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

FORM 10-Q

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

For the quarterly period ended June 28, 2020

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

For the transition period from ______to______.

OPTEX SYSTEMS HOLDINGS, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware	**000-54114**	**90-0609531**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1420 Presidential Drive, Richardson, TX	75081-2439
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-Accelerated Filer [X] Smaller Reporting Company [X]

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).
Yes [ ] No [X]

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

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of August 11, 2020: 8,761,626 shares of common stock.

OPTEX SYSTEMS HOLDINGS, INC.
FORM 10-Q

For the period ended June 28, 2020

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Part 1. Financial Information

Item 1. Consolidated Financial Statements

OPTEX SYSTEMS HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 28, 2020

Optex Systems Holdings, Inc.
Condensed Consolidated Balance Sheets

	(Thousands, except share and per share data)			
	June 28, 2020 (Unaudited)		**September 29, 2019**	
ASSETS				
Cash and Cash Equivalents	$	2,788	$	1,068
Accounts Receivable, Net		2,977		3,066
Inventory, Net		10,203		10,535
Prepaid Expenses		279		348
Current Assets		**16,247**		**15,017**
Property and Equipment, Net		**1,067**		**1,102**
Other Assets				
Deferred Tax Asset		1,270		1,414
Right-of-use Asset		1,517		-
Security Deposits		23		23
Other Assets		**2,810**		**1,437**
Total Assets	**$**	**20,124**	**$**	**17,556**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable	$	1,058	$	1,833
Operating Lease Liability		485		-
Accrued Expenses		1,090		1,180
Accrued Warranty Costs		111		46
Credit Facility		-		250
Customer Advance Deposits		-		3
Current Liabilities		**2,744**		**3,312**
Credit Facility - Long Term		377		-
Operating Lease Liability - Long Term		1,083		-
Warrant Liability		2,540		2,036
Total Liabilities		**6,744**		**5,348**
Commitments and Contingencies				
Stockholders' Equity				
Common Stock – ($0.001 par, 2,000,000,000 authorized, 8,795,869 and 8,436,422 shares issued, and 8,761,626 and 8,436,422 outstanding, respectively)		9		8
Treasury Stock (at cost, 34,243 shares and zero shares held, respectively)		(64)		-
Additional Paid in capital		26,199		26,134
Accumulated Deficit		(12,764)		(13,934)
Stockholders' Equity		**13,380**		**12,208**
Total Liabilities and Stockholders' Equity	**$**	**20,124**	**$**	**17,556**

The accompanying notes are an integral part of these financial statements

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

	(Thousands, except share and per share data)			
	Three months ended		Nine months ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
Revenue	$ 5,849	$ 5,347	$ 18,682	$ 18,325
Cost of Sales	4,368	4,274	14,114	13,829
Gross Margin	1,481	1,073	4,568	4,496
General and Administrative Expense	855	808	2,442	2,350
Operating Income	626	265	2,126	2,146
(Loss) Gain on Change in Fair Value of Warrants	(585)	81	(504)	(465)
Interest Expense	(5)	(5)	(17)	(17)
Other (Expense) Income	(590)	76	(521)	(482)
Income Before Taxes	36	341	1,605	1,664
Income Tax Expense (Benefit), net	$ 131	$ (35)	435	236
Net (Loss) Income	$ (95)	$ 376	$ 1,170	$ 1,428
Deemed dividends on participating securities	-	(124)	(372)	(471)
Net (loss) income applicable to common shareholders	$ (95)	$ 252	$ 798	$ 957
Basic (loss) income per share	$ (0.01)	$ 0.03	$ 0.09	$ 0.11
Weighted Average Common Shares Outstanding - basic	8,491,803	8,398,314	8,472,739	8,372,918
Diluted (loss) income per share	$ (0.01)	$ 0.03	$ 0.09	$ 0.11
Weighted Average Common Shares Outstanding - diluted	8,491,803	9,649,660	8,596,745	9,114,055

The accompanying notes are an integral part of these financial statements

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

	(Thousands) Nine months ended	
	June 28, 2020	**June 30, 2019**
Cash Flows from Operating Activities:		
Net Income	$ 1,170	$ 1,428
Adjustments to Reconcile Net Income to Net Cash provided by (used in) Operating Activities:		
Depreciation and Amortization	185	255
Loss on Change in Fair Value of Warrants	504	465
Stock Compensation Expense	120	84
Deferred Tax	144	-
(Gain) On Sale of Fixed Assets	-	(3)
Accounts Receivable	89	273
Inventory, net	332	(1,939)
Prepaid Expenses	69	(177)
Accounts Payable and Accrued Expenses	(814)	(38)
Federal Income Taxes Payable	-	(22)
Accrued Warranty Costs	65	(60)
Prepaid Royalties	-	23
Customer Advance Deposits	(3)	(304)
Increase (Decrease) In Accrued Estimated Loss On Contracts	-	-
Total Adjustments	**691**	**(1,443)**
Net Cash provided by (used in) Operating Activities	**1,861**	**(15)**
Cash Flows used in Investing Activities		
Purchases of Property and Equipment	(150)	(136)
Proceeds From Sale of Fixed Assets	-	4
Net Cash used in Investing Activities	**(150)**	**(132)**
Cash Flows provided by (used in) Financing Activities		
Cash Paid for Taxes Withheld On Net Settled Restricted Stock Unit Share Issue	(54)	(37)
Borrowings from payments (to) Credit Facility	127	(50)
Proceeds from Warrant Exercise	-	72
Warrant Repurchase	-	(75)
Stock Repurchase	(64)	-
Net Cash provided by (used in) Financing Activities	**9**	**(90)**
Net Increase (Decrease) in Cash and Cash Equivalents	1,720	(237)
Cash and Cash Equivalents at Beginning of Year	1,068	1,133
Cash and Cash Equivalents at End of Period	**$ 2,788**	**$ 896**
Supplemental Cash Flow Information:		
Non Cash Transactions:		
Right-of-Use Asset	$ 1,811	$ -
Operating Lease Liabilities	(1,894)	-
Cash Transactions:		
Cash Paid for Taxes	289	360
Cash Paid for Interest	16	18

The accompanying notes are an integral part of these financial statements

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

(Thousands, except share data)

	Three months ended June 30, 2019						
	Common Shares Issued	**Treasury Shares**	**Common Stock**	**Treasury Stock**	**Additional Paid in Capital**	**Retained Earnings**	**Total Stockholders Equity**
Balance at March 31, 2019	8,388,918	-	$ 8	$ -	$ 25,959	$ (18,550)	$ 7,417
Stock Compensation Expense	-	-	-	-	26	-	26
Exercise of Warrants for Common Shares at $1.50 (1)	47,504	-	-		120	-	120
Net income	-	-	-	-	-	376	376
Balance at June 30, 2019	**8,436,422**	**-**	**$ 8**	**$ -**	**$ 26,105**	**$ (18,174)**	**$ 7,939**

	Nine months ended June 30, 2019						
	Common Shares Issued	**Treasury Shares**	**Common Stock**	**Treasury Stock**	**Additional Paid in Capital**	**Retained Earnings**	**Total Stockholders Equity**
Balance at September 30, 2018	8,333,353	-	$ 8	$ -	$ 25,938	$ (19,602)	$ 6,344
Stock Compensation Expense	-	-	-	-	84	-	84
Vested restricted stock units issued net of tax withholding	55,565	-	-	-	(37)	-	(37)
Exercise of Warrants for Common Shares at $1.50 (1)	47,504	-	-		120	-	120
Net income	-	-	-	-	-	1,428	1,428
Balance at June 30, 2019	**8,436,422**	**-**	**$ 8**	**$ -**	**$ 26,105**	**$ (18,174)**	**$ 7,939**

	Three months ended June 28, 2020						
	Common Shares Issued	**Treasury Shares**	**Common Stock**	**Treasury Stock**	**Additional Paid in Capital**	**Retained Earnings**	**Total Stockholders Equity**
Balance at March 29, 2020	8,495,869	-	$ 8	$ -	$ 26,137	$ (12,669)	$ 13,476
Stock Compensation Expense	-	-	-		63	-	63
Restricted Board Shares Issued (2)	300,000		1	-	(1)	-	-
Common Stock Repurchase (3)	-	34,243	-	(64)	-	-	(64)
Net income	-	-	-		-	(95)	(95)
Balance at June 28, 2020	**8,795,869**	**34,243**	**$ 9**	**$ (64)**	**$ 26,199**	**$ (12,764)**	**$ 13,380**

	Nine months ended June 28, 2020						
	Common Shares Issued	**Treasury Shares**	**Common Stock**	**Treasury Stock**	**Additional Paid in Capital**	**Retained Earnings**	**Total Stockholders Equity**
Balance at September 29, 2019	8,436,422	-	$ 8	$ -	$ 26,134	$ (13,934)	$ 12,208
Stock Compensation Expense	-	-	-	-	120	-	120
Vested restricted stock units issued net of tax withholding	59,447	-	-	-	(54)	-	(54)
Restricted Board Shares Issued (2)	300,000		1	-	(1)	-	-
Common Stock Repurchase (3)	-	34,243	-	(64)	-	-	(64)
Net income	-	-	-	-	-	1,170	1,170
Balance at June 28, 2020	**8,795,869**	**34,243**	**$ 9**	**$ (64)**	**$ 26,199**	**$ (12,764)**	**$ 13,380**

(1) Exercise of warrants for gross proceeds of $72 thousand and a warranty liability fair market value of $48 thousand as of the exercise date.

(2) 100,000 restricted common shares issued to each of the Independent Board of Directors (Rimmy Malhotra, Dale Lehman, Larry Hagenbuch) on April 30, 2020 with 20% vesting as of each January 1 each year over a five-year period. The value of the shares at issue date is $525,000 for 300,000 shares to be amortized over the vesting period.

(3) Common shares repurchased in the open market between June 11, 2020 and June 26, 2020 for $64 thousand and held in treasury stock using the cost method.

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. The Company also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Optex Systems Holdings' products consist primarily of build to customer print products that are delivered both directly to the military and to other defense prime contractors or commercial customers. The Company's consolidated revenues are derived from the U.S. government, 53%, three major U.S defense contractors, 19%, and 6% and 6%, one commercial customer, 9%, and all other customers, 7%. Approximately 95% of the total company revenue is generated from domestic customers and 5% is derived from a Canadian customer. Optex Systems Holdings' operations are based in Dallas and Richardson, Texas in leased facilities comprising 93,967 square feet. As of June 28, 2020, Optex Systems Holdings operated with 109 full-time equivalent employees.

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

Optex Systems Holdings, Inc. is defined as essential critical infrastructure as a defense contractor under the guidance of the federal, state and local authorities for both our Optex Systems (Richardson, TX), and Applied Optics Center (Dallas, TX) operating segments. As such, the Company continues to remain open during the COVID-19 shelter in place orders and closures. To date, we have experienced minimal disruption as a result of the pandemic. While we anticipate the possibility of some unforeseen operational impacts during the next six to twelve months related to travel restrictions, illness, or interruptions with our customer or supply chain, we believe we are in a strong position to mitigate any significant adverse financial impacts to the current fiscal year ending September 27, 2020.

Note 2 - Accounting Policies

Basis of Presentation

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

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

These condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and the notes thereto included in the Optex Systems Holdings' Form 10-K for the year ended September 29, 2019 and other reports filed with the SEC.

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

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 and one equipment lease which extends beyond twelve months and fall under the guidance of ASC Topic 842. Adoption of ASC Topic 842 resulted in the balance sheet recognition of a right-of-use asset of $1.8 million and corresponding operating lease liabilities of approximately $1.9 million as of September 30, 2019, representing the present value of future lease payments as of the beginning of the year, for the term of the equipment lease and both segment facility leases and which assumes the exercise of a five year renewal option at the Applied Optics Center as of November 1, 2021. See also Note 4.

Inventory: As of June 28, 2020, and September 29, 2019, inventory included:

	(Thousands)	
	June 28, 2020	**September 29, 2019**
Raw Material	$ 6,515	$ 7,395
Work in Process	3,853	3,599
Finished Goods	460	254
Gross Inventory	$ 10,828	$ 11,248
Less: Inventory Reserves	(625)	(713)
Net Inventory	$ 10,203	$ 10,535

Concentration of Credit Risk: Optex Systems Holdings' accounts receivables for the period ended June 28, 2020 are derived from revenues of U.S. government agencies: 31.2%, three major U.S. defense contractors: 33.5%, 10.1% and 8.2%, one commercial customer, 9.6%, and all other customers: 7.4%. The Company does not believe that this concentration results in undue credit risk because of the financial strength of the customers and its long history with these customers.

Accrued Warranties: Optex Systems Holdings accrues product warranty liabilities based on the historical return rate against period shipments as they occur and reviews and adjusts these accruals quarterly for any significant changes in estimated costs or return rates. The accrued warranty liability includes estimated costs to repair or replace returned warranty backlog units currently in-house plus estimated costs for future warranty returns that may be incurred against warranty covered products previously shipped as of the period end date. As of June 28, 2020, and September 29, 2019, the Company had warranty reserve balances of $111 thousand and $46 thousand, respectively.

	Three months ended		**Nine months ended**	
	June 28, 2020	**June 30, 2019**	**June 28, 2020**	**June 30, 2019**
Beginning balance	$ 105	$ 91	$ 46	$ 101
Incurred costs for warranties satisfied during the period	(16)	(62)	(16)	(89)
Warranty Expenses:				
Warranties reserved for new product shipped during the period*(1)*	22	2	78	54
Change in estimate for pre-existing warranty liabilities*(2)*	-	10	3	(25)
Warranty Expense	22	12	81	29
Ending balance	**$ 111**	**$ 41**	**$ 111**	**$ 41**

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

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

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

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

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

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

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

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

The methods and significant inputs and assumptions utilized in estimating the fair value of the warrant liabilities, as well as the respective hierarchy designations are discussed further in Note 6 "Warrant Liabilities". The warrant liability measurement is considered a Level 3 measurement based on the availability of market data and inputs and the significance of any unobservable inputs as of the measurement date.

Revenue Recognition: The majority of the Company's contracts and customer orders originate with fixed determinable unit prices for each deliverable quantity of goods defined by the customer order line item (performance obligation) and include the specific due date for the transfer of control and title of each of those deliverables to the customer at pre-established payment terms, which are generally within thirty to sixty days from the transfer of title and control. We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods. In addition, the Company has one ongoing service contract which began in October 2017 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 over a three-year period. Revenue recognition for this program has been recorded by the Company, and compensated by the customer, at fixed monthly increments over time, consistent with the defined contract maintenance period.

During the three and nine month periods ended June 28, 2020 there was zero and $3 thousand of revenue recognized from customer deposit liabilities (deferred contract revenue). As of June 28, 2020, there are no customer deposit liabilities. As of the three and nine months ended June 28, 2020, there are no sales commissions or other significant deferred contract costs.

Income Tax/Deferred Tax: As of June 28, 2020, Optex Systems, Inc. has a deferred tax asset valuation allowance of ($1.0) million against deferred tax assets of $2.3 million, as compared to a valuation allowance of ($1.0) million against deferred tax assets of $2.4 million as of September 29, 2019. 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 2019 which may not be fully recognized due to an IRS Section 382 limitation related to a change in control. During the nine months ended June 28, 2020, our deferred tax assets decreased by ($0.1) million related to current year tax adjustments for amortization expenses and an applied net operating loss carryforward.

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

A significant number of our outstanding warrants are participating securities which share dividend distributions and the allocation of any undistributed earnings (deemed dividends) with our common shareholders. During the three and nine months ended June 28, 2020, there were no declared dividends and $0 thousand and $372 thousand in allocated undistributed earnings attributable to the participating warrants, respectively. During the three and nine months ended June 30, 2019, there were no declared dividends, and $124 thousand and $471 thousand in undistributed earnings attributable to participating warrants.

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

For the three months ended June 28, 2020, 182,000 unvested restricted stock units and 300,000 shares of unvested restricted stock (which convert 210,112 incremental shares) were excluded from the diluted earnings per share calculation as antidilutive due to the net loss. For the nine months ended June 28, 2020, 182,000 unvested restricted stock units and 300,000 shares of unvested restricted stock (which convert 124,007 incremental shares) were included in the diluted earnings per share calculation. For three and nine months ended June 28, 2020, 4,125,200 warrants were excluded from the diluted earnings per share calculation due to the antidilutive effect of the undistributed earnings. For three and nine months ended June 30, 2019, 4,125,200 warrants (which convert to 1,150,296 and 634,692 incremental dilutive shares for the three and nine months, respectively) and 216,500 unvested restricted stock units (which converts to 101,050 and 106,445 incremental dilutive shares for the three and nine months, respectively), were included in the diluted earnings per share calculation as dilutive, and 25,000 stock options were excluded from the earnings per share calculation as antidilutive as they were “out of the money” and not exercisable during the period.

Note 3 - Segment Reporting

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

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

Optex Systems (OPX) – Richardson, Texas

The Optex Systems segment revenue is comprised of approximately 92% domestic military customers and 8% foreign military customers. For the nine months ending June 28, 2020, the Optex segment revenue is derived from the U.S. government, 42%, and two major U.S. defense contractors representing 15% 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 June 28, 2020, the Richardson facility operated with 72 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 28% and military sales to prime and subcontracted customers represent 72% of the external segment revenue. Approximately 85% of the AOC revenue is derived from external customers and approximately 15% is related to intersegment sales to Optex Systems in support of military contracts. For the nine months ended June 28, 2020, the AOC segment revenue from the U.S. government, one major commercial customer, and one major defense contractor represents approximately 11%, 9% and 6% 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 June 28, 2020, AOC operated with 37 full time equivalent employees in a single shift operation.

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

Reportable Segment Financial Information (thousands) Three months ended June 28, 2020

	Optex Systems Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	$ 3,851	$ 1,998	$ -	$ 5,849
Intersegment revenues	-	421	(421)	-
Total Revenue	$ 3,851	$ 2,419	$ (421)	$ 5,849
Interest expense	$ -	$ -	$ 5	$ 5
Depreciation and Amortization	$ 10	$ 51	$ -	$ 61
Income before taxes	$ 97	$ 592	$ (653)	$ 36
Other significant noncash items:				
Allocated home office expense	$ (170)	$ 170	$ -	$ -
Loss on change in fair value of warrants	$ -	$ -	$ 585	$ 585
Stock compensation expense	$ -	$ -	$ 63	$ 63
Warranty Expense	$ -	$ 22	$ -	$ 22
Segment Assets	$ 13,602	$ 6,522	$ -	$ 20,124
Expenditures for segment assets	$ 54	$ -	$ -	$ 54

Reportable Segment Financial Information
(thousands)
Three months ended June 30, 2019

	Optex Systems Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	$ 3,571	$ 1,776	$ -	$ 5,347
Intersegment revenues	-	622	(622)	-
Total Revenue	$ 3,571	$ 2,398	$ (622)	$ 5,347
Interest expense	$ -	$ -	$ 5	$ 5
Depreciation and Amortization	$ 7	$ 79	$ -	$ 86
Income before taxes	$ 95	$ 196	$ 50	$ 341
Other significant noncash items:				
Allocated home office expense	$ (171)	$ 171	$ -	$ -
Gain on Change in Fair Value of Warrants	$ -	$ -	$ (81)	$ (81)
Stock option compensation expense	$ -	$ -	$ 26	$ 26
Royalty expense amortization	$ 8	$ -	$ -	$ 8
Warranty Expense	$ -	$ 12	$ -	$ 12
Segment Assets	$ 9,606	$ 4,545	$ -	$ 14,151
Expenditures for segment assets	$ 39	$ 1	$ -	$ 40

Reportable Segment Financial Information
(thousands)
Nine months ended June 28, 2020

	Optex Systems Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	$ 11,917	$ 6,765	$ -	$ 18,682
Intersegment revenues	-	1,202	(1,202)	-
Total Revenue	$ 11,917	$ 7,967	$ (1,202)	$ 18,682
Interest expense	$ -	$ -	$ 17	$ 17
Depreciation and Amortization	$ 24	$ 161	$ -	$ 185
Income before taxes	$ 1,148	$ 1,098	$ (641)	$ 1,605
Other significant noncash items:				
Allocated home office expense	$ (510)	$ 510	$ -	$ -
Loss on change in fair value of warrants	$ -	$ -	$ 504	$ 504
Stock compensation expense	$ -	$ -	$ 120	$ 120
Warranty expense	$ -	$ 81	$ -	$ 81
Segment Assets	$ 13,602	$ 6,522	$ -	$ 20,124
Expenditures for segment assets	$ 100	$ 50	$ -	$ 150

	Reportable Segment Financial Information (thousands) Nine months ended June 30, 2019			
	Optex Systems Richardson	**Applied Optics Center Dallas**	**Other (non-allocated costs and intersegment eliminations)**	**Consolidated Total**
Revenues from external customers	$ 12,047	$ 6,278	$ -	$ 18,325
Intersegment revenues	-	1,432	(1,432)	-
Total Revenue	$ 12,047	$ 7,710	$ (1,432)	$ 18,325
Interest expense	$ -	$ -	$ 17	$ 17
Depreciation and Amortization	$ 23	$ 232	$ -	$ 255
Income before taxes	$ 1,326	$ 904	$ (566)	$ 1,664
Other significant noncash items:				
Allocated home office expense	$ (512)	$ 512	$ -	$ -
Loss on change in fair value of warrants	$ -	$ -	$ 465	$ 465
Stock option compensation expense	$ -	$ -	$ 84	$ 84
Royalty expense amortization	$ 23	$ -	$ -	$ 23
Warranty Expense	$ -	$ 29	$ -	$ 29
Segment Assets	$ 9,606	$ 4,545	$ -	$ 14,151
Expenditures for segment assets	$ 43	$ 93	$ -	$ 136

Note 4 - Commitments and Contingencies

Non-cancellable Operating Leases

Optex Systems Holdings leases its office and manufacturing facilities for the Optex Systems, Inc., Richardson address and the Applied Optics Center Dallas address, as well as certain office equipment under non-cancellable operating leases.

The leased facility under Optex Systems Inc. at 1420 Presidential Drive, Richardson, Texas consists of 49,100 square feet of space and expires March 31, 2021. The monthly base rent was $23.0 thousand through June 30, 2019 with annual rental payment inflationary increases between 3.4% and 4.8% occurring April 1, each year. The monthly rent includes approximately $11 thousand for additional Common Area Maintenance (CAM) fees and taxes, to be adjusted annually based on actual expenses incurred by the landlord.

The leased facility under the Applied Optics Center at 9839 and 9827 Chartwell Drive, Dallas, Texas, consists of 44,867 square feet of space at the premises. The current lease term will expire on October 31, 2021, with two renewal options available to the tenant, each with a renewal term duration of five years. The monthly base rent was $20.0 thousand through September 30, 2018 and escalates approximately 3% October 1, each year thereafter through 2021. The lease includes a one-month base rent abatement for October 1 through October 31, 2016 for $19.4 thousand. The monthly rent includes approximately $6.7 thousand for additional CAM, to be adjusted annually based on actual expenses incurred by the landlord. Our obligations to make payments under the lease are secured by a $125,000 standby letter of credit.

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

Optex Systems Holdings adopted the provisions of ASC Topic 842 "Leases" as of the fiscal year beginning on September 30, 2019. Optex Systems Holdings has two significant operating facilities leases and one equipment lease which extends beyond twelve months and fall under the guidance of ASC Topic 842. Adoption of ASC Topic 842 resulted in the balance sheet recognition of a right-of-use asset of $1.8 million and corresponding operating lease liabilities of approximately $1.9 million as of September 30, 2019, representing the present value of future lease payments for the term of the equipment lease and both segment facility leases and which assumes the exercise of a five year renewal option at the Applied Optics Center as of November 1, 2021.

As of June 28, 2020, the remaining minimum lease and estimated CAM payments under the non-cancelable office and facility space leases are as follows:

Non-cancellable Operating Leases

(Thousands)

	Optex Richardson	Applied Optics Center	Office Equipment	Consolidated	
Fiscal Year	**Facility Lease Payments**	**Facility Lease Payments**	**Lease Payments**	**Total Lease Payments**	**Total Variable CAM Estimate**
2020 Base year lease	$ 74	$ 64	$ 5	$ 143	$ 53
2021 Base year lease	148	263	18	429	149
2022 Base year lease	-	22	5	27	7
Total base lease payments	**$ 222**	**$ 349**	**$ 28**	**$ 599**	**$ 209**
2022-2026 Lease option-assumed exercise(2)	-	1,312	-	1,312	
Total lease payments	**$ 222**	**$ 1,661**	**$ 28**	**$ 1,911**	
Imputed interest on lease payments (1)	(6)	(335)	(2)	(343)	
Total Operating Lease Liability(3)	**$ 216**	**$ 1,326**	**$ 26**	**$ 1,568**	
Right-of-use Asset	**$ 186**	**$ 1,305**	**$ 26**	**$ 1,517**	

(1) Assumes a discount borrowing rate of 7.5%.

(2) Assumes only one of the two five year options are exercised. The Company believes it is reasonably certain to exercise the first of the two 5 year options but believes the additional 5 year option falls outside of the range of reasonable predicability.

(3) Short-term and Long-term portion of Operating Lease Liability is $485 thousand and $1,083 thousand, respectively.

Total facilities rental and CAM expense for both facility lease agreements as of the three and nine months ended June 28, 2020 was $187 thousand and $541 thousand, respectively. Total expense under facility lease agreements as of the three and nine months ended June 30, 2019 was $175 thousand and $523 thousand, respectively. Total office equipment rentals included in operating expenses was $7 thousand and $19 thousand for the three and nine months ended June 28, 2020 and $6 thousand and $23 thousand for the three and nine months ended June 30, 2019, respectively.

As of September 29, 2019, there was $83 thousand in unamortized deferred rent included in accrued liabilities which was reclassed to the right of use asset on adoption of ASC842.

Note 5 - Debt Financing

Credit Facility

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

On April 16, 2020, Optex Systems Holdings, Inc. and its subsidiary, Optex Systems, Inc. ("Optex", and with the Company, the "Borrower") entered into a line of credit facility (the "Facility") with BBVA, USA ("BBVA") The substantive terms are as follows:

- The principal amount of the Facility is $2.25 million. The Facility matures on April 15, 2022. The interest rate is BBVA's Prime Rate and is fixed at 3% for the first year, and all accrued and unpaid interest is payable monthly in arrears starting on May 15, 2020; and the principal amount is due in full with all accrued and unpaid interest and any other fees on April 15, 2022.

- There are commercially standard covenants including, but not limited to, covenants regarding maintenance of corporate existence, not incurring other indebtedness except trade debt, not changing more than 25% stock ownership of Borrower, and a Fixed Charge Coverage Ratio of 1.25:1, with the Fixed Charge Coverage Ratio defined as (earnings before taxes, amortization, depreciation, amortization and rent expense less cash taxes, distribution, dividends and fair value of warrants) divided by (current maturities on long term debt plus interest expense plus rent expense). As of June 28, 2020, the Company was in compliance with the covenants.

- The Facility contains commercially standard events of default including, but not limited to, not making payments when due; incurring a judgment of $10,000 or more not covered by insurance; not maintaining collateral and the like.

- The Facility is secured by a first lien on all of the assets of Borrower.

The outstanding balance on the facility was $377 thousand as of June 28, 2020.

Note 6-Warrant Liabilities

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

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

Valuation Assumptions		**Period ended September 30, 2018**		**Period ended June 30, 2019**		**Period ended September 29, 2019**		**Period ended June 28, 2020**
Exercise Price(1)	$	1.50	$	1.50	$	1.50	$	1.50
Warrant Expiration Date (1)		8/26/2021		8/26/2021		8/26/2021		8/26/2021
Stock Price (2)	$	1.71	$	2.06	$	1.56	$	1.90
Interest Rate (annual) (3)		2.88%		1.78%		1.63%		0.17%
Volatility (annual)		64.05%		57.56%		53.66%		52.82%
Time to Maturity (Years)		2.9		2.2		1.9		1.2
Calculated fair value per share	$	0.82	$	0.93	$	0.49	$	0.62

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

(2) Based on the trading value of common stock of Optex Systems Holdings, Inc. as of each presented period ended date.

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

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

Warrant Liability	**Warrants Outstanding**		**Fair Value per Share**		**Fair Value (000's)**
Fair Value as of period ended 9/30/2018	4,260,785	$	0.82	**$**	**3,500**
Reclassification to additional paid in capital upon exercise of warrants *(1)*	(47,504)				(48)
Warrant buyback and cancellation *(2)*	(88,081)				(72)
Loss on Change in Fair Value of Warrant Liability					465
Fair Value as of period ended 6/30/2019	**4,125,200**	**$**	**0.93**		**3,845**
Fair Value as of period ended 9/29/2019	**4,125,200**	**$**	**0.49**	**$**	**2,036**
Loss on Change in Fair Value of Warrant Liability					504
Fair Value as of period ended 6/28/2020	**4,125,200**	**$**	**0.62**	**$**	**2,540**

(1) Exercise of warrants for gross proceeds of $72 thousand and a warrant liability fair market value of $48 thousand as of the exercise date.

(2) Buyback of 88,081 warrants at $0.85 per warrant for total consideration of ($75) thousand and a warrant liability fair market value of $72 thousand.

During the nine months ended June 28, 2020 there were no new issues or exercises of existing warrants. During the nine months ended June 30, 2019, 47,504 warrants were exercised, and 88,081 warrants were repurchased from the holders and cancelled. During the nine months ended June 28, 2020 and June 30, 2019, the Company recognized a $504 thousand and a $465 thousand loss on the change in fair value of warrants, respectively.

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

Note 7-Stock Based Compensation

Stock Options issued to Employees, Officers and Directors

The Optex Systems Holdings 2009 Stock Option Plan provides for the issuance of up to 75,000 shares to the Company's officers, directors, employees and to independent contractors who provide services to Optex Systems Holdings as either incentive or non-statutory stock options determined at the time of grant. As of September 29, 2019, there were 25,000 fully vested stock options outstanding at an exercise price of $10 per share and an expiration date of December 18, 2020. During the nine months ended June 28, 2020, all of the 25,000 outstanding stock options were repurchased at $0.01 per option for a total transaction of $250. There were no new grants of stock options during the nine months ended June 28, 2020. As of June 28, 2020, there are zero stock options outstanding.

Restricted Stock Units issued to Officers and Employees

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

	Outstanding Unvested RSU's	Outstanding Unvested Restricted Shares
Unvested as of October 1, 2018	99,000	-
Granted - year ended September 29, 2019	200,000	-
Vested - year ended September 29, 2019	(82,500)	-
Unvested as of September 29, 2019	216,500	-
Granted – nine months ended June 28, 2020	50,000	300,000
Vested - nine months ended June 28, 2020	(84,500)	-
Unvested as of June 28, 2020	182,000	300,000

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. The Company will amortize the grant date fair market value of $264 thousand to stock compensation expense on a straight-line basis across the three-year vesting period beginning on January 2, 2019.

On January 7, 2019, the Company issued 55,565 common shares to three directors and officers, net of tax withholding of $37 thousand, in settlement of 82,500 restricted stock units which vested on January 1, 2019.

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

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

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

Stock Based Compensation Expense

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

	Stock Compensation (thousands)					
	Recognized Compensation Expense				Unrecognized Compensation Expense	
	Three months ended		Nine Months ended		As of period ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019	June 28, 2020	September 29, 2019
Restricted Shares	$ 31	$ -	$ 31	$ -	$ 494	$ -
Restricted Stock Units	32	26	89	92	219	200
Total Stock Compensation	**$ 63**	**$ 26**	**$ 120**	**$ 84**	**$ 713**	**$ 200**

Note 8 Stockholders' Equity

Dividends

As of the three and nine months ended June 28, 2020 and the twelve months ended September 29, 2019, there were no declared or outstanding dividends payable.

Common stock

During the three and nine months ended June 28, 2020, there were 59,447 issues of common shares in settlement of the restricted stock units vesting on January 1, 2020 and 300,000 restricted shares issued to independent board members on April 30, 2020. As of September 29, 2019, and June 28, 2020, the total issued common shares were 8,436,422 and 8,795,869, respectively.

On June 8, 2020 the Company announced authorization for a $1 million stock repurchase program. The shares authorized to be repurchased under the new repurchase program may be purchased from time to time at prevailing market prices, through open market or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC. During the three months and nine months ended June 28, 2020, there were 34,243 common shares repurchased through the program at a cost of $64 thousand. The shares have been returned to the Treasury. As of September 29, 2019, and June 28, 2020, the total outstanding common shares were 8,436,422 and 8,761,626, respectively. As of and June 28, 2020, there are 34,243 shares held in Treasury Stock.

Note 9 Subsequent Events

None.

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

Management's Discussion and Analysis or Plan of Operations

This MD&A is intended to supplement and complement our audited condensed consolidated financial statements and notes thereto for the fiscal year ended September 29, 2019 and our reviewed but unaudited consolidated financial statements and footnotes thereto for the quarter ended June 28, 2020, prepared in accordance with U.S. generally accepted accounting principles (GAAP). You are encouraged to review our consolidated financial statements in conjunction with your review of this MD&A. The financial information in this MD&A has been prepared in accordance with GAAP, unless otherwise indicated. In addition, we use non-GAAP financial measures as supplemental indicators of our operating performance and financial position. We use these non-GAAP financial measures internally for comparing actual results from one period to another, as well as for planning purposes. We will also report non-GAAP financial results as supplemental information, as we believe their use provides more insight into our performance. When non-GAAP measures are used in this MD&A, they are clearly identified as non-GAAP measures 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.

Background

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

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

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

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

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

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

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

Optex Systems Holdings, Inc. is defined as essential critical infrastructure as a defense contractor under the guidance of the federal, state and local authorities for both our Optex Systems (Richardson, TX), and Applied Optics Center (Dallas, TX) operating segments. As such, the Company continues to remain open during the COVID-19 shelter in place orders and closures. To date, we have experienced minimal disruption as a result of the pandemic. While we anticipate the possibility of some unforeseen operational impacts during the next six to twelve months related to travel restrictions, illness, or interruptions with our customer or supply chain, we believe we are in a strong position to mitigate any significant adverse financial impacts to the current fiscal year ending September 27, 2020.

Recent Orders

- On January 29, 2019, the Company announced a $1.0 million order associated with a multi-year agreement to supply a variety of optical components in support of the M1 Abrams Tank program. The products will be manufactured at the Applied Optics Center (AOC).

- On February 12, 2019, the Company announced a $1.9 Million order from Defense Logistics Agency Troop Support, Philadelphia. The products will be manufactured at the Applied Optics Center (AOC) Division of Optex Systems, Inc.

- On March 4, 2019, the Company announced a multi-year Indefinite Delivery Indefinite Quantity (IDIQ) award from Defense Logistics Agency Land and Maritime for periscopes for up to $1.3 Million over a three to five-year period and a Firmed Fixed Price award for $0.7 Million for 2019 and 2020 delivery.

- On May 20, 2019, the Company announced a $1.2 Million order from Atlantic Diving Supply through the U.S. Governments TLS Program for newly designed Laser Filter Units will be manufactured at the Applied Optics Center (AOC) Division.

- On June 10, 2019, the Company announced it has been awarded a $1.3 Million order as part of a multi-year strategic supplier agreement with a domestic manufacturer of premium optical devices.

- On November 12, 2019, the Company announced a multi-year Indefinite Delivery Indefinite Quantity (IDIQ) award from Defense Logistics Agency Land and Maritime for periscopes for up to $2.3 Million over a five-year period.

- On December 3, 2019, the Company announced a shared award for a maximum of $35 Million for Improved Commander Weapon System (ICWS) periscopes under a three-year Indefinite Delivery - Indefinite Quantity (IDIQ) contract with two additional optional years. Optex and another recipient have been awarded this shared award from Defense Logistics Agency, Land and Maritime. Each company's portion of the award will depend on price and performance over the ordering periods.

- On January 6, 2020, the Company announced a multi-year Indefinite Delivery Indefinite Quantity (IDIQ) award from Defense Logistics Agency Land and Maritime for periscopes for up to $2.3 million over a five-year period.

- On January 22, 2020, the Company announced it has been awarded a $1.1 Million order as part of a multi-year strategic supplier agreement with a domestic manufacturer of premium optical devices. The products will be manufactured at the Applied Optics Center (AOC) Division of Optex Systems, Inc.

- On January 27, 2020, the Company announced a multi-year Indefinite Delivery Indefinite Quantity (IDIQ) award from Defense Logistics Agency Land and Maritime for periscopes for up to $3.6 million over a five-year period.

- On February 18, 2020, the Company announced a multi-year Indefinite Delivery Indefinite Quantity (IDIQ) award from Defense Logistics Agency Land and Maritime for periscopes for up to $9.2 million over a five-year period.

Recent Events

Stock & Warrant Repurchases

On June 8, 2020 the Company announced authorization for a $1 million stock repurchase program. The shares authorized to be repurchased under the new repurchase program may be purchased from time to time at prevailing market prices, through open market or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC. As of June 28, 2020, the Company had repurchased 34,243 common shares at a cost of $64 thousand. The shares are held in Treasury Stock at cost.

Board and Compensation Changes

On November 4, 2019, the Board of Directors of Optex Systems Holdings, Inc. (the "Company") appointed three new directors: Larry Hagenbuch, Dale Lehmann and Rimmy Malhotra, all of whom have been qualified as independent as defined under Nasdaq Listing Rules by the Board. All three new independent directors will be compensated in accordance with the Company's non-employee director compensation policies. Larry Hagenbuch serves as the Audit Committee Chair and Rimmy Malhotra serves as the Compensation Committee Chair. Bill Bates and Karen Hawkins resigned as directors of the Company in order to enable the Company to have this reconstituted Board comprised of a majority of independent directors. David Kittay also resigned from the Company's Board and Audit Committee to pursue other business interests.

On November 19, 2019, the Board of Directors of Optex Systems Holdings, Inc. approved annual executive bonuses for Danny Schoening, CEO and Karen Hawkins, CFO of $75 thousand and $54 thousand, respectively, which were paid in December 2019.

On April 30, 2020, the Optex Systems Holdings, Inc. Board of Directors held a meeting and voted to increase the annual board compensation for the three independent directors from $22 thousand to $36 thousand with an effective date of January 1, 2020, in addition to granting 100,000 restricted shares to each independent director which shall vest at a rate of 20% per year (20,000 shares) each January 1st, over the next five years, through January 1, 2025. The board also voted that Dale Lehman would assume the role of Nominating Committee Chair.

Results of Operations

Non-GAAP Adjusted EBITDA

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

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

The table below summarizes our three and nine month operating results for the periods ended June 28, 2020 and June 30, 2019, in terms of both the GAAP net income measure and the non-GAAP Adjusted EBITDA measure. We believe that including both measures allows the reader to have a "complete picture" of our overall performance.

	(Thousands)			
	Three months ended		**Nine Months ended**	
	June 28, 2020	**June 30, 2019**	**June 28, 2020**	**June 30, 2019**
Net (Loss) Income - (GAAP)	$ (95)	$ 376	$ 1,170	$ 1,428
Add:				
Loss (Gain) on Change in Fair Value of Warrants	585	(81)	504	465
Federal Income Tax Expense (Benefit)	131	(35)	435	236
Depreciation	61	86	185	255
Stock Compensation	63	26	120	84
Royalty License Amortization	-	8	-	23
Interest Expense	5	5	17	17
Adjusted EBITDA – Non-GAAP	**$ 750**	**$ 385**	**$ 2,431**	**$ 2,508**

Our adjusted EBITDA increased by $0.4 million to $0.8 million during the three months ended June 28, 2020 as compared to $0.4 million during the three months ended June 30, 2019. The increase in the three-month period is primarily driven by higher revenue and an increase in the gross margin at the Applied Optics Center operating segment. During the nine months ended June 28, 2020, adjusted EBITDA declined by $0.1 million to $2.4 million as compared to $2.5 million during the prior year nine- month period. The reduction in the nine-month adjusted EBITDA from the prior year nine-month period is driven by higher revenues and gross margins at the Applied Optics Center operating segment offset by increased general and administrative costs at the Optex-Richardson segment. Operating segment performance is discussed in greater detail throughout the following sections.

During the three-months ended June 28, 2020, we recognized a loss on the change in fair value of warrants of $0.6 million as compared to a gain of ($0.1) million in the prior year three-month period. During the nine-months ended June 28, 2020 and June 30, 2019, we recognized a loss on the change in fair value of warrants of $0.5 million. As this is a non-cash (gain) loss driven by the current fair market value of our outstanding warrants and unrelated to our core business operating performance, the change in fair value losses and gains have historically been excluded from our adjusted EBITDA calculations presented above. Further discussion regarding the changes in fair value of the warrants and the related warrant liability can be found under "Other (Expense) Income" in the three and nine months comparative narratives of this report, as well as in Item 1, "Consolidated Financial Statements, Note 6 - Warrant Liabilities".

Segment Information

We have presented the operating results by segment to provide investors with an additional tool to evaluate our operating results and to have a better understanding of the overall performance of each business segment and its ability to perform in subsequent periods. 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 and the Applied Optics Center, Dallas plant 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 three and nine months ended June 28, 2020 and June 30, 2019 reconciled to the Condensed Consolidated Results of Operations as presented in Item 1, "Condensed Consolidated Financial Statements."

Results of Operations Selective Financial Info
(Thousands)

	Three months ended							
	June 28, 2020				June 30, 2019			
	Optex Richardson	**Applied Optics Center Dallas**	**Other (non-allocated costs and eliminations)**	**Consolidated**	**Optex Richardson**	**Applied Optics Center Dallas**	**Other (non-allocated costs and eliminations)**	**Consolidated**
Revenue from External Customers	$ 3,851	$ 1,998	$ -	$ 5,849	$ 3,571	$ 1,776	$ -	$ 5,347
Intersegment Revenues	-	421	(421)	-	-	622	(622)	-
Total Segment Revenue	**3,851**	**2,419**	**(421)**	**5,849**	**3,571**	**2,398**	**(622)**	**5,347**
Total Cost of Sales	3,271	1,518	(421)	4,368	3,013	1,883	(622)	4,274
Gross Margin	**580**	**901**	**-**	**1,481**	**558**	**515**	**-**	**1,073**
Gross Margin %	***15.1%***	***37.2%***	***-***	***25.3%***	***15.6%***	***21.5%***	***-***	***20.1%***
General and Administrative Expense	653	139	63	855	634	148	26	808
Segment Allocated G&A Expense	(170)	170	-	-	(171)	171	-	-
Net General & Administrative Expense	483	309	63	855	463	319	26	808
Operating Income	**97**	**592**	**(63)**	**626**	**95**	**196**	**(26)**	**265**
Operating Income %	***2.5%***	***24.5%***	***-***	***10.7%***	***2.7%***	***8.2%***	***-***	***5.0%***
Gain on Purchased Asset	-	-	-	-	-	-	-	-
(Loss) Gain on Change in Fair Value of Warrants	-	-	(585)	(585)	-	-	81	81
Interest Expense	-	-	(5)	(5)	-	-	(5)	(5)
Net Income before taxes	**$ 97**	**$ 592**	**$ (653)**	**$ 36**	**$ 95**	**$ 196**	**$ 50**	**$ 341**
Net Income %	***2.5%***	***24.5%***	***-***	***0.6%***	***2.7%***	***8.2%***	***-***	***6.4%***

Results of Operations Selected Financial Info by Segment
(Thousands)

	Nine months ended							
	June 28, 2020				June 30, 2019			
	Optex Richardson	**Applied Optics Center Dallas**	**Other (non-allocated costs and eliminations)**	**Consolidated**	**Optex Richardson**	**Applied Optics Center Dallas**	**Other (non-allocated costs and eliminations)**	**Consolidated**
Revenue from External Customers	$ 11,917	$ 6,765	$ -	$ 18,682	$ 12,047	$ 6,278	$ -	$ 18,325
Intersegment Revenues	-	1,202	(1,202)	-	-	1,432	(1,432)	-
Total Segment Revenue	**11,917**	**7,967**	**(1,202)**	**18,682**	**12,047**	**7,710**	**(1,432)**	**18,325**
Total Cost of Sales	9,390	5,926	(1,202)	14,114	9,407	5,854	(1,432)	13,829
Gross Margin	**2,527**	**2,041**	**-**	**4,568**	**2,640**	**1,856**	**-**	**4,496**
Gross Margin %	***21.2%***	***25.6%***	***-***	***24.5%***	***21.9%***	***24.1%***	***-***	***24.5%***
General and Administrative Expense	1,889	433	120	2,442	1,826	440	84	2,350
Segment Allocated G&A Expense	(510)	510	-	-	(512)	512	-	-
Net General & Administrative Expense	1,379	943	120	2,442	1,314	952	84	2,350
Operating Income	**1,148**	**1,098**	**(120)**	**2,126**	**1,326**	**904**	**(84)**	**2,146**
Operating Income %	***9.6%***	***13.8%***	***-***	***11.4%***	***11.0%***	***11.7%***	***-***	***11.7%***
Loss on Change in Fair Value of Warrants	-	-	(504)	(504)	-	-	(465)	(465)
Interest Expense	-	-	(17)	(17)	-	-	(17)	(17)
Net Income before taxes	**$ 1,148**	**$ 1,098**	**$ (641)**	**$ 1,605**	**$ 1,326**	**$ 904**	**$ (566)**	**$ 1,664**
Net Income before taxes %	***9.6%***	***13.8%***	***-***	***8.6%***	***11.0%***	***11.7%***	***-***	***9.1%***

Our total revenues increased by $502 and $357 thousand or 9.3% and 1.9% during the three and nine months ended June 28, 2020, respectively, as compared to the three and nine months ended June 30, 2019. Increased revenue during the three months was driven by increased revenue of $280 thousand and $222 thousand at the Optex Richardson and the Applied Optics Center, respectively, over the prior year period. Increased revenue during the nine months was driven by increased revenue at the Applied Optics Center of $487 thousand, offset by a decrease in revenue of ($130) thousand at Optex-Richardson.

Consolidated gross margin increased by $408 thousand, or 38% during the three months ending June 28, 2020 as compared to the prior year period. The increased margin during the three-month period is primarily attributable to the Applied Optics Center as a result of favorable adjustments from gold reclamation credits related to coatings on day window programs, combined with favorable manufacturing overhead adjustments on increased production volume. The gross margin for the Optex Richardson segment was slightly above the prior year period on higher revenue, but at a reduced gross margin percentage due to mix changes and unfavorable manufacturing overhead adjustments on increased indirect labor costs. During the nine-month period ending June 28, 2020, the Consolidated gross margin increased by $72 thousand, or 1.6%, over the prior year nine-month period. The Consolidated gross margin percentage is unchanged from the prior year nine-month period, although fluctuations in gross margin percentages between segments have been primarily driven by changes in revenue mix during the nine months as compared to the prior year nine months. During the nine months, the Company has experienced significant increases in direct and indirect labor costs driven by a tight labor market in defense manufacturing, combined with difficulty hiring and maintaining a consistent work force during the current pandemic, primarily at our Optex Richardson segment. In March 2020, the Company added a six-sigma manufacturing engineer with a focus on the implementation of process improvements intended to improve production efficiency, reduce rework and cut material scrap costs. The increased labor cost resulted in higher manufacturing overhead rates during the current year, driving a manufacturing absorption cost adjustment during the third quarter. We expect to offset the increased manufacturing costs in the near term and over the next twelve months with production efficiency improvements, lower material scrap and rework, and higher manufacturing yields.

Our operating income increased by $361 thousand in the three months ended June 28, 2020, to $626 thousand, as compared to the prior year period operating income of $265 thousand. The increased three-month operating income is primarily driven by higher gross margin during the quarter partially offset by increased general and administrative costs of ($47) thousand during the current year three-month period. Operating income during the nine-month period ending June 28, 2020 decreased slightly, by ($20) thousand, from the prior year nine-month period. Increased general and administrative costs of $92 thousand during the current year nine months is primarily driven by changes in board fees, stock compensation, and costs associated with the annual shareholders meeting in February 2020.

Backlog

Backlog as of June 28, 2020, was $20.0 million as compared to a backlog of $24.6 million as of September 29, 2019, representing a decrease of ($4.6) million or 18.7%. During nine months ended June 28, 2020, the Company booked $14.0 million in new orders as compared to $21.4 million in the prior year period. We attribute the ($7.4) million decrease in orders to the timing of contract awards, IDIQ task order releases and purchase orders from our customers. During the nine months ending June 28, 2020, Optex announced an order for $1.1 million and four new IDIQ government contract awards for periscopes for a combined total up to $17.4 million over a five-year period, in addition to a shared award between Optex and another company, for a maximum of $35 Million for Improved Commander Weapon System (ICWS) periscopes under a three-year IDIQ contract with two additional optional years. IDIQ contract awards are reflected in backlog only to the extent that the individual task orders have been released by the customer pursuant to contract pricing and agreed delivery schedules. We believe the COVID-19 pandemic is a driving factor in lower contract awards since March 2020 as many customers and agencies adapt to remote work arrangements, limited travel and slower Defense Contract Management Agency (DCMA) and Defense Contract Audit Agency (DCAA) responses to solicitations, price audits and contract awards. The Company has several large outstanding proposals which are anticipated for award during the current fiscal year.

The following table depicts the current expected delivery by period of all contracts awarded as of June 28, 2020 in millions of dollars:

	(Millions)					
Product Line	**Q4 2020 Delivery**	**2021+ Delivery**	**Total Backlog 6/28/2020**	**Total Backlog 9/29/2019**	**Variance**	**% Chg**
Periscopes	$ 3.6	$ 4.4	$ 8.0	$ 10.3	$ (2.3)	(22.3)%
Sighting Systems	1.1	3.2	4.3	4.1	0.2	4.9)%
Other	0.6	2.4	3.0	3.9	(0.9)	(23.1)%
Optex Systems - Richardson	5.3	10.0	15.3	18.3	(3.0)	(16.4)%
Applied Optics Center - Dallas	1.8	2.9	4.7	6.3	(1.6)	(25.4)%
Total Backlog	**$ 7.1**	**$ 12.9**	**$ 20.0**	**$ 24.6**	**$ (4.6)**	(18.7)%

Optex Systems - Richardson:

During the nine months ended June 28, 2020, backlog for the Optex Systems Richardson segment decreased by ($3.0) million, or 16.4%, to $15.3 million from the fiscal year-end backlog of $18.3 million. The backlog reduction was primarily driven by decreases of ($2.3) million, or (22.3%) in the periscope product group, and ($0.9), or (23.1%) million in other products, offset by an increase in sighting systems of $0.2 million or 4.9%. Our decrease in "other" backlog is primarily driven by shipments of collimator assemblies against two of our long running MRS programs.

During the nine months ended June 28, 2020 we booked new periscope orders of $5.9 million, representing a ($2.6) million and (30.6%) reduction from the $8.5 million in periscope orders booked during the prior year nine months ended June 30, 2019. The prior year period included a $2.0 million order for Integrated Combat Weapon System (ICWS) glass periscopes deliverable in 2020. We are currently negotiating a sizable three-year, plus two-year option IDIQ periscope contract with revenue potential up to $11 million over the next five years which is pending completion of an ongoing DCAA audit ongoing since May. We anticipate additional periscope contracts in addition to task order awards against our existing IDIQ contracts for delivery in 2021 and beyond.

We booked new orders of $2.3 and $0.7 million in other and sighting systems product lines during the nine months ended June 28, 2020, compared to the prior year levels of $2.5 and $2.5 million, respectively. On August 3, 2020, we announced $2.0 million order from a U. S. prime contractor for optical subassemblies for shipments starting in 2021.

Applied Optics Center – Dallas

During the nine months ended June 28, 2020, the Applied Optics Center backlog decreased by ($1.6) million, or (25.4%), to $4.7 from the fiscal year end level of $6.3 million. New orders for our Applied Optics Center were $5.1 million in the nine months ended June 28, 2020 as compared to $7.9 million in the prior year nine -month period. In January 2020 we announced a new order for the Applied Optics Center of $1.1 million for commercial optical assemblies which will be delivered from July 2020 through December 2020. We are seeing increases in demand and proposal activity for laser coated filters and assemblies and anticipate substantially higher order bookings for both our commercial and military products for deliveries beginning in fiscal year 2021.

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

Three Months Ended June 28, 2020 Compared to the Three Months Ended June 30, 2019

Revenues. In the three months ended June 28, 2020, revenues increased by $502 thousand or 9.4% from the respective prior period in fiscal year 2019 as set forth in the table below:

	Three months ended (Thousands)			
Product Line	**June 28, 2020**	**June 30, 2019**	**Variance**	**% Chg**
Periscopes	$ 2,929	$ 2,254	$ 675	29.9
Sighting Systems	185	198	(13)	(6.6)
Other	737	1,119	(382)	(34.1)
Optical Systems – Richardson	3,851	3,571	280	7.8
Applied Optics Center – Dallas	1,998	1,776	222	12.5
Total Revenue	**$ 5,849**	**$ 5,347**	**$ 502**	**9.4**

Revenue on our periscope line increased by $675 thousand or 29.9% during the three months ended June 28, 2020 as compared to the three months ended June 30, 2019 primarily due to contract deliveries against our ICWS contract during the period. During the current year three-month period, we experienced a production delay on our ICWS periscope line driven a supplier quality issue and late delivery on a critical component which pushed $742 thousand of deliveries into the fourth quarter. The supplier has put a corrective action in place, and the component has been delivered to satisfy the fourth quarter requirements. We anticipate periscope revenues during the fourth quarter to increase substantially as we continue to build and ship the ICWS units in addition to our standard acrylic periscopes due through the end of the fiscal year.

Sighting systems revenue for the three months ending June 28, 2020 decreased by ($13) thousand or (6.6%) from revenues in the prior year period on lower repair order deliveries against our OWSS maintenance contract. We are anticipating a substantial increase in sighting systems revenue during the fourth quarter as we begin shipments against our DDAN spares and CWSS units during the period.

Other product revenue decreased by ($382) thousand, or (34.1%) during the three months ending June 28, 2020 as compared to the prior year period due to lower contract demand on MRS collimators and lower bonded prisms and mirrors. We anticipate other product revenue to continue at the reduced rate during the balance of the fiscal year.

Applied Optics Center revenue increased $222 thousand or 12.5% during the three months ended June 28, 2020 as compared to the three months ended June 30, 2019. Increased revenues were driven by higher commercial optical assemblies, military day windows and military LFU/ARD assemblies, offsetting reductions in laser interface filters and binoculars from the prior year period. We anticipate a decrease in Applied Optics Center revenue during the last quarter driven by delays in customer awards, pushing deliveries into fiscal year 2021.

We anticipate higher revenue for the Optex Systems – Richardson segment during the last quarter of the fiscal year as we ship against our prior year ICWS contract during the next three months, combined with increased deliveries on our other product line for CWSS units.

Gross Margin. The gross margin during the three-month period ending June 28, 2020 was 25.3% of revenue as compared to a gross margin of 20.1% of revenue for the period ending June 30, 2019. The higher gross margins as a percentage of revenue increased primarily due to favorable adjustments related to gold reclamation credits generated by the day window coating process and lower manufacturing overhead at our Applied Optics Center. Cost of sales increased to $4.4 million for the current period as compared to the prior year period of $4.3 million on higher period revenue. The gross margin increased by $0.4 million in the current year period to $1.5 million as compared to the prior year period of $1.1 million on higher revenue with gross margin improvements.

G&A Expenses. During the three months ended June 28, 2020 and June 30, 2019, we recorded operating expenses of $855 thousand and $808 thousand, respectively. Operating expenses increased by 5.8% between the respective periods primarily due to increased costs associated with board member changes, SEC proxy statement costs and the shareholders meeting held in February 2020.

Operating Income. During the three months ended June 28, 2020, we recorded an operating income of $626 thousand, as compared to operating income of $265 thousand during the three months ended June 30, 2019. The $361 thousand increase in operating income in the current year period over the prior year period is primarily due to increased revenue and gross margin, slightly offset with higher general and administrative spending in the current year quarter as compared to the prior year quarter.

Other (Expense) Income. During the three months ended June 28, 2020, we recognized a ($0.6) million loss on change in the fair value of warrants as compared to a $0.1 million gain in three months ending June 30, 2019. The current period loss in the fair value of warrants is primarily attributable to changes in the common stock volatility, US treasury rates, stock price and remaining warrant term from the prior period end. Additional information related to the change in valuation is discussed under Item 1, "Consolidated Financial Statements, Note 6 – Warrant Liability".

Net (Loss) Income applicable to common shareholders. During the three months ended June 28, 2020, we recorded a net loss applicable to common shareholders of ($0.1) million as compared to a net income applicable to common shareholders of $0.3 million during the three months ended June 30, 2019. The change in net income of ($0.4) million is primarily attributable to changes in the fair value of warrants of ($0.7) million, and increased income tax expense of ($0.2) million between the respective periods, offset by increased operating profit of $0.4 million and a reduction in deemed dividends on participating warrants of $0.1 million not in the current year period due to the net loss.

Nine Months Ended June 28, 2020 Compared to the Nine Months Ended June 30, 2019

Revenues. In the nine months ended June 28, 2020, revenues increased by $357 thousand or 1.9% from the respective prior period in fiscal year 2019 as set forth in the table below:

	Nine Months ended (Thousands)			
Product Line	**June 28, 2020**	**June 30, 2019**	**Variance**	**% Chg**
Periscopes	$ 8,257	$ 7,675	$ 582	7.6
Sighting Systems	560	1,087	(527)	(48.5)
Other	3,100	3,285	(185)	(5.6)
Optical Systems – Richardson	11,917	12,047	(130)	(1.1)
Applied Optics Center – Dallas	6,765	6,278	487	7.8
Total Revenue	**$ 18,682**	**$ 18,325**	**$ 357**	**1.9**

Revenues on our periscope line increased by $582 thousand or 7.6% during the nine months ended June 28, 2020 as compared to the nine months ended June 30, 2019 primarily due to contract deliveries against our ICWS contract during the nine-month period. During the last quarter, we experienced a production delay on our ICWS periscope line driven a supplier quality issue and late delivery on a critical component which pushed $742 thousand of deliveries into the fourth quarter. The supplier has put a corrective action in place, and the component has been delivered to satisfy the fourth quarter requirements. We anticipate periscope revenues during the fourth quarter to increase substantially as we continue to build and ship the ICWS units in addition to our standard acrylic periscopes due through the end of the fiscal year.

Sighting systems revenues for the nine months ending June 28, 2020 decreased by ($527) thousand or (48.5%) from revenues in the prior year period due to completion of the previous DDAN sighting system contract in the first quarter of 2019. We are anticipating a substantial increase in sighting systems revenue during the fourth quarter as we begin shipments against our DDAN spares and CWSS units during the period.

Other product revenues decreased by ($185) thousand, or (5.6%) during the nine months ending June 28, 2020 as compared the prior year period, primarily due to decreased deliveries against MRS collimators and bonded prisms and mirrors during the current year period. We anticipate other product revenue to continue at the reduced rate during the balance of the fiscal year.

Applied Optics Center revenue increased $487 thousand or 7.8% during the nine months ended June 28, 2020 as compared to the nine months ended June 30, 2019 primarily due to increased deliveries against laser filter unit (LFU) assemblies, day windows, and commercial optical assemblies, offset with decreases in deliveries on military laser interface filters and binoculars. We anticipate a decrease in Applied Optics Center revenue during the last quarter driven by delays in customer awards, pushing deliveries into fiscal year 2021.

Gross Margin. The gross margin during the nine months ending June 28, 2020 and June 30, 2019 was 24.5% of revenue. Cost of sales increased to $14.1 million for the current period as compared to the prior year period of $13.8 million. The gross margin increased by $0.1 million in the current year period to $4.6 million as compared to the prior year period of $4.5 million. We attribute the increased gross margin to higher revenue and changes in mix between the operating segments.

G&A Expenses. During the nine months ended June 28, 2020 and June 30, 2019, we recorded operating expenses of $2.44 million and $2.35 million, respectively. Operating expenses increased by $92 thousand, or 3.9%, during the period primarily due to increased costs associated with board member changes, SEC proxy statement costs and the shareholders meeting held in February 2020.

Operating Income. During the nine months ended June 28, 2020 and June 30, 2019, we recorded an operating income of $2.1 million. The operating income decreased by ($20) thousand during the current year period due to higher gross margins, offset by increased general and administrative costs as compared to the prior year nine months.

Other (Expense) Income. During the nine months ended June 28, 2020 and June 30, 2019, we recognized a ($0.5) million loss on change in the fair value of warrants. The current period loss in the fair value of warrants is primarily attributable to changes in the common stock volatility, US treasury rates, stock price and remaining warrant term from the prior September 29th year end. Additional information related to the change in valuation is discussed under Item 1, “Consolidated Financial Statements, Note 6 – Warrant Liability”.

Net Income (Loss) applicable to common shareholders. During the nine months ended June 28, 2020, we recorded a net income applicable to common shareholders of $0.8 million as compared to a net income applicable to common shareholders of $1.0 million during the nine months ended June 30, 2019. The decrease in net income of ($0.2) million is primarily attributable to changes in income tax expense of ($0.2) million between the respective periods.

Liquidity and Capital Resources

Optex Systems Holdings adopted the provisions of ASC Topic 842 “Leases” as of the fiscal year beginning on September 30, 2019. Optex Systems Holdings has two significant operating facilities leases and one equipment lease which extends beyond twelve months and fall under the guidance of ASC Topic 842. Adoption of ASC Topic 842 resulted in the balance sheet recognition of a right-of-use asset of $1.8 million and corresponding operating lease liabilities of approximately ($1.9) million as of September 30, 2019, the beginning of the fiscal year, representing the present value of future lease payments for the term of the equipment lease and both segment facility leases and which assumes the exercise of a five year renewal option at the Applied Optics Center as of November 1, 2021.

As of June 28, 2020, the Company had working capital of $13.5 million, as compared to $11.7 million as of September 29, 2019. Adoption of the new ASC 842 Lease guidance as of the beginning of the nine -month period ending June 28, 2020, reduced the calculation of working capital by ($0.5) million for the short-term portion of the operating lease liability. During the three and nine months ended June 28, 2020, the Company generated an operating income of $0.6 and $2.1 million as compared to operating income of $0.3 and $2.1 million, respectively, for the three- and nine -month periods ending June 30, 2019. The Company’s adjusted EBITDA increased by $0.4 million during the three months and decreased by ($0.1) million during the nine months ended June 28, 2020 to $0.8 and $2.4 million from $0.4 and $2.5 million during the three and nine months ended June 30, 2019, respectively. Backlog as of June 28, 2020 has decreased by ($4.6) million or (18.7%) to $20.0 million as compared to backlog of $24.6 million as of September 30, 2019. We believe the COVID-19 pandemic is a driving factor in lower contract awards, and reduced backlog since March 2020, as many customers and agencies adapt to remote work arrangements, limited travel and slower Defense Contract Management Agency (DCMA) and Defense Contract Audit Agency (DCAA) responses to solicitations, price audits and contract awards. The Company has several large outstanding proposals which are in negotiations and is expecting several large contract awards prior to the end of the fiscal year.

During the prior two years, the Company has seen significant increases in new orders and revenue growth primarily in the U.S. military products. We attribute the higher demand to increases in the U.S. military procurement budgets which were approved for the fiscal years 2018 through 2020 National Defense Authorization Acts (NDAA). We believe that the procurement budget increases in the federal government's most recent 2021 NDAA are favorable to the Company for its U.S. military products during the next twelve months. Significant increases in orders could cause a strain on our working capital as we purchase additional inventories and ramp up production personnel required to meet the higher production schedules.

Optex Systems Holdings, Inc. is defined as essential critical infrastructure as a defense contractor under the guidance of the federal, state and local authorities for both our Optex Systems (Richardson, TX), and Applied Optics Center (Dallas, TX) operating segments. As such, the Company continues to remain open during the COVID-19 shelter in place orders and closures. The Company remains fully operational with a complete workforce while practicing the CDC guidelines and required Dallas County mandates which require keeping a 6' distance between employees, face coverings, and daily employee health screening. To date, we have not encountered any COVID-19 related illnesses in our workforce and very limited workforce disruption pursuant to COVID-19 quarantine or childcare leave related issues.

We have reached out to our customers, suppliers and service providers regarding any potential impacts to operating conditions due to COVID-19 and we will continue to monitor any changes to our operations on an ongoing basis during the crisis. As a large majority of our customers and suppliers are engaged in significant defense manufacturing, they also remain open and operational during the pandemic. The Company has experienced several short- term delays in the delivery of some production supplies and materials, in addition to a few customer delivery schedule revisions, however, the impact to our operations to date have been minimal, and we have taken additional steps to mitigate potential key supplier risks. In addition, we have experienced some minor disruptions in activities related to travel restrictions, conferences and trade show cancellations. Our customers continue to pay outstanding accounts receivable balances to terms and we continue to pay to our supplier terms without interruption during the crisis. We do not expect COVID-19 to have a material effect to the demand for the Company's products or services in the near term, however we remain cautious that a long term pandemic could impact Congressional Budgets and future defense spending as the U.S. government seeks to mitigate the public health crisis and fund COVID-19 economic recovery efforts.

We have not received and are not presently seeking any financial assistance under the Coronavirus Aid, Relief, and Economic Security (CARES) Act or other COVID-19 related federal or state programs beyond the Families First Coronavirus Response Act (FFCRA) tax credit which is available to cover paid sick or family leave for our effected employees. Our current backlog and working capital position remain healthy with additional unused working capital available. On April 16, 2020, we executed a two-year $2.25 million revolving credit facility with BBVA USA, replacing the existing $2.25 million AvidBank line of credit which expired on April 21, 2020. Optex intends to use this revolving credit facility to support working capital for the Company's continuing operations and growth needs during the next two years. While we anticipate the possibility of some unforeseen operational impacts during the next six to twelve months related to travel restrictions, illness, or interruptions with our customer or supply chain, we believe we are in a strong position to mitigate any significant adverse financial impacts to the current fiscal year ending September 27, 2020.

The Company has historically funded its operations through working capital, convertible notes, stock offerings and bank debt. The Company's ability to generate positive cash flows depends on a variety of factors, including the continued development and successful marketing of the Company's products. At June 28, 2020, the Company had approximately $2.8 million in cash and an outstanding payable balance of $0.4 million against our working line of credit. The line of credit allowed for borrowing up to a maximum of $2.25 million. As of June 28, 2020, our outstanding accounts receivable was $3.0 million. The Company expects to incur net income, increased gross margins and adjusted EBITDA and positive cash flow from operating activities throughout 2020. Successful transition to attaining and maintaining profitable operations is dependent upon maintaining a level of revenue adequate to support the Company's cost structure. We began fiscal year 2020 with a strong backlog on increased customer orders and multiyear contracts, primarily in our defense products. Management intends to manage operations commensurate with its level of working capital and facilities line of credit during the next twelve months; however, uneven revenue levels driven by changes in customer delivery demands, first article inspection requirements, COVID-19 or other program delays combined with increasing inventory and production costs required to support the backlog 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.

As of September 29, 2019, and June 28, 2020, there are no outstanding declared and unpaid dividends.

On June 8, 2020 the Company announced authorization for a $1 million stock repurchase program. The shares authorized to be repurchased under the new repurchase program may be purchased from time to time at prevailing market prices, through open market or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC. As of June 28, 2020, the Company had repurchased 34,243 common shares at a cost of $64 thousand. The shares are held in Treasury Stock at cost.

Cash Flows for the Period from September 29, 2019 through June 28, 2020

Cash and Cash Equivalents: As of June 28, 2020, and September 29, 2019, we had cash and cash equivalents of $2.8 and $1.1 million, representing a net increase of $1.7 million.

Net Cash Provided by in Operating Activities. Net cash provided by operating activities during the nine months from September 29, 2019 to June 28, 2020 totaled $1.9 million. The primary sources of cash during the period relate to operating income of $2.1 million, decreases in accounts receivable of $0.1 million, payments against accounts payable and accrued expenses of ($0.8) million, use of inventory of $0.3 million and other changes in working capital of $0.2 million.

Net Cash Used in Investing Activities. In the nine months ended June 28, 2020, cash used in investing activities was $150 thousand for purchases of equipment.

Net Cash Provided by Financing Activities. Net cash provided by financing activities was $9 thousand during the nine months ended June 28, 2020 and relate to borrowings of $127 thousand against the credit facility offset with cash paid for taxes withheld on net settled share issues for restricted stock units of ($54) thousand and repurchases of common stock of ($64) thousand.

Critical Policies and Accounting Pronouncements

Our significant accounting policies are fundamental to understanding our results of operations and financial condition. Some accounting policies require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. These policies are described in “Critical Policies and Accounting Pronouncements” and Note 2 (Accounting Policies) to consolidated financial statements in our Annual Report on Form 10-K for the year ended September 29, 2019.

Cautionary Factors That May Affect Future Results

This Quarterly Report on Form 10-Q and other written reports and oral statements made from time to time by Optex Systems Holdings may contain so-called “forward-looking statements,” all of which are subject to risks and uncertainties. You can identify these forward-looking statements by their use of words such as “expects,” “plans,” “will,” “estimates,” “forecasts,” “projects” and other words of similar meaning. You can identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address Optex Systems Holdings’ growth strategy, financial results and product and development programs. You must carefully consider any such statement and should understand that many factors could cause actual results to differ from Optex Systems Holdings’ forward-looking statements. These factors include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward-looking statement can be guaranteed and actual future results may vary materially.

Optex Systems Holdings does not assume the obligation to update any forward-looking statement. You should carefully evaluate such statements in light of factors described in this Form 10-Q. In various filings Optex Systems Holdings has identified important factors that could cause actual results to differ from expected or historic results. 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.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by our Quarterly Report on Form 10-Q for the quarter ended June 28, 2020, management performed, with the participation of our Principal Executive Officer and Principal Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the report we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s forms, and that such information is accumulated and communicated to our management including our Principal Executive Officer and our Principal Financial Officer, to allow timely decisions regarding required disclosures. Based upon the evaluation described above, our Principal Executive Officer and our Principal Financial Officer concluded that, as of June 28, 2020, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the nine months ended June 28, 2020, 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. The Company has not experienced any significant disruptions in controls over financial reporting as a result of COVID-19.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in risk factors since the risk factors set forth in the Form 10-K filed for the year ended September 29, 2019.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

Exhibit No.	Description
31.1 and 31.2	Certifications pursuant to Section 302 of Sarbanes Oxley Act of 2002
32.1 and 32.2	Certifications pursuant to Section 906 of Sarbanes Oxley Act of 2002
EX-101.INS	XBRL Instance Document
EX-101.SCH	XBRL Taxonomy Extension Schema Document
EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
EX-101.LAB	XBRL Taxonomy Extension Label Linkbase Document
EX-101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

	OPTEX SYSTEMS HOLDINGS, INC.
Date: August 11, 2020	By: */s/ Danny Schoening* Danny Schoening Principal Executive Officer
	OPTEX SYSTEMS HOLDINGS, INC.
Date: August 11, 2020	By: */s/ Karen Hawkins* Karen Hawkins Principal Financial Officer and Principal Accounting Officer

Exhibit 31.1

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

I, Danny Schoening, certify that:

1. I have reviewed this Form 10-Q of Optex Systems Holdings, Inc.:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: */s/ Danny Schoening*
Danny Schoening
Principal Executive Officer

Dated: August 11, 2020

Exhibit 31.2

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

I, Karen Hawkins, certify that:

1. I have reviewed this Form 10-Q of Optex Systems Holdings, Inc.:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: *_/s/ Karen Hawkins_*
Karen Hawkins
Principal Financial Officer and
Principal Accounting Officer

Dated: August 11, 2020

Exhibit 32.1

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

In connection with this Annual Report of Optex Systems Holdings, Inc. (the “Company”) on this Form 10-Q for the quarter ended June 28, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Danny Schoening, Principal Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: */s/ Danny Schoening*
Danny Schoening
Principal Executive Officer

Dated: August 11, 2020

Exhibit 32.2

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

In connection with this Annual Report of Optex Systems Holdings, Inc. (the “Company”) on this Form 10-Q for the quarter ended June 28, 2020, 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: *Karen Hawkins*
Karen Hawkins
Principal Financial Officer and Principal Accounting Officer

Dated: August 11, 2020