warranty costs, contract losses and the deferred tax asset valuation. Future warranty costs are based on the estimated cost of replacement for expected returns based upon our most recent experience rate of defects as a percentage of warranty covered sales. Our warranty covered sales primarily include the Applied Optics Center optical assemblies. While our warranty period is 12 months, our reserve balances assume a general 90-day return period for optical assemblies previously delivered plus any returned backlog in-house that has not yet been repaired or replaced to our customer. If our actual warranty returns should significantly exceed our historical rates on new customer products, significant production changes, or substantial customer changes to the 90-day turn-around times on returned goods, the impact could be material to our operating profit. We have not experienced any significant changes to our warranty trends in the preceding three years and do not anticipate any significant impacts in the near term. We monitor the actual warranty costs incurred to the expected values on a quarterly basis and adjust our estimates accordingly. As of October 1, 2023, the Company had accrued warranty costs of \$75 thousand, as compared to \$169 thousand as of October 2, 2022. The primary reason for the \$94 thousand decrease in reserve balances relates to lower customer returns on warrantied product being sold during the twelve months ended October 1, 2023, combined with a decrease in customer returned backlog pending repair or replacement to our customer as compared to the warranty backlog as of October 2, 2022.

As of October 1, 2023 and October 2, 2022, we had \$243 thousand, and \$289 thousand, respectively, of contract loss reserves included in our balance sheet accrued expenses. These loss contracts are related to some of our older legacy periscope IDIQ contracts which were priced in 2018 through early 2020, prior to Covid-19 and the subsequent decline in revenue at the Optex Systems Richardson segment combined with significant inflationary pressures on materials and labor in the last two years. Due to inflationary price increases on component parts and higher internal manufacturing costs (as a result of escalating labor costs and higher burden rates), some of these contracts are in a loss condition, or at marginal profit rates. These contracts are typically three-year IDIQ contracts with two optional award years, and as such, we are obligated to accept new task awards against these contracts until the contract expiration. Should contract costs continue to increase above the negotiated selling price, or in the event the customer should release substantial quantities against these existing loss contracts, the losses could be material. For contracts currently in a loss status based on the estimated per unit contract costs, losses are booked immediately on new task order awards. During the twelve months ended October 1, 2023, the accrued contract losses decreased by \$46 thousand on shipments against the active IDIQ contract backlog combined with improvements in manufacturing overhead rates on higher revenue volume. There is no way to reasonably estimate future inflationary impacts, or customer awards on the existing loss contracts. We continue to monitor these contracts throughout the year for any significant changes in addition to seeking potential cost saving strategies to mitigate risk.

As of October 1, 2023, Optex Systems Inc. had a net carrying value of \$0.9 million in deferred tax assets consisting of deferred tax assets of \$1.7 million and valuation reserves of (\$0.8) million. As of October 2, 2022, Optex Systems Inc. had a net carrying value of \$0.9 million in deferred tax assets consisting of deferred tax assets of \$1.8 million and valuation reserves of (\$0.9) million. The valuation allowance covers certain deferred tax assets where we believe we will be unlikely to recover those tax assets through future operations. The valuation reserve includes assumptions related to future taxable income which would be available to cover net operating loss carryforward amounts. Because of the uncertainties of future income forecasts combined with the complexity of some of the deferred assets, these forecasts are subject to change over time. While we believe our current estimate to be reasonable, changing market conditions and profitability, changes in equity structure and changes in tax regulations may impact our estimated reserves in future periods.

### **Recent Accounting Pronouncements**

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

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

### **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 1, 2023 and October 2, 2022, and the related consolidated statements of income, stockholders’ equity, and cash flows for the twelve months 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 1, 2023 and October 2, 2022, and the results of their operations and their cash flows for the twelve months 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 Matters**

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Whitley Penn LLP

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

Dallas, Texas  
December 18, 2023

**Optex Systems Holdings, Inc.**  
**Consolidated Balance Sheets**

(Thousands, except share and per share data)

	October 1, 2023	October 2, 2022
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,204	\$ 934
Accounts Receivable, Net	3,624	2,908
Inventory, Net	12,153	9,212
Contract Asset	336	-
Prepaid Expenses	219	328
<b>Current Assets</b>	<b>17,536</b>	<b>13,382</b>
<b>Property and Equipment, Net</b>	<b>998</b>	<b>968</b>
<b>Other Assets</b>		
Deferred Tax Asset	922	942
Right-of-use Asset	2,740	3,222
Security Deposits	23	23
<b>Other Assets</b>	<b>3,685</b>	<b>4,187</b>
<b>Total Assets</b>	<b>\$ 22,219</b>	<b>\$ 18,537</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 810	\$ 706
Operating Lease Liability	620	604
Federal Income Taxes Payable	247	331
Accrued Expenses	1,265	958
Accrued Selling Expense	336	-
Accrued Warranty Costs	75	169
Contract Loss Reserves	243	289
Customer Advance Deposits	481	311
<b>Current Liabilities</b>	<b>4,077</b>	<b>3,368</b>
<b>Other Liabilities</b>		
Credit Facility	1,000	-
Operating Lease Liability, net of current portion	2,282	2,761
<b>Other Liabilities</b>	<b>3,282</b>	<b>2,761</b>
<b>Total Liabilities</b>	<b>7,359</b>	<b>6,129</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Common Stock – (\$.001 par, 2,000,000,000 authorized, 6,763,070 and 6,716,638 shares issued and outstanding, respectively)	7	7
Additional Paid in Capital	21,285	21,096
Accumulated Deficit	(6,432)	(8,695)
<b>Stockholders' Equity</b>	<b>14,860</b>	<b>12,408</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 22,219</b>	<b>\$ 18,537</b>

*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 1, 2023	October 2, 2022
<b>Revenue</b>	\$ 25,659	\$ 22,383
Cost of Sales	19,040	17,486
<b>Gross Profit</b>	6,619	4,897
<b>General and Administrative Expense</b>	3,832	3,250
<b>Operating Income</b>	2,787	1,647
Interest Expense	55	-
<b>Income Before Taxes</b>	2,732	1,647
Income Tax Expense, net	469	364
<b>Net income applicable to common shareholders</b>	\$ 2,263	\$ 1,283
<b>Basic income per share</b>	\$ 0.34	\$ 0.16
<b>Weighted Average Common Shares Outstanding - basic</b>	6,616,462	8,128,024
<b>Diluted income per share</b>	\$ 0.34	\$ 0.16
<b>Weighted Average Common Shares Outstanding - diluted</b>	6,653,573	8,219,069

*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 1, 2023	October 2, 2022
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ 2,263	\$ 1,283
<b>Adjustments to Reconcile Net Income to Net Cash provided by (used in) Operating Activities:</b>		
Depreciation	345	307
Stock Compensation Expense	247	162
Change in Deferred Tax Asset	20	346
Accounts Receivable	(716)	254
Bad Debt Expense	-	21
Inventory	(2,941)	(1,629)
Contract Asset	(336)	-
Prepaid Expenses	109	(66)
Leases	20	80
Accounts Payable and Accrued Expenses	411	313
Federal Income Taxes Payable	(84)	331
Accrued Warranty Costs	(94)	91
Accrued Selling Expense	336	-
Customer Advance Deposits	170	311
(Decrease) Increase In Accrued Estimated Loss On Contracts	(46)	238
<b>Total Adjustments</b>	<b>(2,559)</b>	<b>759</b>
<b>Net Cash (used in) provided by Operating Activities</b>	<b>(296)</b>	<b>2,042</b>
<b>Cash Flows used in Investing Activities</b>		
Purchases of Property and Equipment	(376)	(257)
<b>Net Cash used in Investing Activities</b>	<b>(376)</b>	<b>(257)</b>
<b>Cash Flows provided by (used) in Financing Activities</b>		
Cash Paid for Taxes Withheld On Net Settled Restricted Stock Unit Share Issue	(58)	(19)
Borrowings from Credit Facility	1,507	-
Payments to Credit Facility	(507)	-
Common Stock Repurchases	-	(4,732)
<b>Net Cash provided by (used in) Financing Activities</b>	<b>942</b>	<b>(4,751)</b>
Net Increase (Decrease) in Cash and Cash Equivalents	270	(2,966)
Cash and Cash Equivalents at Beginning of Year	934	3,900
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 1,204</b>	<b>\$ 934</b>
<b>Supplemental Cash Flow Information:</b>		
<b>Non Cash Transactions:</b>		
Right-of-Use Asset	\$ -	\$ 51
Operating Lease Liabilities	-	(51)
Treasury stock retired	-	4,801
<b>Cash Transactions:</b>		
Cash Paid for (Refund of) Taxes	534	(312)
Cash Paid for Interest	55	-

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

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

(Thousands, except share data)

	<u>Common Shares Issued</u>	<u>Treasury Shares</u>	<u>Common Stock</u>	<u>Treasury Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders Equity</u>
Balance at October 3, 2021	8,523,704	35,555	\$ 9	\$ (69)	\$ 25,752	\$ (9,978)	\$ 15,714
Stock Compensation Expense	-	-	-	-	162	-	162
Vested restricted stock units issued net of tax withholding	23,216	-	-	-	(19)	-	(19)
Common Stock Repurchase <sup>(1)</sup>	-	190,954	-	(371)	-	-	(371)
Cancellation of Treasury Shares <sup>(1)</sup>	(226,509)	(226,509)	-	440	(440)	-	-
Tender Offer Stock Repurchase and Cancellation <sup>(2)</sup>	(1,603,773)	-	(2)	-	(4,359)	-	(4,361)
Net income	-	-	-	-	-	1,283	1,283
Balance at October 2, 2022	6,716,638	-	\$ 7	\$ -	\$ 21,096	\$ (8,695)	\$ 12,408
Stock Compensation Expense	-	-	-	-	247	-	247
Vested restricted stock units issued net of tax withholding	46,432	-	-	-	(58)	-	(58)
Restricted Shares Issued <sup>(4)</sup>	40,000	-	-	-	-	-	-
Forfeited Unvested Shares <sup>(3)</sup>	(40,000)	-	-	-	-	-	-
Net income	-	-	-	-	-	2,263	2,263
Balance at October 1, 2023	6,763,070	-	\$ 7	\$ -	\$ 21,285	\$ (6,432)	\$ 14,860

(1) Common shares repurchased in the open market during the twelve months ended October 2, 2022. Shares were held in treasury using the cost method. As of October 1, 2023, all of the treasury shares have been cancelled.

(2) Common shares repurchased pursuant to the tender offer that closed on September 15, 2022. Total tendered shares of 1,603,773 at \$2.65, or \$4.25 million, plus transaction costs of \$111 thousand. Repurchased shares were immediately cancelled.

(3) Unvested common restricted shares which were forfeited and cancelled in February 2023.

(4) Restricted and unvested shares issued to board member on May 9, 2023. Shares vest on 50% January 1, 2024 and 50% January 1, 2025.

*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 1, 2023, the Company operated with 106 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 2023 ended on October 1, 2023 and included 52 weeks. Fiscal year 2022 ended on October 2, 2022 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.

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.



**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 \$1.2 million in cash on deposit with our banks. Only a portion of the cash, currently \$381 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 1, 2023 are derived from sales to U.S. government agencies (22%), three U.S. defense contractors (14%, 7%, and 6%), one major commercial customer (23%) and all other customers (28%). The Company's revenues for fiscal year ended October 2, 2022 are derived from sales to U.S. government agencies (14%), three major U.S. defense contractors (22%, 15% and 7%), one major commercial customer (22%) and all other customers (20%). 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 1, 2023, and October 2, 2022, 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 in which they are first deemed uncollectible. In the fiscal year 2023 we recognized zero in bad debt expenses associated with uncollectible accounts. In the fiscal year 2022 we recognized \$21 thousand in bad debt expenses associated with uncollectible accounts. Accounts receivable was \$3,183 as of October 3, 2021.

As of October 1, 2023, 79% of the accounts receivable balance was comprised of six customers: the U.S. government, 17%, four major defense contractors, 21%, 9%, 8% and 6%, and a commercial customer, 18%. As of October 2, 2022, 89% of the accounts receivable balance was comprised of eight customers: the U.S. government, 10%, five major defense contractors, 14%, 12%, 9%, 8% and 7%, a commercial customer, 19%, and a foreign military customer, 10%.

**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 1, 2023, and October 2, 2022 inventory included:

	(Thousands)	
	As of October 1, 2023	As of October 2, 2022
Raw Materials	\$ 8,211	\$ 6,953
Work in Process	4,460	2,722
Finished Goods	489	348
<b>Gross Inventory</b>	<b>13,160</b>	<b>10,023</b>
Less: Inventory Reserves	(1,007)	(811)
<b>Net Inventory</b>	<b>\$ 12,153</b>	<b>\$ 9,212</b>

In the twelve months ended October 1, 2023 Optex Systems recorded \$196 thousand of obsolete and excess inventory reserves. Net Inventory increased by \$2.9 million in support of increased customer backlog and higher revenue.

**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 with 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 1, 2023 and October 2, 2022, the existing warranty reserve balances of \$75 thousand and \$169 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 1, 2023 and October 2, 2022.

	Years ended	
	2023	2022
Beginning balance	\$ 169	\$ 78
Incurred costs for warranties satisfied during the period	(133)	(4)
<i>Warranty Expenses:</i>		
Warranties reserved for new product shipped during the period <sup>(1)</sup>	223	198
Change in estimate for pre-existing warranty liabilities <sup>(2)</sup>	(184)	(103)
Warranty Expense	39	95
<b>Ending balance</b>	<b>\$ 75</b>	<b>\$ 169</b>

(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. During the twelve months ended October 1, 2023, the warranty return rate was significantly below historical levels resulting in a favorable change in estimate during the period.*

**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.

On January 11, 2021, the Company executed amendments extending the lease terms of both facilities for eighty-six months. As of the twelve months ended October 2, 2022, the Company has recognized \$51 thousand in right-of-use-asset and corresponding operating lease liabilities of \$51 thousand for an office equipment lease expiring in December 2025. 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 \$455 thousand for the twelve months ended October 1, 2023 and \$464 thousand for the twelve months ended October 2, 2022.

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 1, 2023 there was \$242 thousand of revenue recognized from customer deposit liabilities (deferred contract revenue). During the twelve months ended October 2, 2022, there was zero revenue recognized during the period from customer deposit liabilities (deferred contract revenue). As of October 1, 2023, there was \$336 thousand in accrued selling expenses and \$336 thousand in contract assets related to a new \$3.4 million contract booked in November 2022. The costs will be amortized against the revenue for the contract deliveries expected to begin in the first half of fiscal year 2024 and extend through fiscal year 2025. As of October 2, 2022, there was no significant contract assets or selling expenses.

**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 1, 2023 and October 2, 2022, Optex Systems, Inc. had a balance of \$481 thousand and \$311 thousand, respectively, in customer advance deposits. Customer advance deposits were zero as of October 3, 2021.

**Contract Loss Reserves:** The Company records loss provisions in the event that the current estimated total revenue against a contract and the total estimated cost remaining to fulfill the contract indicate a loss upon completion. When the estimated costs indicate a loss, we record the entire value of the loss against the contract loss reserve in the period the determination is made. The Company has several long-term fixed price contracts that are currently indicative of a loss condition due to recent inflationary pressures on material and labor, combined with increased manufacturing overhead costs. As of October 1, 2023, the Company had contract loss reserves of \$243 thousand which have been separately itemized on the balance sheet. As of October 2, 2022, the Company had contract loss reserves of \$289 thousand.

**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 1, 2023, Optex Systems Inc. has a net carrying value of \$0.9 million in deferred tax assets represented by deferred tax assets of \$1.7 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 1, 2023 and October 2, 2022, 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. During the twelve months ended October 1, 2023, the Company recognized an income tax expense of \$0.5 million. During the twelve months ended October 2, 2022, the Company recovered \$0.3 million in cash for a tax refund related to a net operating loss carryback from the prior year ended October 1, 2022, and recognized an income tax expense of \$0.4 million. 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 restricted shares, restricted stock units and performance-based shares. Optex Systems Holdings uses the Treasury Stock Method to compute the dilutive effect of these securities. Securities that are anti-dilutive are excluded from the calculation of diluted earnings per common share.

For the twelve months ended October 1, 2023, 39,000 unvested restricted stock units, 120,000 restricted unvested shares and 27,000 performance shares (which converts to 37,111 incremental dilutive shares) were included in the diluted earnings per share calculation as dilutive and 108,000 performance shares were excluded from diluted earnings per share as they were below the target share price. For the twelve months ended October 2, 2022, 66,000 unvested restricted stock units and 180,000 unvested restricted shares (which converts to 91,045 incremental dilutive shares) were included in the diluted earnings per share calculation as dilutive.

### **Note 3 — Recent Accounting Pronouncements**

There are no significant recent accounting pronouncements that affect the Company.

### **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. For both segments, the chief operating decision maker is Danny Schoening, CEO.

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 86% of the Optex Systems segment revenue is comprised of domestic military customers, and 11% is comprised of foreign military customers and 3% is comprised of commercial customers. Optex Systems segment revenue is derived from the U.S. government, 19%, and two major U.S. defense contractors representing 14% and 6%, 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 1, 2023, the Richardson facility operated with 59 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 46% and military sales to prime and subcontracted customers represent 54% of the total segment revenue. Approximately 94% of the AOC revenue is derived from external customers and approximately 6% is related to intersegment sales to Optex Systems in support of military contracts. For the twelve months ended October 1, 2023, the AOC segment revenue from one major commercial customer, and one major defense contractor represent approximately 23% and 7% 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 1, 2023, AOC operated with 47 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.

	<b>Reportable Segment Financial Information</b>			
	<b>(thousands)</b>			
	<b>Twelve months ended October 1, 2023</b>			
	<b>Optex Systems Richardson</b>	<b>Applied Optics Center Dallas</b>	<b>Other (non-allocated costs and intersegment eliminations)</b>	<b>Consolidated Total</b>
Revenues from external customers	\$ 12,120	\$ 13,539	\$ -	\$ 25,659
Intersegment revenues	-	893	(893)	-
<b>Total Revenue</b>	<b>\$ 12,120</b>	<b>\$ 14,432</b>	<b>\$ (893)</b>	<b>\$ 25,659</b>
Interest expense	\$ -	\$ -	\$ 55	\$ 55
Depreciation and Amortization	\$ 39	\$ 306	\$ -	\$ 345
Income (loss) before taxes	\$ 608	\$ 2,426	\$ (302)	\$ 2,732
<b>Other significant noncash items:</b>				
Allocated home office expense	\$ (1,338)	\$ 1,338	\$ -	\$ -
Stock compensation expense	\$ -	\$ -	\$ 247	\$ 247
Warranty expense	\$ -	\$ 39	\$ -	\$ 39
Segment Assets	\$ 14,043	\$ 8,176	\$ -	\$ 22,219
Expenditures for segment assets	\$ 33	\$ 343	\$ -	\$ 376

**Reportable Segment Financial Information**  
(thousands)

Twelve months ended October 2, 2022

	<b>Optex Systems Richardson</b>	<b>Applied Optics Center Dallas</b>	<b>Other (non-allocated costs and intersegment eliminations)</b>	<b>Consolidated Total</b>
Revenues from external customers	\$ 9,533	\$ 12,850	\$ -	\$ 22,383
Intersegment revenues	-	879	(879)	-
<b>Total Revenue</b>	<b>\$ 9,533</b>	<b>\$ 13,729</b>	<b>\$ (879)</b>	<b>\$ 22,383</b>
Interest expense	\$ -	\$ -	\$ -	\$ -
Depreciation and Amortization	\$ 38	\$ 269	\$ -	\$ 307
Income (loss) before taxes	\$ (380)	\$ 2,189	\$ (162)	\$ 1,647
Other significant noncash items:				
Allocated home office expense	\$ (1,141)	\$ 1,141	\$ -	\$ -
Stock compensation expense	\$ -	\$ -	\$ 162	\$ 162
Warranty expense	\$ -	\$ 95	\$ -	\$ 95
Segment Assets	\$ 11,286	\$ 7,251	\$ -	\$ 18,537
Expenditures for segment assets	\$ 64	\$ 193	\$ -	\$ 257

**Note 5 — Property and Equipment**

A summary of property and equipment at October 1, 2023 and October 2, 2022 is as follows:

		(Thousands)	
	Estimated Useful Life	October 1, 2023	October 2, 2022
<b>Property and Equipment</b>			
Furniture and Fixtures	3-5 yrs	\$ 428	\$ 405
Machinery and Equipment	5 yrs	4,531	4,231
Leasehold Improvements	7 yrs	404	351
Less: Accumulated Depreciation		(4,365)	(4,019)
<b>Net Property &amp; Equipment</b>		<b>\$ 998</b>	<b>\$ 968</b>
<b>Depreciation Expense</b>		<b>\$ 345</b>	<b>\$ 307</b>

During the twelve months ended October 1, 2023, Optex Systems Holdings' purchased \$23 thousand in new furniture and fixtures, \$300 thousand in machinery and equipment and \$53 thousand in leasehold improvements. During the twelve months ended October 1, 2023, there were no sales or retirements of fixed assets. During the twelve months ended October 2, 2022, Optex Systems Holdings' purchased \$6 thousand in new furniture and fixtures, \$196 thousand in machinery and equipment and \$55 thousand in leasehold improvements. During the twelve months ended October 2, 2022, there were no sales or retirements of fixed assets.

**Note 6 — Accrued Expenses**

The components of accrued liabilities as of October 1, 2023 and October 2, 2022 are summarized below:

	(Thousands)	
	October 1, 2023	October 2, 2022
Accrued Vacation	403	402
Property Taxes	108	115
Operating Expenses	484	213
Payroll & Payroll Related	270	228
Total Accrued Expenses	<u>\$ 1,265</u>	<u>\$ 958</u>

**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 \$12 thousand for additional Common Area Maintenance fees and taxes (“CAM”), to be adjusted annually based on actual expenses incurred by the landlord.

The leased facility under the Applied Optics Center located at 9839 and 9827 Chartwell Drive, Dallas, Texas, consists of 44,867 square feet of space at the premises. The previous lease term for this location expired on October 31, 2021 and the monthly base rent was \$21.9 thousand through the end of the lease. On January 11, 2021 the Company executed a first amendment extending the terms of the lease for eighty-six (86) months, commencing on November 1, 2021 and ending on December 31, 2028. The initial base rent is set at \$23.6 thousand as of January 1, 2022 and escalates 2.75% on January 1 each year thereafter. The initial term includes 2 months of rent abatement for November and December of 2021. The amendment provides for a five-year renewal option at the end of the lease term at the greater of the then “prevailing rental rate” or the then current base rental rate. Our obligations to make payments under the lease are secured by a \$125,000 standby letter of credit. The monthly rent includes approximately \$9 thousand for additional CAM, to be adjusted annually based on actual expenses incurred by the landlord.

The Company had one non-cancellable office equipment lease with a commencement date of October 1, 2018 and a term of 39 months. The lease cost for the equipment was \$1.5 thousand per month from October 1, 2018 through December 31, 2021. The lease was renewed on November 18, 2021 for an additional 48 months at a cost of \$1.2 thousand per month. The start of the lease was delayed until April 2022 due to temporary equipment shortages. The lease renewal resulted in the recognition of an additional right of use asset and a lease liability of \$51 thousand during the twelve months ended October 2, 2022.



As of October 1, 2023, 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:

<b>Non-cancellable Operating Leases Minimum Payments</b>						
<b>(Thousands)</b>						
<b>Fiscal Year</b>	<b>Optex Richardson</b>	<b>Applied Optics Center</b>	<b>Office Equipment</b>	<b>Consolidated</b>		
	<b>Facility Lease Payments</b>	<b>Facility Lease Payments</b>	<b>Lease Payments</b>	<b>Total Lease Payments</b>	<b>Total Variable CAM Estimate</b>	
2024 Base year lease	\$ 327	\$ 296	\$ 15	\$ 638	\$ 256	
2025 Base year lease	336	305	15	656	261	
2026 Base year lease	346	313	3	662	266	
2027 Base year lease	357	322	-	679	272	
2028 Base year lease	242	330	-	572	198	
2029 Base year lease	-	83	-	83	30	
<b>Total base lease payments</b>	<b>\$ 1,608</b>	<b>\$ 1,649</b>	<b>\$ 33</b>	<b>\$ 3,290</b>	<b>\$ 1,283</b>	
Imputed interest on lease payments (1)	(180)	(206)	(2)	(388)		
<b>Total Operating Lease Liability<sup>(2)</sup></b>	<b>\$ 1,428</b>	<b>\$ 1,443</b>	<b>\$ 31</b>	<b>\$ 2,902</b>		
<b>Right-of-use Asset<sup>(3)</sup></b>	<b>\$ 1,340</b>	<b>\$ 1,369</b>	<b>\$ 31</b>	<b>\$ 2,740</b>		

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

(2) Includes \$162 thousand of unamortized deferred rent.

(3) Short-term and Long-term portion of Operating Lease Liability is \$620 thousand and \$2,282 thousand, respectively.

Total expense under both facility lease agreements for the twelve months ended October 1, 2023 was \$862 thousand. Total expense under both facility lease agreements as of the twelve months ended October 2, 2022 was \$849 thousand.

Total office equipment rentals included in operating expenses was \$20 thousand for the twelve months ended October 1, 2023 and \$22 thousand for the twelve months ended October 2, 2022.

## Note 8 — Debt Financing

### Credit Facility — PNC Bank (formerly BBVA, USA)

On April 16, 2020, Optex Systems Holdings, Inc. and its subsidiary, Optex Systems, Inc. (collectively, the “Borrowers”) entered into a line of credit facility (the “PNC 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 were as follows:

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

On April 12, 2022, the Borrowers entered into an Amended and Restated Loan Agreement (the “PNC Loan Agreement”) with PNC, pursuant to which the Borrowers’ existing revolving line of credit facility was decreased from \$2.25 million to \$1.125 million, and the maturity date was extended from April 15, 2022 to April 15, 2023. The PNC Loan Agreement required the Borrowers to maintain a fixed charge coverage ratio of at least 1.25:1.

On November 21, 2022, the Borrowers issued an Amended and Restated Revolving Line of Credit Note (the “Line of Credit Note”) to PNC in connection with an increase of the Borrowers’ revolving line of credit facility under the Loan Agreement from \$1.125 million to \$2.0 million. The maturity date remained April 15, 2023. Obligations outstanding under the credit facility accrued interest at a rate equal to the Lender’s prime rate minus 0.25%.

The Line of Credit Note and PNC Loan Agreement contained customary events of default and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes, investments, and restricted payments. The PNC Facility was secured by substantially all of the operating assets of the Borrowers as collateral. The Borrowers’ obligations under the credit facility were subject to acceleration upon the occurrence of an event of default as defined in the Line of Credit Note and PNC Loan Agreement.

As of October 2, 2022 and October 1, 2023 the outstanding balance under the PNC Facility was zero. The PNC Facility was replaced by the Texas Capital Facility on March 22, 2023.

#### **Credit Facility — Texas Capital Bank**

On March 22, 2023, the Borrowers entered into a Business Loan Agreement (the “Loan Agreement”) with Texas Capital Bank (the “Lender”), pursuant to which the Lender will make available to the Borrowers a revolving line of credit in the principal amount of \$3 million (the “Texas Capital Facility”). The Texas Capital Facility replaced the \$2 million PNC Facility.

The commitment period for advances under the Texas Capital Facility is twenty-six months expiring on May 22, 2025. We refer to the expiration of that time period as the “Maturity Date.” Outstanding advances under the Texas Capital Facility will accrue interest at a rate equal to the secured overnight financing rate (SOFR) plus a specified margin, subject to a specified floor interest rate. As of October 1, 2023 the interest rate was 8.07% per annum.

The Loan Agreement contains customary events of default (including a 25% change in ownership) and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes (including changes in management), investments, and restricted payments (including cash dividends). The Loan Agreement also requires the Borrowers to maintain a fixed charge coverage ratio of at least 1.25:1 and a total leverage ratio of 3.00:1. The Texas Capital Facility is secured by substantially all of the operating assets of the Borrowers as collateral. The Borrowers’ obligations under the Texas Capital Facility are subject to acceleration upon the occurrence of an event of default as defined in the Loan Agreement. The Loan Agreement further provides for a \$125,000 Letter of Credit sublimit.

The outstanding balance under the Texas Capital Facility was \$1.0 million as of October 1, 2023.

For the year ended October 1, 2023, the total interest expense under the above facilities was \$55 thousand. For the year ended October 2, 2022, the total interest expense under the PNC Facility was zero.

## Note 9 — Stock Based Compensation

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

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

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Restricted Shares	Weighted Average Grant Date Fair Value	Performance Shares	Weighted Average Grant Date Fair Value
<b>Outstanding at October 3, 2021</b>	<b>99,000</b>	<b>\$ 1.59</b>	<b>240,000</b>	<b>\$ 1.75</b>	—	—
Granted	—	—	—	—	—	—
Vested	(33,000)	1.73	(60,000)	1.75	—	—
Forfeited	—	—	—	—	—	—
<b>Outstanding at October 2, 2022</b>	<b>66,000</b>	<b>\$ 1.52</b>	<b>180,000</b>	<b>\$ 1.75</b>	—	—
Granted	42,000	3.05	40,000	3.09	135,000	2.37
Vested	(66,000)	1.52	(60,000)	1.75	—	—
Forfeited	(3,000)	3.00	(40,000)	1.75	—	—
<b>Outstanding at October 1, 2023</b>	<b>39,000</b>	<b>\$ 3.06</b>	<b>120,000</b>	<b>\$ 2.20</b>	<b>135,000</b>	<b>\$ 2.37</b>

On January 2, 2019, the Company granted 150,000 and 50,000 restricted stock units with a January 2, 2019 grant date to Danny Schoening and Karen Hawkins, respectively, vesting as of January 1 each year subsequent to the grant date over a three-year period at a rate of 34% in year one, and 33% each year thereafter. The stock price at grant date was \$1.32 per share. Effective December 1, 2021, the vesting terms of Danny Schoening's Restricted Stock Unit (RSU) grant from January 2019 were revised as described below. The Company amortizes the grant date fair value of \$264 thousand to stock compensation expense on a straight-line basis across the three-year vesting period beginning on January 2, 2019. As of October 1, 2023, there was no unrecognized compensation cost relating to this award.

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 amortized the grant date fair value of \$107 thousand to stock compensation expense on a straight-line basis across the three-year vesting period beginning on February 17, 2020.

On April 30, 2020, the 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 shares of restricted stock to each independent director which vest at a rate of 20% per year (20,000 shares) each January 1<sup>st</sup> through January 1, 2025. The total fair value for the 300,000 shares was \$525 thousand based on the stock price of \$1.75 as of April 30, 2020. On each of January 1, 2021, January 1, 2022, and January 1, 2023, 60,000 of the restricted director shares vested. On February 16, 2023, 40,000 of the unvested restricted shares were forfeited and cancelled when one of the independent directors departed the Board. On May 9, 2023, the Board of Directors approved a grant of 40,000 shares of restricted stock to independent board member Dayton Judd. The shares vest 50% on each of January 1, 2024 and January 1, 2025. As of the grant date, the fair value of the shares was \$124 thousand, to be amortized on a straight-line basis through December 31, 2024. The Company amortizes the grant date fair value to stock compensation expense on a straight-line basis across the five-year and two-year vesting periods beginning on April 30, 2020 and May 9, 2023, respectively. As of October 1, 2023, there were 120,000 unvested restricted shares outstanding.

The Company entered into an amended and restated employment agreement with Danny Schoening dated December 1, 2021. The updated employment agreement also served to amend Mr. Schoening's RSU Agreement, dated January 2, 2019, by changing the third and final vesting date for the restricted stock units granted under such agreement from January 1, 2022 to the "change of control date," that being the first of the following to occur with respect to the Company: (i) any "Person," as that term is defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with certain exclusions, is or becomes the "Beneficial Owner" (as that term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; or (ii) the Company is merged or consolidated with any other corporation or other entity, other than: (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (B) the Company engages in a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "Person" (as defined above) acquires fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities. The amended RSU Agreement contains certain exceptions to the definition of change of control.

As of the December 1, 2021 modification date related to the third and final vesting date of the 49,500 unvested restricted stock units held by Danny Schoening, there was no change in the fair value of the modified award as compared to the original award immediately prior to the modification date. The restricted stock units initially were certain to vest on January 1, 2022, but due to the modification, they were less certain to vest, contingent on a "change in control" occurring, which change in control, in case Mr. Schoening was terminated by the Company without cause or he resigns with good reason prior to such change in control, was required to occur prior to March 13, 2023. As of the modification date, there was \$5 thousand of unrecognized compensation cost associated with the original award. As a matter of expediency, the unrecognized compensation expense as of the modification date was fully expensed through January 1, 2022. There is no additional compensation expense associated with the modification of the restricted stock unit agreement.

On January 4, 2022, the Company issued 23,216 common shares to Karen Hawkins, CFO, and Bill Bates (AOC GM), net of tax withholding of \$19 thousand, in settlement of 33,000 restricted stock units which vested on January 1, 2022.

On November 28, 2022, the Company entered into a new employment agreement with Danny Schoening which amended Mr. Schoening's RSU Agreement, dated January 2, 2019, which had been previously amended as of December 1, 2021, by changing the third and final vesting date for the restricted stock units granted under such agreement from the "change of control date" to January 1, 2023.

On January 4, 2023, the Company issued 46,432 common shares to Danny Schoening, CEO, and Bill Bates (AOC GM), net of tax withholding of \$58 thousand, in settlement of 66,000 restricted stock units which vested on January 1, 2023.

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

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

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

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

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

(1) Based on the terms of the Performance Shares agreement issued by the Company on May 3, 2023.

(2) Closing price of OPXS shares on the Valuation Date, as obtained via S&P Capital IQ.

(3) Expected dividends provided by management.

(4) Based on historical volatility of OPXS and comparable public companies.

(5) Interest rate for US Treasury commensurate with the Performance Shares holding period, as of the Valuation Date, as obtained via S&P Capital IQ.

(6) Estimated cost of equity for OPXS as of the Valuation Date.

(7) Based on Monte Carlo simulation.

#### Stock Based Compensation Expense

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

	<b>Recognized Compensation</b>		<b>Unrecognized Compensation Expense</b>	
	<b>Expense</b>		<b>Year Ended</b>	
	<b>Year Ended</b>	<b>Year Ended</b>	<b>Year Ended</b>	<b>Year Ended</b>
	<b>October 1, 2023</b>	<b>October 2, 2022</b>	<b>October 1, 2023</b>	<b>October 2, 2022</b>
Restricted Shares	\$ 118	\$ 105	173	\$ 236
Performance Shares	107	-	212	-
Restricted Stock Units	22	57	77	9
<b>Total Stock Compensation</b>	<b>\$ 247</b>	<b>\$ 162</b>	<b>462</b>	<b>\$ 245</b>

The unrecognized compensation expense for restricted shares, performance shares and restricted stock units as of October 1, 2023, is expected to be recognized over a weighted-average period of 1.3 years, 2.3 years and 1.6 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 1, 2023 and October 2, 2022, 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 1, 2023 and October 2, 2022 were \$163 thousand and \$155 thousand, respectively.

## Note 11 — Stockholders' Equity

### Dividends

There were no dividends declared or paid during the twelve months ended October 1, 2023 and October 2, 2022.

### Common stock

During the twelve months ended October 1, 2023, there were 46,432 common shares issued to officers, net of tax withholding of \$58 thousand, in settlement of 66,000 restricted stock units which vested on January 1, 2023.

During the twelve months ended October 2, 2022, there were 23,216 common shares issued to officers, net of tax withholding of \$19 thousand, in settlement of 33,000 restricted stock units which vested on January 1, 2022.

During the twelve months ended October 1, 2023, there were 40,000 unvested restricted shares cancelled on the departure of a board member and 40,000 unvested restricted shares granted to a newly elected board member.

On September 22, 2021 the Company announced authorization for a \$1 million stock repurchase program. The shares authorized to be repurchased under the repurchase program may be purchased from time to time at prevailing market prices, through open market 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 1, 2023, there were no common shares repurchased through the program. During the twelve months ended October 2, 2022, there were 190,954 common shares repurchased through the program at a cost of \$371 thousand. As of October 1, 2023, all of the repurchased shares had been cancelled. 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
October 4, 2021 through October 31, 2021	18,265	\$ 37	\$ 2.01	\$ 894
November 1, 2021 through November 28, 2021	4,415	9	2.04	885
November 29, 2021 through January 2, 2022	14,558	28	1.93	857
January 3, 2022 through January 30, 2022	15,585	29	1.89	828
January 31, 2022 through February 27, 2022	27,618	49	1.75	779
February 28, 2022 through April 3, 2022	35,530	70	1.98	709
April 4, 2022 through May 1, 2022	12,304	27	2.22	682
May 2, 2022 through May 29, 2022	10,482	22	2.11	660
May 30, 2022 through July 3, 2022	49,657	95	1.90	565
July 4, 2022 through July 25, 2022	610	1	2.10	564
July 26, 2022 through August 13, 2022	1,930	4	2.09	560
<b>Total shares repurchased for twelve months ended October 2, 2022</b>	<b>190,954</b>	<b>\$ 371</b>	<b>\$ 1.94</b>	<b>\$ 560</b>

Furthermore, on August 18, 2022, the Company announced the commencement of a tender offer to purchase up to \$4.25 million in value of shares of its common stock. On September 15, 2022, the Company's "modified Dutch auction" tender offer expired. In accordance with the terms and conditions of the tender offer, the Company accepted for purchase 1,603,773 shares of common stock at a price of \$2.65 per share, for an aggregate cost of approximately \$4.25 million, excluding fees and expenses relating to the tender offer. The transaction cost associated with the tender offer was \$111 thousand. The shares were immediately cancelled upon completion of the transaction.

As of October 1, 2023, and October 2, 2022, the total outstanding common shares were 6,763,070 and 6,716,638, respectively.

#### Note 12 — Income Taxes

The income tax provision for the years ended October 1, 2023 and October 2, 2022 include the following:

	(Thousands)	
	2023	2022
Current income tax expense:		
Current year federal income tax	\$ 484	\$ 331
Prior year tax adjustment	(35)	-
	<u>449</u>	<u>331</u>
Deferred income tax provision:		
Federal	20	33
	<u>20</u>	<u>33</u>
Provision for income taxes, net	<u>\$ 469</u>	<u>\$ 364</u>

As of October 1, 2023, Optex Systems Inc. has a net carrying value of \$0.9 million in deferred tax assets represented by deferred tax assets of \$1.7 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 1, 2023 and October 2, 2022, 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. During the twelve months ended October 1, 2023, the Company recognized \$20 thousand in tax expenses to deferred tax assets. During the twelve months ended October 2, 2022, the Company recognized \$33 thousand in tax expenses to 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 1, 2023 and October 2, 2022 differs from those computed using the statutory federal tax rate in the respective years due to the following permanent differences:

	2023	%	2022	%
Tax provision at statutory federal rate	\$ 574	21	\$ 346	21
Nondeductible expenses	3	-	1	-
Other temporary adjustments	(4)	-	(17)	(1)
Prior year federal income tax adjustment	(35)	(1)	-	-
Change in deferred tax valuation allowance	(69)	(3)	34	2
Provision for income taxes, net	<u>\$ 469</u>	<u>17</u>	<u>\$ 364</u>	<u>22</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)	
	Deferred Tax Asset	
	As of October 1, 2023	As of October 2, 2022
Stock Compensation	\$ 151	\$ 76
Inventory Reserve	211	170
Unicap	47	34
Deferred Compensation	53	29
Property and Equipment	(212)	(219)
Goodwill Amortization	-	100
Intangible Asset Amortization	-	57
Contract Loss Reserve	51	61
Accrued Paid Time Off	85	85
Net Operating Losses	1,258	1,327
Other	52	65
Subtotal	\$ 1,696	\$ 1,785
Valuation allowance	(774)	(843)
Net deferred asset	<u>\$ 922</u>	<u>\$ 942</u>

The Company has a net loss carryforward of \$6.0 million as of October 1, 2023 as compared to a net loss carryforward of \$6.3 million as of October 2, 2022. 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 \$2.3 million of the current net operating loss carryforward for a net tax benefit of \$0.5 million through fiscal year ending in 2037. During the twelve months ended October 1, 2023, the Company recovered \$0.3 million in cash for a tax refund related to the net operating loss carryback from the October 3, 2021 year end.

The Company applied FASB ASC 740-10 and has no unrecognized tax benefits. By statute, the tax years ended October 1, 2023, October 2, 2022 and October 3, 2021 are open to examination by the major taxing jurisdictions to which the Company is subject.

During the twelve months ended October 1, 2023 the Company paid \$534 thousand in income taxes. During the twelve months ended October 2, 2022 the Company paid zero in income taxes, received a tax refund of \$312 thousand for fiscal year 2021 operating loss carrybacks, and recorded a current year federal income tax liability of \$331 thousand which was paid during the twelve months ended October 1, 2023. As of October 1, 2023 the Company has recorded a tax liability of \$247 thousand.

#### Note 13 — Subsequent Events

On October 2, 2023, 27,000 performance shares vested with an average 30-day VWAP of \$4.15 which exceeded the \$3.70 benchmark for Tranche 1. On October 24, 2023 the Company issued 21,060 shares, net of tax withheld of \$24 thousand.



**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 1, 2023, 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 1, 2023, our disclosure controls and procedures were effective.

*Changes in Internal Control Over Financial Reporting*

During the quarter ended October 1, 2023, 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 1, 2023. 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 1, 2023. We have thus concluded that our internal control over financial reporting was effective as of October 1, 2023.

**Item 9B. Other Information**

*None.*

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 will be included in the Proxy Statement or in an amendment to this Annual Report on Form 10-K and is incorporated herein by reference.

### Item 11. Executive Compensation

The information required by this Item 11 will be included in the Proxy Statement or in an amendment to this Annual Report on Form 10-K and is incorporated herein by reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 will be included in the Proxy Statement or in an amendment to this Annual Report on Form 10-K and is incorporated herein by reference.

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

The information required by this Item 13 will be included in the Proxy Statement or in an amendment to this Annual Report on Form 10-K and is incorporated herein by reference.

### Item 14. Principal Accountant Fees and Services

The information required by this Item 14 will be included in the Proxy Statement or in an amendment to this Annual Report on Form 10-K and is incorporated herein by reference.

### 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](#) (PCAOB ID 726)  
[Consolidated Statements of Income for the years ended October 1, 2023 and October 2, 2022](#)  
[Consolidated Balance Sheets as of October 1, 2023 and October 2, 2022](#)  
[Consolidated Statement of Stockholders' Equity for the years ended October 1, 2023 and October 2, 2022](#)  
[Consolidated Statements of Cash Flows for the years ended October 1, 2023 and October 2, 2022](#)  
[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**

<b>Exhibit No.</b>	<b>Description</b>
3.1	<a href="#"><u>Certificate of Incorporation, as amended to date<sup>(1)</sup></u></a>
3.2	<a href="#"><u>Bylaws of Optex Systems Holdings<sup>(2)</sup></u></a>
3.3	<a href="#"><u>Charters of the Audit Committee, Compensation Committee and Nominating Committee<sup>(3)</sup></u></a>
4.1	<a href="#"><u>Description of Capital Stock<sup>(4)</sup></u></a>
4.2	<a href="#"><u>Specimen Stock Certificate<sup>(5)</sup></u></a>
10.1	<a href="#"><u>Lease for 1420 Presidential Blvd., Richardson, TX<sup>(6)</sup></u></a>
10.2	<a href="#"><u>Third Amendment to Lease, between Aquiport DFWIP and Optex Systems, Inc., dated January 7, 2010<sup>(7)</sup></u></a>
10.3†	<a href="#"><u>Employment Agreement with Karen Hawkins, dated as of August 1, 2016<sup>(8)</sup></u></a>
10.4	<a href="#"><u>Form of Lease<sup>(9)</sup></u></a>
10.5	<a href="#"><u>Form of Letter of Credit<sup>(10)</sup></u></a>
10.6	<a href="#"><u>Form of Award/Contract between the Company and US DLA, dated July 3, 2017<sup>(11)</sup></u></a>
10.7†	<a href="#"><u>Employment Agreement with Danny Schoening, dated November 28, 2022<sup>(12)</sup></u></a>
10.8	<a href="#"><u>Sixth Amendment to Lease Agreement<sup>(13)</sup></u></a>
10.9	<a href="#"><u>First Amendment to Lease<sup>(13)</sup></u></a>
10.10†	<a href="#"><u>Optex Systems Holdings, Inc. 2023 Equity Incentive Plan <sup>(14)</sup></u></a>
10.11†	<a href="#"><u>Form of Performance Shares Agreement (Executives)</u></a>
10.12†	<a href="#"><u>Form of Restricted Stock Agreement</u></a>
10.13.1†	<a href="#"><u>Form of Incentive Stock Option Agreement</u></a>
10.13.2†	<a href="#"><u>Form of Non-Qualified Stock Option Agreement</u></a>
10.14†	<a href="#"><u>Form of Stock Appreciation Rights Agreement</u></a>
10.15†	<a href="#"><u>Form of Restricted Stock Unit Agreement</u></a>
10.16	<a href="#"><u>Business Loan Agreement dated as of March 22, 2023 by and between Optex Sytems Holdings, Inc., Optex Systems, Inc., and Texas Capital Bank (including Note)<sup>(15)</sup></u></a>
14.1	<a href="#"><u>Code of Ethics<sup>(16)</sup></u></a>
21.1	<a href="#"><u>List of Subsidiaries — Optex Systems, Inc.<sup>(17)</sup></u></a>
23.1	<a href="#"><u>Consent of Independent Registered Public Accounting Firm – Whitley Penn</u></a>
31.1	<a href="#"><u>Certifications pursuant to Section 302 of Sarbanes Oxley Act of 2002</u></a>

31.2	<a href="#">Certifications pursuant to Section 302 of Sarbanes Oxley Act of 2002</a>
32.1	<a href="#">Certifications pursuant to Section 906 of Sarbanes Oxley Act of 2002</a>
32.2	<a href="#">Certifications pursuant to Section 906 of Sarbanes Oxley Act of 2002</a>
97.1	<a href="#">Clawback Policy</a>
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 Annual Report on Form 10-K for the year ended October 3, 2021.
- (2) Incorporated by reference from our Current Report on Form 8-K dated April 3, 2009.
- (3) Incorporated by reference from our Amendment No. 1 to Registration Statement on Form S-1 filed on July 23, 2015.
- (4) Incorporated by reference from our Annual Report on Form 10-K for the year ended October 3, 2021.
- (5) Incorporated by reference from our Registration Statement on Form S-1 filed on May 19, 2009.
- (6) Incorporated by reference from our Current Report on Form 8-K dated April 3, 2009.
- (7) Incorporated by reference from our Amendment No. 4 to Registration Statement on Form S-1 filed on June 14, 2010.
- (8) Incorporated by reference from our Current Report on Form 8-K, filed on August 10, 2016.
- (9) Incorporated by reference from our Current Report on Form 8-K, filed on November 23, 2016.
- (10) Incorporated by reference from our Current Report on Form 8-K, filed on November 23, 2016.
- (11) Incorporated by reference from our Current Report on Form 8-K, filed on July 10, 2017.
- (12) Incorporated by reference from our Current Report on Form 8-K, dated November 21, 2022.
- (13) Incorporated by reference from our Annual Report on Form 10-K for the year ended October 3, 2021.
- (14) Incorporated by reference from Annex B to our Definitive Proxy Statement on Schedule 14A, filed on January 17, 2023.
- (15) Incorporated by reference from our Current Report on Form 8-K, dated March 22, 2023.
- (16) Incorporated by reference from our Registration Statement on Form S-1 filed on May 19, 2009.
- (17) Incorporated by reference from our Current Report on Form 8-K dated April 3, 2009.

† Management contracts and compensatory plans and arrangements.

**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 18, 2023

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

Date: December 18, 2023

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 18, 2023
<u>/s/ Karen Hawkins</u> Karen Hawkins	Principal Financial Officer and Principal Accounting Officer	December 18, 2023
<u>/s/ Rimmy Malhotra</u> Rimmy Malhotra	Director	December 18, 2023
<u>/s/ Dale Lehmann</u> Dale Lehmann	Director	December 18, 2023
<u>/s/ Dayton Judd</u> Dayton Judd	Director	December 18, 2023

CONFIDENTIAL**OPTEX SYSTEMS HOLDINGS, INC.  
FORM OF PERFORMANCE SHARES AGREEMENT**

THIS PERFORMANCE SHARES AWARD, dated \_\_\_\_\_ (the "Date of Grant"), is granted by Optex Systems Holdings, Inc., a Delaware corporation (the "Company") to \_\_\_\_\_ (the "Grantee") pursuant to the Company's 2023 Equity Incentive Plan (the "Plan"). Capitalized terms used but not otherwise defined in this Agreement shall have the respective meanings given to them in the Plan.

WHEREAS, the Company believes it to be in the best interests of the Company, its subsidiaries and its shareholders for its directors, officers and other key employees to obtain or increase their stock ownership interest in the Company so that they will have a greater incentive to work for and manage the Company's affairs in such a way that its shares may become more valuable; and

WHEREAS, the Grantee provides services to the Company or one of its subsidiaries as an officer or other key employee and has been selected to receive an award of Performance Shares;

NOW, THEREFORE, in consideration of the premises and of the services to be performed by the Grantee, the Company and the Grantee hereby agree as follows:

## 1. GRANT

(a) Number of Performance Shares. Subject to the terms and conditions of this Agreement and the Plan, the Company grants to the Grantee an Award of \_\_\_\_\_ (\_\_\_\_\_) Performance Shares subject to vesting under Section 2 (the "Performance Shares").

(b) Performance Shares. Each Performance Share is a bookkeeping entry that records the equivalent of one Share. Upon the vesting of the Performance Shares as provided in Section 2, the vested Performance Shares will be settled as provided in Section 3.

## 2. VESTING

(a) Vesting of Performance Shares. Subject to the Committee's ability to accelerate vesting pursuant to Section 11(c) of the Plan, the Performance Shares shall vest as follows:

- (i) \_\_\_\_\_ Performance Shares vest on such date as the Performance Measure equals or exceeds \$ \_\_\_\_\_;
- (ii) \_\_\_\_\_ Performance Shares vest on such date as the Performance Measure equals or exceeds \$ \_\_\_\_\_;
- (iii) \_\_\_\_\_ Performance Shares vest on such date as the Performance Measure equals or exceeds \$ \_\_\_\_\_;
- (iv) \_\_\_\_\_ Performance Shares vest on such date as the Performance Measure equals or exceeds \$ \_\_\_\_\_; and
- (v) \_\_\_\_\_ Performance Shares vest on such date as the Performance Measure equals or exceeds \$ \_\_\_\_\_;

but with respect to each such date if, and only if, (i) such date falls within the Performance Period and (ii) the Grantee remains continuously employed by the Company or one of its subsidiaries from the Date of Grant until such date. Any date on which vesting of Performance Shares occurs in accordance with the preceding sentence shall be a "Vesting Date."

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(b) Definitions.

(i) "Average VWAP" per share over a certain period means the arithmetic average of the VWAP per share for each Trading Day in such period.

(ii) "Performance Measure" means the Average VWAP per share of the Company's common stock during a thirty (30) consecutive Trading Day period ending on, and including, the Trading Day immediately prior to the date of determination.

(iii) "Disability" means permanently and totally disabled within the meaning of section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

(iv) "Performance Period" means the period from \_\_\_\_\_ through \_\_\_\_\_.

(v) "Trading Day," means a day during which trading in securities generally occurs on Nasdaq.

(vi) "VWAP" per share of the Company's common stock on any Trading Day shall mean the per share volume-weighted average price in respect of the period from 9:30 a.m. to 4:00 p.m., New York City time, on such Trading Day.

3. SETTLEMENT

The Company shall pay or settle the vested Performance Shares after the Vesting Date on a date selected by the Company (the "Settlement Date"), but not later than thirty (30) days after the Vesting Date. On the Settlement Date, the vested Performance Shares shall be paid or settled by issuing and delivering to the Grantee one Share for each vested Performance Share, and the Company shall enter the Grantee's name on the books of the Company as the shareholder of record with respect thereto. Upon such issuance, each settled Performance Share shall be cancelled.

4. RESTRICTIONS

(a) No Transfer. The Performance Shares granted hereunder may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of; provided, that if the Grantee dies after the Vesting Date but prior to the Settlement Date, the vested Performance Shares shall be transferable by will or the laws of descent and distribution. The Company has the right, by notice to the Grantee, to cause the Performance Shares to be forfeited effective as of the date of the prohibited transfer or purported prohibited transfer thereof. In addition, the Grantee acknowledges that any Shares issued upon settlement of the Performance Shares may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed without (i) an effective registration statement or post-effective amendment to a registration statement under the Securities Act of 1933, as amended, with respect to such shares, or (ii) an opinion of counsel presented to the Company and satisfactory to the Company to the effect that the proposed disposition of such shares by the Grantee may lawfully be made otherwise than pursuant to an effective registration statement or post-effective amendment to a registration statement. Any prohibited transfer will be null and void ab initio and will be invalid and ineffective as to the Company, and the Company shall not be required (i) to transfer on its books any Performance Shares, or any shares issued upon settlement thereof, which shall have been sold, assigned, transferred, pledged, hypothecated or otherwise disposed of in violation of any of the provisions set forth in this Agreement, or (ii) to treat as owner of any such shares or to accord the right to vote as such owner or to pay dividends to any transferee to whom such shares shall have been so sold, assigned, transferred, pledged, or hypothecated.

(b) No Rights of a Shareholder. The Grantee shall not have any of the rights or privileges of a shareholder (including the right to vote or receive dividends) or otherwise be deemed the holder of the Shares underlying the Performance Shares for any purpose, and nothing in this Agreement shall be construed to confer upon the Grantee any of the rights, privileges or obligations of a shareholder of the Company, unless and until Common Stock is actually issued to and held of record by the Grantee upon settlement of the Performance Shares under this Agreement.

## 5. FORFEITURE; TERMINATION OF EMPLOYMENT

(a) Forfeiture of Unvested Performance Shares. If the Grantee's employment with the Company and its subsidiaries terminates for any reason prior to the applicable Vesting Date (including by reason of death, Disability, retirement, resignation for any reason or termination by the Company for any reason (whether with or without cause)), then all of the unvested Performance Shares shall be forfeited to the Company under Section 5(c) simultaneously with the employment termination. If, under the terms of Section 2, any of the Performance Shares do not vest based on the performance of the Company, such Performance Shares shall be forfeited to the Company under Section 5(c) as of the end of the Performance Period.

(b) Leave of Absence. In addition, if the Grantee takes a military, sick leave or other bona fide leave of absence from the Company and its subsidiaries, and the period of such leave exceeds 3 months, the Grantee will be considered to have terminated employment from the Company and its subsidiaries for purposes hereof on the later of (i) the first day immediately following such 3-month period, or (ii) the last day that the Grantee's right to reemployment following the end of such leave is guaranteed by law or contract with the Company or a subsidiary.

(c) Effect of Forfeiture. If Performance Shares are forfeited, then, effective as of the time of forfeiture, such Performance Shares shall be automatically and immediately cancelled and forfeited to the Company and shall no longer be outstanding, without payment of any consideration by the Company and without the need for notice from or any further action by the Company, and neither the Grantee nor any of Grantee's successors, heirs, assigns or personal representatives shall thereafter have any further right, title or interest in or to such forfeited Performance Shares or the benefits of ownership thereof.

## 6. TAX WITHHOLDING

The Grantee shall make appropriate arrangements with the Company, in accordance with the Plan and in a manner deemed satisfactory to the Committee, to provide for the withholding or payment of the amount that the Company considers necessary to satisfy its withholding obligations upon the grant, vesting, lapse or settlement of the Performance Shares.

## 7. AMENDMENT OR MODIFICATION

Except as provided otherwise herein, no term or provision of this Agreement may be amended, modified or supplemented orally, but only by an instrument in writing signed by the party against which or whom the enforcement of the amendment, modification or supplement is sought; provided, however, that this Agreement may be amended, modified, supplemented or cancelled without the Grantee's consent in accordance with the terms of the Plan.

## 8. LIMITED INTEREST

(a) No Right to Employment or Service. The grant of this Award shall not confer on the Grantee any right to continue as an employee or director, nor interfere in any way with the right of the Company or any subsidiary to terminate the Grantee as an employee or director at any time.

(b) Capital Structure. The grant of this Award shall not affect in any way the right or power of the Company or any of its subsidiaries to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's or any subsidiary's capital structure or its business, or any merger, consolidation or business combination of the Company or any subsidiary, or any issuance or modification of any term, condition, or covenant of any bond, debenture, debt, preferred stock or other instrument ahead of or affecting the Common Stock or the rights of the holders of Common Stock, or the dissolution or liquidation of the Company or any subsidiary, or any sale or transfer of all or any part of its assets or business or any other Company or subsidiary act or proceeding, whether of a similar character or otherwise.



9. GOVERNING LAW; PLAN; REGISTRATION STATEMENT; PLAN PROSPECTUS

This Agreement shall be governed by the internal laws of the state of Delaware as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies. Any legal action or proceeding with respect to the Plan or the Performance Shares may only be brought and determined in a court sitting in the County of Hillsborough, including the Federal District Court for the Middle District of Florida sitting in the County of Hillsborough, in the State of Florida. The Company may require that the action or proceeding be determined in a bench trial.

THE GRANTEE ACKNOWLEDGES RECEIPT OF A COPY OF THE PLAN AND, IF ISSUANCE OF THE SHARES UNDERLYING THE AWARD IS REGISTERED AT THE TIME OF GRANT, OF THE REGISTRATION STATEMENT ON FORM S-8 AND THE CORRESPONDING PLAN PROSPECTUS.

ALL PARTIES ACKNOWLEDGE THAT THIS PERFORMANCE SHARES AWARD IS GRANTED UNDER AND PURSUANT TO THE PLAN, WHICH SHALL GOVERN ALL RIGHTS, INTERESTS, OBLIGATIONS, AND UNDERTAKINGS OF BOTH THE COMPANY AND THE GRANTEE. ALL CAPITALIZED TERMS NOT OTHERWISE DEFINED IN THIS PERFORMANCE SHARES AGREEMENT SHALL HAVE THE MEANINGS ASSIGNED TO SUCH TERMS IN THE PLAN. UNLESS THE PLAN EXPRESSLY PROVIDES OTHERWISE, IN THE EVENT OF A CONFLICT BETWEEN ANY TERM OR PROVISION CONTAINED HEREIN AND A TERM OR PROVISION OF THE PLAN, THE APPLICABLE TERM AND PROVISION OF THE PLAN WILL GOVERN AND PREVAIL.

10. SEVERABILITY

If any provision of this agreement is or becomes or is deemed to be invalid, illegal or unenforceable, or would disqualify this Award under any law the Committee deems applicable, then such provision will be construed or deemed amended to conform to the applicable law, or if the Committee determines that the provision cannot be construed or deemed amended without materially altering the intent of this agreement, then the provision will be stricken and the remainder of this agreement will remain in full force and effect.

11. COUNTERPARTS

This agreement may be executed in one or more counterparts, each of which will be deemed to be an original but all of which together will constitute one and the same instrument.

*[Signature Page Follows]*

[SIGNATURE PAGE TO PERFORMANCE SHARES AGREEMENT]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and the Grantee has executed this Agreement all as of the day and date first above written.

OPTEX SYSTEMS HOLDINGS, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

CONFIDENTIAL**OPTEX SYSTEMS HOLDINGS, INC.  
RESTRICTED STOCK AGREEMENT**

THIS RESTRICTED STOCK AWARD, dated \_\_\_\_\_ (the "Date of Grant"), is granted by Optex Systems Holdings, Inc., a Delaware corporation (the "Company") to [NAME] (the "Grantee") pursuant to the Company's 2023 Equity Incentive Plan (the "Plan"). Capitalized terms used but not otherwise defined in this Agreement shall have the respective meanings given to them in the Plan.

WHEREAS, the Company believes it to be in the best interests of the Company, its subsidiaries and its shareholders for its directors, officers and other key employees to obtain or increase their stock ownership interest in the Company so that they will have a greater incentive to work for and manage the Company's affairs in such a way that its shares may become more valuable; and

WHEREAS, the Grantee provides services to the Company or one of its subsidiaries as a director, or officer or other key employee and has been selected to receive a restricted stock award;

NOW, THEREFORE, in consideration of the premises and of the services to be performed by the Grantee, the Company and the Grantee hereby agree as follows:

1. GRANT

Subject to the terms and conditions of this Agreement and the Plan, the Company grants to the Grantee an Award of \_\_\_\_\_ shares of Common Stock (the "Restricted Stock").

2. RESTRICTIONS AND RESTRICTED PERIOD

(a) Restrictions. Except by will or the laws of descent and distribution, the shares of Restricted Stock granted hereunder may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of and shall be subject to a risk of forfeiture under Section 3(a), in each case from and after the Date of Grant until, and to the extent that, such restrictions lapse and the Restricted Stock vests under Section 2(b) (such period, the "Restricted Period"). In addition, the Grantee acknowledges that any shares of Restricted Stock, even after expiration of the Restricted Period, may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed without (i) an effective registration statement or post-effective amendment to a registration statement under the Securities Act of 1933, as amended, with respect to such shares, or (ii) an opinion of counsel presented to the Company and satisfactory to the Company to the effect that the proposed disposition of such shares by the Grantee may lawfully be made otherwise than pursuant to an effective registration statement or post-effective amendment to a registration statement. Any prohibited transfer will be null and void ab initio and will be invalid and ineffective as to the Company, and the Company shall not be required (i) to transfer on its books any shares of Restricted Stock which shall have been sold, assigned, transferred, pledged, hypothecated or otherwise disposed of in violation of any of the provisions set forth in this Agreement, or (ii) to treat as owner of such shares or to accord the right to vote as such owner or to pay dividends to any transferee to whom such shares shall have been so sold, assigned, transferred, pledged, or hypothecated.

(b) Lapse of Restrictions.

(i) Subject to Section 2(b)(ii), the restrictions set forth above shall lapse and the Restricted Stock shall vest and become transferable (provided that such transfer is otherwise in accordance with federal and state securities laws) and non-forfeitable in accordance with the following schedule, but if, and only if, the Grantee's employment has not been terminated, by the Company or the Grantee, for any reason, with or without Cause (such event, a "Termination Event") during the period beginning on the Date of Grant and ending on the applicable vesting date:

[As to \_\_\_\_\_% of the Restricted Stock:  
On the \_\_\_\_\_<sup>1</sup> anniversary of the Date of Grant.]

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<sup>1</sup> NTD: Restriction period must be at least one year under Section 9(b) of the Plan.

(ii) Subject to the Committee's ability to accelerate vesting pursuant to Section 11(c) of the Plan, all unvested shares of Restricted Stock shall become immediately and fully vested upon the occurrence of any of the following events (each an "Accelerated Vesting Event"), but if, and only if, no Termination Event occurs with respect to the Grantee at any time during the period beginning on the Date of Grant and ending on the date the Accelerated Vesting Event occurs: (A) the Grantee's death or Disability, or (B) a Change of Control of the Company.

(c) Rights of a Shareholder. From and after the Date of Grant and for so long as the Restricted Stock is held by or for the benefit of the Grantee, Grantee shall have all the rights of a shareholder of the Company with respect to the Restricted Stock, including the right to vote such shares and receive dividends with respect thereto, subject to the provisions of this Agreement.

### 3. TERMINATION OF EMPLOYMENT

(a) Forfeiture of Unvested Restricted Stock. If a Termination Event with respect to the Grantee occurs prior to the end of the Restricted Period for any reason (other than an Accelerated Vesting Event described in Section 2(b)(ii)), then the Restricted Stock that is unvested at that time shall be forfeited to the Company under Section 3(c). Restricted Stock that is vested at such time shall not be forfeited upon such Termination Event, but shall remain subject to this Agreement.

(b) Leave of Absence. In addition, if the Grantee takes a military, sick leave or other bona fide leave of absence from the Company and its subsidiaries, and the period of such leave exceeds 3 months, the Grantee will be considered to have terminated employment from the Company and its subsidiaries for purposes hereof on the later of (i) the first day immediately following such 3-month period, or (ii) the last day that the Grantee's right to reemployment following the end of such leave is guaranteed by law or contract with the Company or a subsidiary.

(c) Effect of Forfeiture. If Restricted Stock is forfeited, then, effective as of the time of forfeiture, such Restricted Stock shall be automatically and immediately cancelled and forfeited to the Company and shall no longer be outstanding, without payment of any consideration by the Company and without the need for notice from or any further action by the Company, and neither the Grantee nor any of Grantee's successors, heirs, assigns or personal representatives shall thereafter have any further right, title or interest in or to such forfeited Restricted Stock or the benefits of ownership thereof.

### 4. TAX WITHHOLDING

When the Restricted Period ends with respect to any Restricted Stock, or upon Grantee's filing an effective election with the Internal Revenue Service ("IRS") pursuant to Section 83(b) of the Code, Grantee shall make appropriate arrangements with the Company, in accordance with the Plan and in a manner deemed satisfactory to the Committee, to provide for the withholding or payment of the amount that the Company considers necessary to satisfy its withholding obligations. IF GRANTEE DESIRES TO MAKE AN ELECTION UNDER SECTION 83(b) OF THE CODE, GRANTEE ACKNOWLEDGES THAT IT IS HIS OR HER SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF THE GRANTEE REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS OR HER BEHALF.

### 5. DEFINITION

(a) "Disability" means permanently and totally disabled within the meaning of section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

## 6. CERTIFICATES; POWER OF ATTORNEY

Certificates for the Restricted Stock shall be registered in Grantee's name and constitute issued and outstanding shares of Common Stock for all corporate purposes as of the Date of Grant; provided that, in the discretion of the Company, the Company may retain custody of such certificates. On or before the date of execution of this Agreement, Grantee shall deliver to the Company one or more (as requested by the Company) stock powers endorsed in blank relating to the Restricted Stock in the form attached hereto as "Exhibit A," which will permit transfer to the Company of all or any portion of the Restricted Stock that shall be forfeited or cancelled in accordance with this Agreement. The certificates for the Restricted Stock shall bear the following legend, in addition to any other legend deemed necessary or desirable by the Committee:

The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Optex Systems Holdings, Inc. 2023 Equity Incentive Plan and a Restricted Stock Agreement entered into between the registered owner and Optex Systems Holdings, Inc. A copy of such plan and agreement is on file in the offices of, and will be made available for a proper purpose by, Optex Systems Holdings, Inc. The transferability of this certificate and the shares of stock represented hereby is furthermore subject to federal and state securities laws and, to the extent the issuance of such shares is not registered with the Securities and Exchange Commission on an effective registration statement, such shares are considered "restricted securities" for purposes of Rule 144 under the Securities Act of 1933, as amended, and may not be transferred in the absence of an opinion from counsel to the Company that such transfer does not violate federal securities laws.

The Grantee and any other holder of the Restricted Stock hereby irrevocably constitute and appoint the Company, with full power of substitution in the premises, as their due and lawful attorney in fact (i) to transfer any Restricted Stock that is forfeited pursuant to this Agreement on the books of the Company, and (ii) take such other actions and execute such assignments, conveyances, transfers and other documents in such holder's name and on such holder's behalf as may be necessary or appropriate to effect such transfer. This power of attorney is coupled with an interest, and is irrevocable.

## 7. AMENDMENT OR MODIFICATION

Except as provided otherwise herein, no term or provision of this Agreement may be amended, modified or supplemented orally, but only by an instrument in writing signed by the party against which or whom the enforcement of the amendment, modification or supplement is sought; provided, however, that this Agreement may be amended, modified, supplemented or cancelled without the Grantee's consent in accordance with the terms of the Plan.

## 8. LIMITED INTEREST

(a) No Right to Employment or Service. The grant of this Award shall not confer on the Grantee any right to continue as an employee or director, nor interfere in any way with the right of the Company to terminate the Grantee as an employee or director at any time.

(b) Capital Structure. The grant of this Award shall not affect in any way the right or power of the Company or any of its subsidiaries to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's or any subsidiary's capital structure or its business, or any merger, consolidation or business combination of the Company or any subsidiary, or any issuance or modification of any term, condition, or covenant of any bond, debenture, debt, preferred stock or other instrument ahead of or affecting the Common Stock or the rights of the holders of Common Stock, or the dissolution or liquidation of the Company or any subsidiary, or any sale or transfer of all or any part of its assets or business or any other Company or subsidiary act or proceeding, whether of a similar character or otherwise.

9. GOVERNING LAW; PLAN; REGISTRATION STATEMENT; PLAN PROSPECTUS

This Agreement shall be governed by the internal laws of the state of Delaware as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies. Any legal action or proceeding with respect to the Plan or the Restricted Stock may only be brought and determined in a court sitting in the County of Hillsborough, including the Federal District Court for the Middle District of Florida sitting in the County of Hillsborough, in the State of Florida. The Company may require that the action or proceeding be determined in a bench trial.

THE GRANTEE ACKNOWLEDGES RECEIPT OF A COPY OF THE PLAN AND, IF ISSUANCE OF THE SHARES UNDERLYING THE AWARD IS REGISTERED AT THE TIME OF GRANT, OF THE REGISTRATION STATEMENT ON FORM S-8 AND THE CORRESPONDING PLAN PROSPECTUS.

ALL PARTIES ACKNOWLEDGE THAT THIS RESTRICTED STOCK AWARD IS GRANTED UNDER AND PURSUANT TO THE PLAN, WHICH SHALL GOVERN ALL RIGHTS, INTERESTS, OBLIGATIONS, AND UNDERTAKINGS OF BOTH THE COMPANY AND THE GRANTEE. ALL CAPITALIZED TERMS NOT OTHERWISE DEFINED IN THIS RESTRICTED STOCK AGREEMENT SHALL HAVE THE MEANINGS ASSIGNED TO SUCH TERMS IN THE PLAN. UNLESS THE PLAN EXPRESSLY PROVIDES OTHERWISE, IN THE EVENT OF A CONFLICT BETWEEN ANY TERM OR PROVISION CONTAINED HEREIN AND A TERM OR PROVISION OF THE PLAN, THE APPLICABLE TERM AND PROVISION OF THE PLAN WILL GOVERN AND PREVAIL.

10. SEVERABILITY

If any provision of this agreement is or becomes or is deemed to be invalid, illegal or unenforceable, or would disqualify this Award under any law the Committee deems applicable, then such provision will be construed or deemed amended to conform to the applicable law, or if the Committee determines that the provision cannot be construed or deemed amended without materially altering the intent of this agreement, then the provision will be stricken and the remainder of this agreement will remain in full force and effect.

11. COUNTERPARTS

This agreement may be executed in one or more counterparts, each of which will be deemed to be an original but all of which together will constitute one and the same instrument.

*[Signature Page Follows]*

[SIGNATURE PAGE TO RESTRICTED STOCK AGREEMENT]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and the Grantee has executed this Agreement all as of the day and date first above written.

OPTEX SYSTEMS HOLDINGS, INC.

By:

\_\_\_\_\_  
Name:

Title:

\_\_\_\_\_  
[Grantee]

EXHIBIT A

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED I, \_\_\_\_\_, hereby sell, assign and transfer unto \_\_\_\_\_ (\_\_\_\_\_) shares of Common Stock of Optex Systems Holdings, Inc. in the books of said corporation represented by Certificate No. \_\_\_\_\_ and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer the said stock on the books of the said corporation with full power of substitution in the premises.

This Assignment Separate from Certificate may be used only in accordance with the Restricted Stock Agreement between Optex Systems Holdings, Inc. and the undersigned dated \_\_\_\_\_, 20\_\_\_\_.

Dated: \_\_\_\_\_, 20\_\_

\_\_\_\_\_  
Print name: \_\_\_\_\_

**INSTRUCTIONS:**

**Please sign, but do not fill in any other information (including the date).**

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CONFIDENTIAL

**OPTEX SYSTEMS HOLDINGS, INC.  
INCENTIVE STOCK OPTION AGREEMENT**

THIS INCENTIVE STOCK OPTION AGREEMENT, dated \_\_\_\_\_, is granted by Optex Systems Holdings, Inc., a Delaware corporation (the "Company") to [NAME] (the "Grantee") pursuant to the Company's 2023 Equity Incentive Plan (the "Plan").

WHEREAS, the Company believes it to be in the best interests of the Company, its subsidiaries and its shareholders for its officers and other key employees to obtain or increase their stock ownership interest in the Company so that they will have a greater incentive to work for and manage the Company's affairs in such a way that its shares may become more valuable; and

WHEREAS, the Grantee provides services to the Company or one of its subsidiaries as an officer or other key employee and has been selected to receive an option;

NOW, THEREFORE, in consideration of the premises and of the services to be performed by the Grantee, the Company and the Grantee hereby agree as follows:

1. OPTION GRANT

Subject to the terms of this Agreement and the Plan, the Company grants to the Grantee an option to purchase a total of \_\_\_\_\_ shares of Common Stock of the Company at a price of \$ \_\_\_\_\_ per share. This option is intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

2. VESTING AND TIME OF EXERCISE

Subject to paragraphs 3, 4 and 10 hereof, the Grantee may exercise this option as follows:

With respect to \_\_\_\_\_ shares on or after \_\_\_\_\_

With respect to \_\_\_\_\_ shares on or after \_\_\_\_\_

With respect to \_\_\_\_\_ shares on or after \_\_\_\_\_

With respect to \_\_\_\_\_ shares on or after \_\_\_\_\_,

provided in each case that the Grantee is an employee of the Company and its subsidiaries on such date of exercise. If the Grantee terminates employment from the Company and its subsidiaries, only those option shares for which the right to purchase has accrued as of the date of such termination may be purchased after such termination (subject to the provisions of paragraphs 3 and 4). If the Grantee takes an unpaid leave of absence, then the Committee may defer the dates on which the Grantee may first purchase the option shares to take into account such leave of absence.

3. TERMINATION OF OPTION

The Grantee may not exercise this option after, and this option will terminate without notice to the Grantee on, the earlier of:

(a) Three (3) months after the date of the termination of the Grantee's employment with the Company and its subsidiaries (including retirement) other than as set forth in (b) or (c) below, provided that the Grantee has been employed by the Company for at least two years following the date of this agreement, and, provided further, that if the Grantee dies within such three (3) month period, termination of the option will not occur until twelve (12) months after such death (subject to Section 3(d) hereof);



(b) On the date the Company or one of its subsidiaries terminates the Grantee's employment for Cause;

(c) Twelve (12) months after the date of the termination of the Grantee's employment with the Company and its subsidiaries by reason of death or Disability, provided that the Grantee has been employed by the Company for at least two years following the date of this agreement; or

(d) Five (5) years from the date of this agreement.

For purposes of this paragraph 3, termination shall occur at 11:59 P.M. (Central Time) on the applicable date described above, except that if the Grantee is terminated for Cause, termination shall occur immediately at the time of such termination.

If the Grantee terminates employment with the Company and its subsidiaries before the expiration of two years from the date of this agreement, the Grantee may not exercise this option after, and this option will terminate without notice to the Grantee immediately at the time of such termination of the Grantee's employment with the Company and its subsidiaries. In addition, if the Grantee takes a military, sick leave or other bona fide leave of absence from the Company and its subsidiaries, and the period of such leave exceeds 3 months, the Grantee will be considered to have terminated employment from the Company and its subsidiaries for purposes hereof on the later of (i) the first day immediately following such 3-month period, or (ii) the last day that the Grantee's right to reemployment following the end of such leave is guaranteed by law or contract with the Company or a subsidiary.

If the Grantee dies or becomes disabled as contemplated in Section 3(a) or (c) above, this option shall continue to be subject to the same terms and conditions as were applicable immediately prior to the Grantee's death or Disability, provided that for purposes of this agreement, where context requires, the term "Grantee" as used in this agreement shall be deemed to refer to the person(s) who has(ve) the right to exercise this option after the Grantee's death or Disability. In such an event, neither the Committee nor the Company will be liable for any losses resulting from such exercise or, if applicable, from the disposition of shares acquired upon such exercise. The Company disclaims any obligation to provide notice to any person who has the right to exercise this option of circumstances triggering termination of the option.

#### 4. TERMINATION FOR CAUSE

If the Company or one of its subsidiaries terminates the Grantee's employment for Cause, then the Committee may determine that any exercises of this option within the six (6) month period prior to such termination will be deemed of no force and effect and the Committee may pursue any remedy or proceeding available to compel the Grantee to return to the Company any shares of Common Stock purchased under this option during such period and any profits the Grantee realized (directly or indirectly) from exercising this option during such period.

#### 5. EXERCISE PROCEDURES

(a) The Grantee may exercise this option in whole or in part only with respect to any shares for which the right to exercise shall have accrued pursuant to paragraph 2 and only so long as paragraph 3 does not prohibit such exercise.

(b) This option may be exercised by delivering a written notice of option exercise to the Company's Corporate Secretary, accompanied by payment of the purchase price and such additional amount (if any) determined by the Corporate Secretary as necessary to satisfy the Company's tax withholding obligations, and such other documents or representations as the Company may reasonably request to comply with securities, tax or other laws then applicable to the exercise of the option. Delivery may be made in person, by nationally-recognized delivery service that guarantees overnight delivery, or by facsimile. A notice of option exercise that is received by the Corporate Secretary after the date of termination (as provided in paragraph 3) shall be null and void.

(c) The Grantee may pay the purchase price in one or more of the following forms:

- i. a check payable to the order of or other acceptable form of payment to the Company for the purchase price of the shares being purchased; or
- ii. delivery of shares of Common Stock (including by attestation) that the Grantee has owned for at least six (6) months and that have a Fair Market Value (determined on the date of delivery) equal to the purchase price of the shares being purchased; or
- iii. delivery (including by facsimile) to the Corporate Secretary of the Company, of an executed irrevocable option exercise form together with irrevocable instructions, in a form acceptable to the Company, to a broker-dealer to sell or margin a sufficient portion of the shares of Common Stock issuable upon exercise of this option and deliver the sale or margin loan proceeds directly to the Company to pay for the exercise price.

(d) The Grantee may satisfy any tax withholding obligation of the Company arising from the exercise of this option, in whole or in part, by paying such tax obligation in cash, check made payable to the Company, or other form of payment acceptable to the Company, or by electing to have the Company withhold shares of Common Stock having a Fair Market Value on the date of exercise equal to the amount required to be withheld, subject to such rules as the Committee may adopt. In any event, the Company reserves the right to withhold from any compensation otherwise payable to the Grantee such amount as the Company determines is necessary to satisfy the Company's tax withholding obligations arising from the exercise of this option.

## 6. DEFINITIONS

(a) "Cause" means termination of employment as a result of (i) the failure of the Grantee to perform or observe any of the terms or provisions of any written employment agreement between the Grantee and the Company or its subsidiaries or, if no written agreement exists, the gross dereliction of the Grantee's duties with respect to the Company; (ii) the failure of the Grantee to comply fully with the lawful directives of the Board of Directors of the Company or its subsidiaries, as applicable, or the officers or supervisory employees to whom the Grantee is reporting; (iii) the Grantee's dishonesty, misconduct, misappropriation of funds, or disloyalty or disparagement of the Company, any of its subsidiaries, or its management or employees; or (iv) other proper cause determined in good faith by the Committee. Notwithstanding the foregoing, if the Grantee is subject to a written agreement with the Company or its subsidiaries that contains a definition of "Cause" that is different than the definition provided herein, the definition of "Cause" in such other agreement shall apply in lieu of the definition provided herein.

(b) "Disability" means permanently and totally disabled within the meaning of Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

## 7. OPTIONS AS COLLATERAL

The Grantee may not assign or mortgage this option, or pledge this option as any type of security or collateral. Any attempted assignment, mortgage or pledge of this option in violation of this paragraph 7 will be null and void and have no legal effect.

## 8. NON-TRANSFERABILITY; DISABILITY; DEATH

(a) The Grantee may not transfer this option other than by will or the laws of descent and distribution and only the Grantee may exercise this option during his or her lifetime. However, if the Committee determines that the Grantee is unable to exercise this option as a result of incapacity or Disability, then the Committee may permit the Grantee's guardian or other legal representative to exercise this option on behalf of the Grantee. In such an event, neither the Committee nor the Company will be liable for any losses resulting from such exercise or from the disposition of shares acquired upon such exercise.

(b) If the Grantee dies while this option is outstanding, then the Grantee's estate or the person to whom this option passes by will or the laws of descent and distribution may exercise this option in the manner described in paragraph 5, but only within a period of (i) twelve (12) months after the Grantee's death or (ii) five (5) years from the date of this agreement, whichever period is shorter. In such event, this option shall continue to be subject to the same terms and conditions as were applicable immediately prior to the Grantee's death, provided that for purposes of this Agreement, where context requires, the term "Grantee" as used in this Agreement shall be deemed to refer to the person(s) who has(ve) the right to exercise the option after the Grantee's death. The Company disclaims any obligation to provide notice to any person who has the right to exercise the option of circumstances triggering termination of this option.

#### 9. REGISTRATION

If the Company is advised by its counsel that shares deliverable upon exercise of this option are required to be registered under the Securities Act of 1933 ("Act") or any applicable state securities laws, or that delivery of the shares must be accompanied or preceded by a prospectus meeting the requirements of that Act or such state securities laws, and such registration has not then occurred or such prospectus has not then been delivered, then the Company will use its best efforts to effect the registration or provide the prospectus within a reasonable time following the Company's receipt of written notice of option exercise relating to this option, but delivery of shares by the Company may be deferred until the registration is effected or the prospectus is available. The Grantee shall have no interest in shares covered by this option until certificates for the shares are issued or such shares are issued in book-entry form.

If the shares deliverable upon exercise of this option are not registered upon issuance, they shall bear the following legend, in addition to any other legend deemed necessary or desirable by the Committee:

The transferability of this certificate and the shares of stock represented hereby are subject to federal and state securities laws and, to the extent the issuance of such shares is not registered with the Securities and Exchange Commission on an effective registration statement, such shares are considered "restricted securities" for purposes of Rule 144 under the Securities Act of 1933, as amended, and may not be transferred in the absence of an opinion from counsel to the Company that such transfer does not violate federal securities laws.

#### 10. ADJUSTMENTS AND CHANGE OF CONTROL

Subject to the Committee's ability to accelerate vesting pursuant to Section 11(c) of the Plan, and subject to the prohibition on repricing in Section 11(e) of the Plan, the number and type of shares subject to this option and the option price may be adjusted, or this option may be assumed, cancelled or otherwise changed, in the event of certain transactions, as provided in Section 13 of the Plan. Upon a change of control, as defined in the Plan, the Grantee shall have the rights specified in Section 13(d) of the Plan.

#### 11. AMENDMENT OR MODIFICATION

Except as provided in paragraph 10, no term or provision of this agreement may be amended, modified or supplemented orally, but only by an instrument in writing signed by the party against which or whom the enforcement of the amendment, modification or supplement is sought; provided, however, that this agreement may be amended, modified, supplemented or cancelled without the Grantee's consent in accordance with the terms of the Plan.

#### 12. LIMITED INTEREST

(a) The Grantee shall have no rights as a shareholder as a result of the grant of the option until this option is exercised, the exercise price and applicable withholding taxes are paid, and the shares issued thereunder.

(b) The grant of this option shall not confer on the Grantee any right to continue as an employee, nor interfere in any way with the right of the Company to terminate the Grantee as an employee at any time.

(c) The grant of this option shall not affect in any way the right or power of the Company or any of its subsidiaries to make or authorize any or all adjustments, recapitalizations, reorganizations, dissolution, other similar corporate transaction or event, or other changes in the Company's or any subsidiary's capital structure or its business, or any merger, consolidation, combination, share exchange, or business combination of the Company or any subsidiary, or any issuance or modification of any term, condition, or covenant of any bond, debenture, debt, preferred stock or other instrument ahead of or affecting the Common Stock or the rights of the holders of Common Stock, or the dissolution or liquidation of the Company or any subsidiary, or any sale or transfer of all or any part of its assets or business or any other Company or subsidiary act or proceeding, whether of a similar character or otherwise.

### 13. LIMITS ON INCENTIVE STOCK OPTIONS

To the extent that the aggregate Fair Market Value of the Common Stock subject to this option, plus any shares of Common Stock subject to incentive stock options previously granted to the Grantee by the Company or any subsidiary, that are exercisable for the first time by the Grantee during a single calendar year exceeds one hundred thousand dollars (\$100,000), this option as to any such excess, to the extent required by the Plan and the Internal Revenue Code of 1986, as amended, shall be considered a nonqualified stock option.

### 14. GOVERNING LAW; PLAN; REGISTRATION STATEMENT; PLAN PROSPECTUS

This Agreement shall be governed by the internal laws of the State of Delaware as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies. Any legal action or proceeding with respect to the Plan or this option may only be brought and determined in a court sitting in the County of Hillsborough, including the Federal District Court for the Middle District of Florida sitting in the County of Hillsborough, in the State of Florida. The Company may require that the action or proceeding be determined in a bench trial.

THE GRANTEE ACKNOWLEDGES RECEIPT OF A COPY OF THE PLAN AND, IF ISSUANCE OF THE SHARES UNDERLYING THE OPTION IS REGISTERED AT THE TIME OF GRANT, OF THE REGISTRATION STATEMENT ON FORM S-8 AND THE CORRESPONDING PLAN PROSPECTUS.

ALL PARTIES ACKNOWLEDGE THAT THIS OPTION IS GRANTED UNDER AND PURSUANT TO THE PLAN, WHICH SHALL GOVERN ALL RIGHTS, INTERESTS, OBLIGATIONS, AND UNDERTAKINGS OF BOTH THE COMPANY AND THE GRANTEE. ALL CAPITALIZED TERMS NOT OTHERWISE DEFINED IN THIS OPTION SHALL HAVE THE MEANINGS ASSIGNED TO SUCH TERMS IN THE PLAN. UNLESS THE PLAN EXPRESSLY PROVIDES OTHERWISE, IN THE EVENT OF A CONFLICT BETWEEN ANY TERM OR PROVISION CONTAINED HEREIN AND A TERM OR PROVISION OF THE PLAN, THE APPLICABLE TERM AND PROVISION OF THE PLAN WILL GOVERN AND PREVAIL.

### 15. SEVERABILITY

If any provision of this agreement is or becomes or is deemed to be invalid, illegal or unenforceable, or would disqualify this option under any law the Committee deems applicable, then such provision will be construed or deemed amended to conform to the applicable law, or if the Committee determines that the provision cannot be construed or deemed amended without materially altering the intent of this agreement, then the provision will be stricken and the remainder of this agreement will remain in full force and effect.

### 16. COUNTERPARTS

This agreement may be executed in one or more counterparts, each of which will be deemed to be an original but all of which together will constitute one and the same instrument.

*[Signature Page Follows]*

[SIGNATURE PAGE TO INCENTIVE STOCK OPTION AGREEMENT]

IN WITNESS WHEREOF, the Company has caused this agreement to be executed by its duly authorized officer and the Grantee has executed this Agreement all as of the day and date first above written.

OPTEX SYSTEMS HOLDINGS, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

\_\_\_\_\_  
[Grantee]

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CONFIDENTIAL

**OPTEX SYSTEMS HOLDINGS, INC.  
NON-QUALIFIED STOCK OPTION GRANT FOR OUTSIDE DIRECTORS**

THIS NON-QUALIFIED STOCK OPTION, dated \_\_\_\_\_, is granted by OPTEX SYSTEMS HOLDINGS, INC., a Delaware corporation (the "Company"), to [NAME] (the "Director") pursuant to the Optex Systems Holdings, Inc. 2023 Equity Incentive Plan (the "Plan").

WHEREAS, the Company believes it to be in the best interests of the Company, its subsidiaries and its shareholders for its directors, officers and other key employees to obtain or increase their stock ownership interest in the Company in order that they will have a greater incentive to work for and manage the Company's affairs in such a way that its shares may become more valuable; and

WHEREAS, the Director is a non-employee director of the Company and is eligible to receive an option grant under Section 5(b) of the Plan;

NOW, THEREFORE, in consideration of the premises and of the services to be performed by the Director, the Company hereby grants this stock option to the Director on the terms and conditions specified in this Agreement.

1. OPTION GRANT

Subject to the terms of this Agreement and the Plan, the Company grants to the Director an option to purchase a total of \_\_\_\_\_ shares of Common Stock of the Company at a price of \$ \_\_\_\_\_ per share. This option is not intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

2. TIME OF EXERCISE

The Director may exercise this option during the period that begins on the date that is \_\_\_\_ years from the date of this Agreement and ends on the earliest to occur of:

- (a) Six (6) months after the date the Director ceases to serve as a director of the Company for any reason other than death if the Director, at the time the Director ceases to serve as a director of the Company, is under age 65 and has not completed six years of service as a director, provided that, if the Director dies within such six (6) month period, this option remains exercisable until twelve (12) months after such death (subject to Section 2(d) hereof);
- (b) Three (3) years after the date the Director ceases to serve as a director of the Company for any reason other than death if the Director, at the time the Director ceases to serve as a director of the Company, is at least age 65 or has completed six years of service as a director, provided that, if the Director dies within such three (3) year period, this option remains exercisable until twelve (12) months after such death (subject to Section 2(d) hereof);
- (c) Twelve (12) months after the date the Director ceases to serve as a director of the Company as a result of death; or
- (d) Ten (10) years from the date of this Agreement.

For purposes of this paragraph 2, this option shall terminate, without notice to the Director, at 11:59 PM (Central Time) on the applicable date described above.

If the Director dies as contemplated in Sections 2(a) – 2(c) above, this option shall continue to be subject to the same terms and conditions as were applicable immediately prior to the Director's death, provided that for purposes of this Agreement, where context requires, the term "Director" as used in this Agreement shall be deemed to refer to the person(s) who has(ve) the right to exercise this option after the Director's death. In such an event, neither the Committee nor the Company will be liable for any losses resulting from such exercise or, if applicable, from the disposition of shares acquired upon such exercise. The Company disclaims any obligation to provide notice to any person who has the right to exercise this option of circumstances triggering termination of the option.

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### 3. METHOD OF EXERCISE

- (a) The Director may exercise this option in whole or in part only during the period specified in paragraph 2.
- (b) This option may be exercised by delivering a written notice of option exercise to the Company's Corporate Secretary, accompanied by payment of the purchase price, and such other documents or representations as the Company may reasonably request to comply with securities, tax or other laws then applicable to the exercise of the option. Delivery may be made in person, by nationally-recognized delivery service that guarantees overnight delivery, or by facsimile. A notice of option exercise that the Corporate Secretary receives after 11:59 P.M. (Central Time) on the date of termination (as provided in paragraph 2) shall be null and void.
- (c) The Director may pay the purchase price in one or more of the following forms:
  - (i) a check payable to the order of or other acceptable form of payment to the Company for the purchase price of the shares being purchased; or
  - (ii) delivery of shares of Common Stock (including by attestation) that the Optionee has owned for at least six (6) months and that have a Fair Market Value (determined on the date of delivery) equal to the purchase price of the shares being purchased; or
  - (iii) delivery (including by facsimile) to the Company's Corporate Secretary, of an executed irrevocable option exercise form together with irrevocable instructions, in a form acceptable to the Company, to a broker-dealer to sell or margin a sufficient portion of the shares of Common Stock issuable upon exercise of this option and deliver the sale or margin loan proceeds directly to the Company to pay for the exercise price.

### 4. OPTION AS COLLATERAL

The Director may not assign or mortgage this option, or pledge this option as any type of security or collateral. Any attempted assignment, mortgage or pledge of this option in violation of this paragraph 4 will be null and void and have no legal effect.

### 5. NON-TRANSFERABILITY; DEATH

- (a) Except as provided in paragraph 5(b) or (c), or as the Committee otherwise provides, the Director may not transfer this option other than by will or the laws of descent and distribution and only the Director may exercise this option during his or her lifetime. However, if the Committee determines that the Director is unable to exercise this option as a result of incapacity or disability, then the Committee may permit the Director's guardian or other legal representative to exercise this option on behalf of the Director. In such an event, neither the Committee nor the Company will be liable for any losses resulting from such exercise or from the disposition of shares acquired upon such exercise.
- (b) The Director may designate one or more beneficiaries (on a form provided by the Committee) to exercise this option after the Director's death. If the Director dies while this option is outstanding, then the Director's designated beneficiary(ies) (if then living), or if no beneficiary has been designated or fails to survive the Director, the Director's estate or the person to whom this option passes by will or the laws of descent and distribution, may exercise this option in the manner described in paragraph 3, but only within a period of (i) twelve (12) months after the date of the Director's death or (ii) ten (10) years from the date of this Agreement, whichever period is shorter.



- (c) The Director may transfer this option to (i) his or her spouse, children or grandchildren (“Immediate Family Members”); (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members; or (iii) a partnership in which such Immediate Family Members are the only partners. The transfer will be effective only if the Director receives no consideration for such transfer, and the Director provides written notice of the transfer to the Company. Subsequent transfers of the transferred option are prohibited except transfers to those persons or entities to which the Director could have transferred this option or transfers otherwise in accordance with this paragraph 5.
- (d) Following any transfer (whether voluntarily or pursuant to will or the laws of descent and distribution) under this paragraph 5, this option shall continue to be subject to the same terms and conditions as were applicable immediately prior to such transfer, provided that for purposes of this Agreement, where the context requires, the term “Director” as used in this Agreement shall be deemed to refer to the transferee. The Company disclaims any obligation to provide notice to any person who has the right to exercise this option of circumstances triggering termination of this option.

## 6. REGISTRATION

If the Company is advised by its counsel that shares deliverable upon exercise of this option are required to be registered under the Securities Act of 1933 (“Act”) or any applicable state securities laws, or that delivery of the shares must be accompanied or preceded by a prospectus meeting the requirements of that Act or such state securities laws, and such registration has not then occurred or such prospectus has not then been delivered, then the Company will use its best efforts to effect the registration or provide the prospectus within a reasonable time following the Company’s receipt of written notice of option exercise relating to this option, but delivery of shares by the Company may be deferred until the registration is effected or the prospectus is available. The Director shall have no interest in shares covered by this option until certificates for the shares are issued or such shares are issued in book-entry form.

If the shares deliverable upon exercise of this option are not registered upon issuance, they shall bear the following legend, in addition to any other legend deemed necessary or desirable by the Committee:

The transferability of this certificate and the shares of stock represented hereby are subject to federal and state securities laws and, to the extent the issuance of such shares is not registered with the Securities and Exchange Commission on an effective registration statement, such shares are considered “restricted securities” for purposes of Rule 144 under the Securities Act of 1933, as amended, and may not be transferred in the absence of an opinion from counsel to the Company that such transfer does not violate federal securities laws.

## 7. ADJUSTMENTS; CHANGE OF CONTROL

Subject to the Committee’s ability to accelerate vesting pursuant to Section 11(c) of the Plan, and subject to the prohibition on repricing in Section 11(e) of the Plan, the number and type of shares subject to this option and the option price may be adjusted, or this option may be assumed, cancelled or otherwise changed, in the event of certain transactions, as provided in Section 13 of the Plan. Upon a change of control, as defined in the Plan, the Director shall have the rights specified in Section 13(d) of the Plan.

## 8. AMENDMENT OR MODIFICATION

Except as provided in paragraph 7, no term or provision of this Agreement may be amended, modified or supplemented orally, but only by an instrument in writing signed by the party against which or whom the enforcement of the amendment, modification or supplement is sought; provided, however, that this agreement may be amended, modified, supplemented or cancelled without the Director’s consent in accordance with the terms of the Plan.

#### 9. LIMITED INTEREST

- (a) The Director has no rights as a shareholder as a result of the grant of the option until this option is exercised, the exercise price is paid, and the shares issued.
- (b) The grant of this option shall not affect in any way the right or power of the Company or any of its subsidiaries to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's or any subsidiary's capital structure or its business, or any merger, consolidation or business combination of the Company or any subsidiary, or any issuance or modification of any term, condition, or covenant of any bond, debenture, debt, preferred stock or other instrument ahead of or affecting the Common Stock or the rights of the holders of Common Stock, or the dissolution or liquidation of the Company or any subsidiary, or any sale or transfer of all or any part of its assets or business or any other Company or subsidiary act or proceeding, whether of a similar character or otherwise.

#### 10. GOVERNING LAW; PLAN; REGISTRATION STATEMENT; PLAN PROSPECTUS

This Agreement shall be governed by the internal laws of the state of Delaware as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies. Any legal action or proceeding with respect to the Plan or this option may only be brought and determined in a court sitting in the County of Hillsborough, including the Federal District Court for the Middle District of Florida sitting in the County of Hillsborough, in the State of Florida. The Company may require that any legal action or proceeding with respect to the Plan or this option be determined in a bench trial.

THE DIRECTOR ACKNOWLEDGES RECEIPT OF A COPY OF THE PLAN AND, IF ISSUANCE OF THE SHARES UNDERLYING THE OPTION IS REGISTERED AT THE TIME OF GRANT, OF THE REGISTRATION STATEMENT ON FORM S-8 AND THE CORRESPONDING PLAN PROSPECTUS.

ALL PARTIES ACKNOWLEDGE THAT THIS OPTION IS GRANTED UNDER AND PURSUANT TO THE PLAN, WHICH SHALL GOVERN ALL RIGHTS, INTERESTS, OBLIGATIONS, AND UNDERTAKINGS OF BOTH THE DIRECTOR AND THE COMPANY. ALL CAPITALIZED TERMS NOT OTHERWISE DEFINED HEREIN SHALL HAVE THE MEANINGS ASSIGNED TO SUCH TERMS IN THE PLAN. UNLESS THE PLAN EXPRESSLY PROVIDES OTHERWISE, IN THE EVENT OF A CONFLICT BETWEEN ANY TERM OR PROVISION CONTAINED HEREIN AND A TERM OF PROVISION OF THE PLAN, THE APPLICABLE TERM AND PROVISION OF THE PLAN WILL GOVERN AND PREVAIL.

#### 15. SEVERABILITY

If any provision of this Agreement is or becomes or is deemed to be invalid, illegal or unenforceable, or would disqualify this option under any law the Committee deems applicable, then such provision will be construed or deemed amended to conform to the applicable law, or if the Committee determines that the provision cannot be construed or deemed amended without materially altering the intent of this agreement, then the provision will be stricken and the remainder of this Agreement will remain in full force and effect.

#### 16. COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original but all of which together will constitute one and the same instrument.

*[Signature Page Follows]*

[SIGNATURE PAGE TO NON-QUALIFIED STOCK OPTION GRANT FOR OUTSIDE DIRECTORS]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and the Director has executed this Agreement all as of the day and date first above written.

OPTEX SYSTEMS HOLDINGS, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

\_\_\_\_\_  
Director Signature

\_\_\_\_\_

CONFIDENTIAL**OPTEX SYSTEMS HOLDINGS, INC.  
STOCK APPRECIATION RIGHTS AGREEMENT**

**THIS AGREEMENT**, by Optex Systems Holdings, Inc., a Delaware corporation (the “Company”), and [NAME], an employee of the Company or an Affiliate (the “Grantee”), sets forth the terms and conditions of the Stock Appreciation Rights award (“SAR”) granted to the Grantee pursuant to the Optex Systems Holdings, Inc. 2023 Equity Incentive Plan (the “Plan”). Capitalized terms used but not otherwise defined in this Agreement shall have the respective meanings given to them in the Plan.

1. **Grant of SAR.** The Compensation Committee of the Board of Directors of the Company (the “Committee”) has awarded to Grantee a SAR with respect to the Common Stock of the Company, subject to the terms and conditions of this Agreement and the Plan.

**2. General Terms of Grantee’s SAR.**

The number of Shares subject to this SAR (the “SAR Shares”) is: \_\_\_\_\_.

The “Exercise Price” of each SAR Share is: \$\_\_\_\_\_ per share, which may not be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the Grant Date.

The “Grant Date” of this SAR is: \_\_\_\_\_.

The “Expiration Date” of Grantee’s right to exercise the SAR with respect to any number of SAR Shares is 5:00 p.m. (Central Time) on the \_\_\_\_\_ anniversary of the Grant Date. However, Grantee’s right to exercise this SAR may terminate before the Expiration Date as set forth in Section 4 of this Agreement.

This SAR is a tandem SAR subject to the additional conditions to exercise set forth in Section 8(b) of the Plan: Yes \_\_\_\_\_. No \_\_\_\_\_.

**3. Conditions of Exercise.**

a. *Conditions of Exercise.* Subject to the provisions of the Plan and this Agreement, Grantee may exercise the SAR with respect to all or some SAR Shares only after the SAR has vested with respect to the number of SAR Shares that are sought to be exercised, and only before the Expiration Date or the termination date described in Section 4 of this Agreement.

b. *Vesting of SAR.* Subject to the termination provisions of paragraph 4, the Grantee’s SAR Shares vest as follows:

\_\_\_\_\_.

4. **Non-Transferability.** Grantee may not transfer this SAR other than by will or the laws of descent and distribution and only the Grantee may exercise this SAR during his or her lifetime.

5. **Termination of Employment.** The following paragraphs apply in the event of Grantee’s termination of employment from the Company or an Affiliate prior to the Expiration Date. In no event, however, will the periods described in this Section 5 extend the term of the SAR beyond its Expiration Date or beyond the date the SAR is otherwise cancelled pursuant to the terms of the Plan.

a. **Disability or Death.**

(i) Notwithstanding Section 4 hereof, if the Committee determines that Grantee is unable to exercise the SAR as a result of “permanent and total disability” (within the meaning of Section 22(e) (3) of the Code), then the Committee may permit Grantee’s guardian or other legal representative to exercise the SAR on behalf of Grantee, provided that Grantee has been employed by the Company for two years following the Grant Date. In such event, the SAR shall continue to be subject to the same terms and conditions as were applicable immediately prior to Grantee’s “permanent and total disability,” provided that for purposes of this Agreement, where context requires, the term “Grantee” as used in this Agreement shall be deemed to refer to the person(s) who has(ve) the right to exercise the SAR after the Grantee’s disability. In such an event, neither the Committee nor the Company will be liable for any losses resulting from such exercise or, if applicable, from the disposition of shares acquired upon such exercise. The Company disclaims any obligation to provide notice to any person who has the right to exercise the SAR of circumstances triggering termination of the SAR.

(ii) If Grantee dies while employed by the Company or an Affiliate or within the period when a SAR could have otherwise been exercised by Grantee, Grantee's estate or the person to whom this SAR passes by will or the laws of descent and distribution, as applicable, shall have the right, at any time within a period of twelve (12) months after Grantee's death, to exercise the SAR, provided that the Grantee has been employed by the Company for two years following the Grant Date. In such event, the SAR shall continue to be subject to the same terms and conditions as were applicable immediately prior to Grantee's death, provided that for purposes of this Agreement, where context requires, the term "Grantee" as used in this Agreement shall be deemed to refer to the person(s) who has(ve) the right to exercise the SAR after the Grantee's death. In such an event, neither the Committee nor the Company will be liable for any losses resulting from such exercise or, if applicable, from the disposition of shares acquired upon such exercise. The Company disclaims any obligation to provide notice to any person who has the right to exercise the SAR of circumstances triggering termination of the SAR.

**b. Other Termination of Employment**

(i) Other than as provided in Section 5(a) above, during Grantee's life, a SAR shall be exercisable only by Grantee and only before (x) the date of the termination of the Grantee's employment with the Company or an Affiliate for Cause, and (y) the date that is three (3) months after the date of the termination of the Grantee's employment other than for Cause (including retirement), but in each of (x) and (y) only if and to the extent the Grantee had been employed by the Company for at least two years following the date of this agreement and the SAR was otherwise exercisable immediately prior to such termination, and subject to the provisions of Section 5(c) below.

(ii) If Grantee terminates employment with the Company and its subsidiaries before the expiration of two years from the Grant Date, Grantee may not exercise the SAR after, and the SAR will terminate without notice to Grantee immediately at the time of such termination of Grantee's employment with the Company and its subsidiaries. In addition, if Grantee takes a military, sick leave or other bona fide leave of absence from the Company and its subsidiaries, and the period of such leave exceeds 3 months, Grantee will be considered to have terminated employment from the Company and its subsidiaries for purposes hereof on the later of (x) the first day immediately following such 3-month period, or (y) the last day that Grantee's right to reemployment following the end of such leave is guaranteed by law or contract with the Company or a subsidiary.

(iii) For purposes of this Section 5, "Cause" means termination of employment as a result of (w) the failure of the Grantee to perform or observe any of the terms or provisions of any written employment agreement between the Grantee and the Company or its subsidiaries or, if no written agreement exists, the gross dereliction of the Grantee's duties with respect to the Company; (x) the failure of the Grantee to comply fully with the lawful directives of the Board of Directors of the Company or its subsidiaries, as applicable, or the officers or supervisory employees to whom the Grantee is reporting; (y) the Grantee's dishonesty, misconduct, misappropriation of funds, or disloyalty or disparagement of the Company, any of its subsidiaries, or its management or employees; or (z) other proper cause determined in good faith by the Committee. Notwithstanding the foregoing, if the Grantee is subject to a written agreement with the Company or its subsidiaries that contains a definition of "Cause" that is different than the definition provided herein, the definition of "Cause" in such other agreement shall apply in lieu of the definition provided herein.

c. **Limitations on Exercise of SAR**. In no event may the SAR be exercised, in whole or in part, after \_\_\_\_\_ years following the Grant Date.

**6. Exercise of SAR.** Grantee may exercise the SAR by delivering written notice to the Secretary of the Company, in the form for such purpose promulgated by the Company, specifying the whole number of vested SAR Shares to which the notice relates.

Upon delivery of the notice of exercise, Grantee will be entitled to a payment from the Company of an amount equal to the number of SAR Shares specified in the notice multiplied by: (a) the Fair Market Value of a share of Common Stock (determined as of the date the Company receives Grantee's notice of exercise form), reduced by (b) the Exercise Price for a SAR Share.

Payment will be made as soon as practicable after the Company processes Grantee's exercise. Payment will be made in shares of Common Stock having a Fair Market Value (determined as of the date the Company receives Grantee's notice of exercise form)<sup>1</sup> equal to the amount of the payment due. Any fractional shares will be paid in cash. Grantee's payment may be reduced by an amount the Company or an Affiliate deems necessary to satisfy its liability to withhold federal, state or local income taxes or other taxes due by reason of the exercise. Alternatively, the Company or an Affiliate may reduce compensation that is otherwise payable to Grantee by the amount the Company or an Affiliate deems necessary to satisfy its liability to withhold federal, state or local income taxes or other taxes due by reason of the exercise.

**7. Adjustments and Change of Control.** Subject to the Committee's ability to accelerate vesting pursuant to Section 11(c) of the Plan, the number and type of shares subject to this SAR and the Exercise Price may be adjusted, or this SAR may be assumed, cancelled or otherwise changed, in the event of certain transactions, as provided in Section 13 of the Plan. Upon a change of control, as defined in the Plan, the Grantee shall have the rights specified in Section 13(d) of the Plan.

**8. Failure to Enforce Not a Waiver.** The failure of the Company to enforce at any time any provision of this SAR Agreement shall in no way be a waiver of such provision or of any other provision hereof.

**9. Grantee Bound by Plan; Registration Statement; Plan Prospectus** Grantee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof. The terms of the Plan are expressly incorporated into this Agreement by reference and in the event of any conflict between this Agreement and the Plan, the Plan shall govern and prevail. This Agreement is subject to all of the terms, conditions and provisions of the Plan, including, without limitation, the Plan's amendment provisions, and to such rules, regulations and interpretations relating to the Plan or this Agreement as are adopted by the Committee and in effect from time to time. By signing below, Grantee agrees and accepts on behalf of himself or herself, and Grantee's heirs, legatees and legal representatives, that all decisions or interpretations of the Committee with respect to the Plan or this Agreement are binding, conclusive and final.

THE GRANTEE ACKNOWLEDGES RECEIPT OF A COPY OF THE PLAN AND, IF ISSUANCE OF THE SHARES UNDERLYING THE SAR IS REGISTERED AT THE TIME OF GRANT, OF THE REGISTRATION STATEMENT ON FORM S-8 AND THE CORRESPONDING PLAN PROSPECTUS.

10. **Governing Law.** This Agreement shall be governed by the internal laws of the state of Delaware as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies. Any legal action or proceeding with respect to the Plan or this SAR may only be brought and determined in a court sitting in the County of Hillsborough, including the Federal District Court for the Middle District of Florida sitting in the County of Hillsborough, in the State of Florida. The Company may require that the action or proceeding be determined in a bench trial.

11. **Severability.** If any provision of this Agreement is or becomes or is deemed to be invalid, illegal or unenforceable, or would disqualify this SAR under any law the Committee deems applicable, then such provision will be construed or deemed amended to conform to the applicable law, or if the Committee determines that the provision cannot be construed or deemed amended without materially altering the intent of this agreement, then the provision will be stricken and the remainder of this agreement will remain in full force and effect.

12. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original but all of which together will constitute one and the same instrument.

*[Signature Page Follows]*

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<sup>1</sup> NTD: Replace bracketed clause with "cash" for a cash-settled SAR.

[SIGNATURE PAGE TO STOCK APPRECIATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the parties have executed this Stock Appreciation Rights Agreement on the \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

OPTEX SYSTEMS HOLDINGS, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

\_\_\_\_\_  
[Grantee]

\_\_\_\_\_



CONFIDENTIAL

**OPTEX SYSTEMS HOLDINGS, INC.  
RESTRICTED STOCK UNIT AGREEMENT**

THIS RESTRICTED STOCK UNIT AWARD, dated \_\_\_\_\_ (the “Date of Grant”), is granted by Optex Systems Holdings, Inc., a Delaware corporation (the “Company”) to [NAME] (the “Grantee”) pursuant to the Company’s 2023 Equity Incentive Plan (the “Plan”). Capitalized terms used but not otherwise defined in this Agreement shall have the respective meanings given to them in the Plan.

WHEREAS, the Company believes it to be in the best interests of the Company, its subsidiaries and its shareholders for its directors, officers and other key employees to obtain or increase their stock ownership interest in the Company so that they will have a greater incentive to work for and manage the Company’s affairs in such a way that its shares may become more valuable; and

WHEREAS, the Grantee provides services to the Company or one of its subsidiaries as an officer or other employee and has been selected to receive a restricted stock unit award;

NOW, THEREFORE, in consideration of the premises and of the services to be performed by the Grantee, the Company and the Grantee hereby agree as follows:

1. GRANT

Subject to the terms and conditions of this Agreement and the Plan, the Company grants to the Grantee an Award of \_\_\_\_\_ restricted stock units (the “Restricted Stock Units”). Each Restricted Stock Unit represents the right to receive one share of Common Stock subject to the terms and conditions set forth in this Agreement and the Plan. The Restricted Stock Units shall be credited to a separate account maintained for the Grantee on the books and records of the Company (the “Account”). All amounts credited to the Account shall continue for all purposes to be part of the general assets of the Company.

2. RESTRICTIONS AND RESTRICTED PERIOD

(a) Restrictions. Except by will or the laws of descent and distribution, the Restricted Stock Units granted hereunder may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of and shall be subject to a risk of forfeiture under Section 3(a), in each case from and after the Date of Grant until, and to the extent that, such restrictions lapse and the Restricted Stock Units vest under Section 2(b) (such period, the “Restricted Period”). In addition, the Grantee acknowledges that any underlying shares of Common Stock delivered at settlement of the Restricted Stock Units may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed without (i) an effective registration statement or post-effective amendment to a registration statement under the Securities Act of 1933, as amended, with respect to such shares, or (ii) an opinion of counsel presented to the Company and satisfactory to the Company to the effect that the proposed disposition of such shares by the Grantee may lawfully be made otherwise than pursuant to an effective registration statement or post-effective amendment to a registration statement. Any prohibited transfer will be null and void ab initio and will be invalid and ineffective as to the Company, and the Company shall not be required (i) to transfer on its books any Restricted Stock Units or underlying shares of Common Stock which shall have been sold, assigned, transferred, pledged, hypothecated or otherwise disposed of in violation of any of the provisions set forth in this Agreement, or (ii) to treat as owner of such Restricted Stock Units or such shares or to accord the right to vote or to pay dividends to any transferee to whom such Restricted Stock Units or such shares shall have been so sold, assigned, transferred, pledged, or hypothecated.

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(b) Lapse of Restrictions.

(i) Subject to Section 2(b)(ii), the restrictions set forth above shall lapse, the Restricted Stock Units shall vest and the underlying shares of Common Stock shall be issued in accordance with Section 4 and become transferable (provided that such transfer is otherwise in accordance with federal and state securities laws) and non-forfeitable in accordance with the following schedule, but if, and only if, the Grantee's employment has not been terminated, by the Company or the Grantee, for any reason, with or without Cause (such event, a "Termination Event") during the period beginning on the Date of Grant and ending on the applicable vesting date:

As to \_\_\_\_ % of the Restricted Stock Units:  
On the \_\_\_\_<sup>1</sup> anniversary of the Date of Grant.

As to \_\_\_\_ % of the Restricted Stock Units:  
On the \_\_\_\_ anniversary of the Date of Grant.

Once vested, the Restricted Stock Units become "Vested Units."

(ii) Subject to the Committee's ability to accelerate vesting pursuant to Section 11(c) of the Plan, all unvested Restricted Stock Units shall become immediately and fully vested upon the occurrence of any of the following events (each an "Accelerated Vesting Event"), but if, and only if, no Termination Event occurs with respect to the Grantee at any time during the period beginning on the Date of Grant and ending on the date the Accelerated Vesting Event occurs: (A) the Grantee's death or Disability, or (B) a Change of Control of the Company.

(c) Rights as a Shareholder.

(i) The Grantee shall not have any rights of a shareholder with respect to the shares of Common Stock underlying the Restricted Stock Units unless and until the Restricted Stock Units vest and are settled by the issuance of such shares of Common Stock.

(ii) Upon and following the settlement of the Restricted Stock Units in accordance with Section 4 hereof, the Grantee shall be the record owner of the shares of Common Stock underlying the Restricted Stock Units unless and until such shares are sold or otherwise disposed of, and as record owner shall be entitled to all rights of a shareholder of the Company (including voting rights).

3. TERMINATION OF EMPLOYMENT

(a) Forfeiture of Unvested Restricted Stock Units. If a Termination Event with respect to the Grantee occurs prior to the end of the Restricted Period for any reason (other than an Accelerated Vesting Event described in Section 2(b)(ii)), then the Restricted Stock Units that are unvested at that time shall be forfeited to the Company under Section 3(c). Restricted Stock Units that are vested at such time shall not be forfeited upon such Termination Event, but shall remain subject to this Agreement.

(b) Leave of Absence. In addition, if the Grantee takes a military, sick leave or other bona fide leave of absence from the Company and its subsidiaries, and the period of such leave exceeds 3 months, the Grantee will be considered to have terminated employment from the Company and its subsidiaries for purposes hereof on the later of (i) the first day immediately following such 3-month period, or (ii) the last day that the Grantee's right to reemployment following the end of such leave is guaranteed by law or contract with the Company or a subsidiary.

(c) Effect of Forfeiture. If Restricted Stock Units are forfeited, then, effective as of the time of forfeiture, such Restricted Stock Units shall be automatically and immediately cancelled and forfeited to the Company and shall no longer be outstanding, without payment of any consideration by the Company and without the need for notice from or any further action by the Company, and neither the Grantee nor any of Grantee's successors, heirs, assigns or personal representatives shall thereafter have any further right, title or interest in or to such forfeited Restricted Stock Units or the benefits of ownership thereof.

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<sup>1</sup> NTD: Restriction period must be at least one year under Section 9(b) of the Plan.

#### 4. SETTLEMENT

(a) Issuance of Shares. Subject to Section 5 hereof, promptly following the vesting date, and in any event no later than March 15 of the calendar year following the calendar year in which such vesting occurs, the Company shall (i) issue and deliver to the Grantee the number of shares of Common Stock equal to the number of Vested Units, minus, if applicable, any shares of common stock withheld to satisfy the Company's tax withholding obligations in accordance with the Plan, and (b) enter the Grantee's name on the books of the Company as the shareholder of record with respect to the shares of Common Stock delivered to the Grantee.

(b) Deferral Rules. Notwithstanding Section 4(a), in accordance with Section 14(a) of the Plan, the Committee may, but is not required to, prescribe rules pursuant to which the Grantee may elect to defer settlement of the Restricted Stock Units. Any deferral election must be made in compliance with such rules and procedures as the Committee deems advisable. If the Grantee is deemed a "specified employee" within the meaning of Section 409A of the Code, as determined by the Committee, at a time when the Grantee becomes eligible for settlement of the RSUs upon his "separation from service" within the meaning of Section 409A of the Code, then to the extent necessary to prevent any accelerated or additional tax under Section 409A of the Code, such settlement will be delayed until the earlier of: (i) the date that is six months following the Grantee's separation from service and (ii) the Grantee's death.

(c) No Rights in Forfeited Units. To the extent that the Grantee does not vest in any Restricted Stock Units, all interest in such Restricted Stock Units shall be forfeited. The Grantee has no right or interest in any Restricted Stock Units that are forfeited.

#### 5. TAX WITHHOLDING

When the Restricted Period ends with respect to any Restricted Stock Units, Grantee shall make appropriate arrangements with the Company, in accordance with the Plan and in a manner deemed satisfactory to the Committee, to provide for the withholding or payment of the amount that the Company considers necessary to satisfy its withholding obligations, as applicable.

#### 6. DEFINITION

(a) "Disability" means permanently and totally disabled within the meaning of Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

#### 6. REGISTRATION

(a) Timing of Registration. If the Company is advised by its counsel that shares deliverable upon settlement of the Restricted Stock Units are required to be registered under the Securities Act of 1933 ("Act") or any applicable state securities laws, or that delivery of the shares must be accompanied or preceded by a prospectus meeting the requirements of that Act or such state securities laws, and such registration has not then occurred or such prospectus has not then been delivered, then the Company will use its best efforts to effect the registration or provide the prospectus within a reasonable time following the initial vesting date, but delivery of shares by the Company may be deferred until the registration is effected or the prospectus is available. The Grantee shall have no interest in shares of Common Stock covered by the Restricted Stock Units until certificates for the shares are issued or such shares are issued in book-entry form.

(b) Legend. If the shares deliverable upon settlement of the Restricted Stock Units are not registered upon issuance, they shall bear the following legend, in addition to any other legend deemed necessary or desirable by the Committee:

The transferability of this certificate and the shares of stock represented hereby are subject to federal and state securities laws and, to the extent the issuance of such shares is not registered with the Securities and Exchange Commission on an effective registration statement, such shares are considered "restricted securities" for purposes of Rule 144 under the Securities Act of 1933, as amended, and may not be transferred in the absence of an opinion from counsel to the Company that such transfer does not violate federal securities laws.

## 7. AMENDMENT OR MODIFICATION

Except as provided otherwise herein, no term or provision of this Agreement may be amended, modified or supplemented orally, but only by an instrument in writing signed by the party against which or whom the enforcement of the amendment, modification or supplement is sought; provided, however, that this Agreement may be amended, modified, supplemented or cancelled without the Grantee's consent in accordance with the terms of the Plan.

## 8. LIMITED INTEREST

(a) No Right to Employment or Service. The grant of this Award shall not confer on the Grantee any right to continue as an employee, nor interfere in any way with the right of the Company to terminate the Grantee as an employee at any time.

(b) Capital Structure. The grant of this Award shall not affect in any way the right or power of the Company or any of its subsidiaries to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's or any subsidiary's capital structure or its business, or any merger, consolidation or business combination of the Company or any subsidiary, or any issuance or modification of any term, condition, or covenant of any bond, debenture, debt, preferred stock or other instrument ahead of or affecting the Common Stock or the rights of the holders of Common Stock, or the dissolution or liquidation of the Company or any subsidiary, or any sale or transfer of all or any part of its assets or business or any other Company or subsidiary act or proceeding, whether of a similar character or otherwise.

## 9. GOVERNING LAW; PLAN; REGISTRATION STATEMENT; PLAN PROSPECTUS

This Agreement shall be governed by the internal laws of the state of Delaware as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies. Any legal action or proceeding with respect to the Plan or the Restricted Stock Units may only be brought and determined in a court sitting in the County of Hillsborough, including the Federal District Court for the Middle District of Florida sitting in the County of Hillsborough, in the State of Florida. The Company may require that the action or proceeding be determined in a bench trial.

THE GRANTEE ACKNOWLEDGES RECEIPT OF A COPY OF THE PLAN AND, IF ISSUANCE OF THE SHARES UNDERLYING THE AWARD IS REGISTERED AT THE TIME OF GRANT, OF THE REGISTRATION STATEMENT ON FORM S-8 AND THE CORRESPONDING PLAN PROSPECTUS.

ALL PARTIES ACKNOWLEDGE THAT THIS RESTRICTED STOCK UNIT AWARD IS GRANTED UNDER AND PURSUANT TO THE PLAN, WHICH SHALL GOVERN ALL RIGHTS, INTERESTS, OBLIGATIONS, AND UNDERTAKINGS OF BOTH THE COMPANY AND THE GRANTEE. ALL CAPITALIZED TERMS NOT OTHERWISE DEFINED IN THIS RESTRICTED STOCK UNIT AGREEMENT SHALL HAVE THE MEANINGS ASSIGNED TO SUCH TERMS IN THE PLAN. UNLESS THE PLAN EXPRESSLY PROVIDES OTHERWISE, IN THE EVENT OF A CONFLICT BETWEEN ANY TERM OR PROVISION CONTAINED HEREIN AND A TERM OR PROVISION OF THE PLAN, THE APPLICABLE TERM AND PROVISION OF THE PLAN WILL GOVERN AND PREVAIL.

## 10. SEVERABILITY

If any provision of this agreement is or becomes or is deemed to be invalid, illegal or unenforceable, or would disqualify this Award under any law the Committee deems applicable, then such provision will be construed or deemed amended to conform to the applicable law, or if the Committee determines that the provision cannot be construed or deemed amended without materially altering the intent of this agreement, then the provision will be stricken and the remainder of this agreement will remain in full force and effect.

## 11. COUNTERPARTS

This agreement may be executed in one or more counterparts, each of which will be deemed to be an original but all of which together will constitute one and the same instrument.

*[Signature Page Follows]*

[SIGNATURE PAGE TO RESTRICTED STOCK UNIT AGREEMENT]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and the Grantee has executed this Agreement all as of the day and date first above written.

OPTEX SYSTEMS HOLDINGS, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
[Grantee]

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-270298) of our report dated December 18, 2023 relating to the consolidated financial statements of Optex Systems Holdings, Inc. appearing in this Annual Report on Form 10-K of Optex Systems Holdings, Inc. for the twelve months ended October 1, 2023.

/s/ Whitley Penn LLP

Dallas, Texas  
December 18, 2023

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**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 18, 2023

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**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 18, 2023

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**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 1, 2023, 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 18, 2023

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**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 1, 2023, 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*

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Karen Hawkins  
Principal Financial Officer and Principal Accounting Officer

Dated: December 18, 2023

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OPTEX SYSTEMS HOLDINGS, INC.  
CLAWBACK POLICY

(Adopted November 16, 2023)

**I. Overview.** The Board of Directors (the “**Board**”) of Optex Systems Holdings, Inc. (the “**Company**”) has adopted this Clawback Policy (the “**Policy**”) to provide for the recovery of erroneously awarded executive compensation in the event of an accounting restatement resulting from material noncompliance with financial reporting requirements under the federal securities laws. This Policy is designed to comply with Section 10D of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), Rule 10D-1 thereunder (“**Rule 10D-1**”) and the applicable Nasdaq listing rules (the “**Nasdaq Rules**”).

**II. Administration.** This Policy shall be administered by the Compensation Committee of the Board (if composed entirely of independent directors, or in the absence of such a committee, a majority of independent directors serving on the Board) (the “**Committee**”). Any determinations made by the Committee shall be final and binding on all affected individuals.

**III. Covered Executives.** This Policy applies to the Company’s current and former executive officers as defined in Rule 10D-1 from time to time, which at the Effective Date (as defined below) include the Company’s president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the Company, and also applies to such other senior executives who may from time to time be deemed subject to the Policy by the Committee (the “**Covered Executives**”).

**IV. Recovery of Erroneously Awarded Compensation; Accounting Restatement.** In the event the Company is required to prepare an accounting restatement due to the Company’s material noncompliance with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (a “**Big R**” restatement), or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a “**little r**” restatement), the Committee shall determine the amount of any excess Incentive-based Compensation (as defined below) received (a) during the three completed fiscal years immediately preceding the date on which the Company is required to prepare an accounting restatement (and if the Company changes its fiscal year, any transition period of less than nine months within or immediately following those three completed fiscal years) (b) by a person (i) on or after the effective date of the applicable Nasdaq listing rule, (ii) after beginning service as a Covered Executive, (iii) who served as a Covered Executive at any time during the performance period for the Incentive-based Compensation award, (c) while the Company has a class of securities listed on a national securities exchange or a national securities association.

The date on which the Company is required to prepare an accounting restatement is the earlier to occur of: (i) the date on which the Board, a committee of the Board, or any of the Company’s officers authorized to take such action if Board action is not required, conclude or reasonably should have concluded that the Company is required to prepare such an accounting restatement or (ii) the date a court, regulator, or legally authorized body directs the Company to prepare such an accounting restatement.

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The date on which Incentive-based Compensation is deemed received is the Company's first fiscal period during which the performance measure specified in the Incentive-based Compensation award is attained, even if the payment or grant of the income-based compensation occurs after the end of that period.

**V. Incentive-based Compensation.** For purposes of this Policy, "Incentive-based Compensation" means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of any financial reporting measure, and includes, without limitation, any such compensation granted under the Company's short-term incentive compensation programs, executive employment agreements, 2023 Equity Incentive Plan and any other compensation arrangements, programs or plans that the Company may adopt from time to time in the future. For these purposes, a "financial reporting measure" is a measure determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and all other measures that are derived wholly or in part from such measures, including non-GAAP financial measures, stock price or total shareholder return. For the avoidance of doubt, a financial reporting measure need not be presented in the Company's financial statements or included in a filing with the Securities and Exchange Commission ("SEC").

**VI. Excess Incentive-based Compensation: Amount Subject to Recovery.** The amount to be recovered shall be the excess of the Incentive-based Compensation paid to the Covered Executive based on the erroneous data over the Incentive-based Compensation that would have been paid to the Covered Executive had it been based on the restated results, computed without regard to any taxes paid, all as determined by the Committee.

If the Committee cannot determine the amount of excess Incentive-based Compensation received by the Covered Executive directly from the information in the accounting restatement, then it will make its determination based on a reasonable estimate of the effect of the accounting restatement.

**VII. Method of Recovery.** The Company will recover the amounts of erroneously awarded Incentive-based Compensation reasonably promptly, as determined in compliance with the applicable Nasdaq Rules. The Committee will determine, in its sole discretion, the method for recovering Incentive-based Compensation hereunder which may include, without limitation:

- (a) requiring reimbursement of cash Incentive-based Compensation previously paid;
- (b) seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based awards;
- (c) offsetting the recouped amount from any compensation otherwise owed by the Company to the Covered Executive;
- (d) cancelling outstanding vested or unvested equity awards; and/or

(e) taking any other remedial and recovery action permitted by law, as determined by the Committee.

To the extent that any Covered Executive fails to repay any erroneously awarded Incentive-based Compensation to the Company when due, the Company shall take all actions reasonable and appropriate to recover such any erroneously awarded Incentive-based Compensation from the Covered Executive. The applicable Covered Executive shall be required to reimburse the Company for any and all expenses reasonably incurred (including legal fees) by the Company in recovering such erroneously awarded Incentive-based Compensation in accordance with the immediately preceding sentence.

**VIII. Prohibition of Indemnification and Waiver.** The Company shall not indemnify any Covered Executive against (a) the loss of any erroneously awarded Incentive-based Compensation or (b) any claims relating to the Company's enforcement of its rights under this Policy. Further, the Company shall not enter into any agreement that exempts any Incentive-based Compensation that is granted, paid or awarded to a Covered Executive from the application of this Policy or that waives the Company's right to recovery hereunder, and this Policy shall supersede any such agreement (whether entered into before, on or after the Effective Date of this Policy).

**IX. Disclosure Requirements.** The Company shall file all disclosures with respect to this Policy required by applicable SEC filings and rules.

**X. Interpretation.** The Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy and for the Company's compliance with Nasdaq Rules, Section 10D of the Exchange Act, Rule 10D-1 thereunder and any other applicable law, regulation, rule or interpretation of the SEC or Nasdaq promulgated or issued in connection therewith.

**XI. Effective Date.** This Policy shall be effective as of the date it is adopted by the Board (the "**Effective Date**").

**XII. Amendment; Termination.** The Committee may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary. The Committee may terminate this Policy at any time. Notwithstanding anything to the contrary in this Section XII, no amendment or termination of the Policy shall be effective if such amendment or termination would (after taking into account any action taken by the Company contemporaneously with such amendment or termination) cause the Company to violate any federal securities laws, SEC rule or Nasdaq rule.

**XIII. Other Recovery Rights.** The Board intends that this Policy will be applied to the fullest extent required by applicable law and the Nasdaq Rules. Any employment agreement, equity award agreement, compensatory plan or similar agreement or arrangement entered into with a Covered Executive shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by such Covered Executive to abide by the terms of this Policy. Any right of recovery under this Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the Company. However, to the extent that the Covered Executive has already reimbursed the Company for any erroneously awarded Incentive-based Compensation received under any duplicative recovery obligations established by the Company or applicable law, it shall be appropriate for any such reimbursed amount to be credited to the amount of erroneously awarded Incentive-based Compensation that is subject to recovery under this Policy.

**XIV. Impracticability.** The Committee shall recover any excess Incentive-based Compensation in accordance with this Policy unless such recovery would be impracticable, as determined by the Committee, in accordance with Rule 10D-1 of the Exchange Act and the applicable Nasdaq listing rule.

**XV. Successors.** This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.

**ATTESTATION AND ACKNOWLEDGEMENT OF CLAWBACK POLICY**

By my signature below, I acknowledge and agree:

- 1) that I have reviewed the attached Clawback Policy of Optex Systems Holdings, Inc. (this "Policy"),
- 2) that, in the event of any inconsistency between this Policy and the terms of any employment agreement to which I am a party, the terms of any compensation plan, program, agreement or arrangement under which any compensation has been granted, awarded, earned or paid, or any other contractual arrangement, the terms of this Policy shall govern, and
- 3) to abide by all of the terms of this Policy both during and after my employment with Optex Systems Holdings, Inc., including, without limitation, by promptly repaying or returning any erroneously awarded Incentive-based Compensation to the Company as determined in accordance with this Policy.

Signature: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Date: \_\_\_\_\_

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