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

FORM 10-Q

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

For the quarterly period ended December 29, 2024

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

For the transition period from ______to______.

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

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

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

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

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

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

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

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

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

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒ Smaller Reporting Company ☒

☐ Emerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of February 7, 2025: 6,896,738 shares of common stock.

OPTEX SYSTEMS HOLDINGS, INC.
FORM 10-Q

For the period ended December 29, 2024

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Part 1. Financial Information

Item 1. Unaudited Condensed Consolidated Financial Statements

OPTEX SYSTEMS HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Optex Systems Holdings, Inc.
Condensed Consolidated Balance Sheets

	(Thousands, except share and per share data)	
	(Unaudited) December 29, 2024	September 29, 2024
ASSETS		
Cash and Cash Equivalents	$ 2,491	$ 1,009
Accounts Receivable, Net	1,734	3,764
Inventory, Net	14,674	14,863
Contract Asset	196	219
Prepaid Expenses	265	217
Current Assets	**19,360**	**20,072**
Property and Equipment, Net	**1,520**	**1,292**
Other Assets		
Deferred Tax Asset	888	947
Intangibles, net	912	951
Right-of-use Asset	2,103	2,233
Security Deposits	23	23
Other Assets	**3,926**	**4,154**
Total Assets	**$ 24,806**	**$ 25,518**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$ 987	$ 1,177
Credit Facility	-	1,000
Operating Lease Liability	643	638
Federal Income Taxes Payable	74	74
Accrued Expenses	1,065	1,258
Accrued Selling Expense	224	237
Accrued Warranty Costs	22	52
Contract Loss Reserves	213	259
Customer Advance Deposits	210	255
Current Liabilities	**3,438**	**4,950**
Other Liabilities		
Operating Lease Liability, net of current portion	1,624	1,760
Other Liabilities	**1,624**	**1,760**
Total Liabilities	**5,062**	**6,710**
Commitments and Contingencies		
Stockholders' Equity		
Common Stock – ($0.001 par, 2,000,000,000 authorized, 6,896,738 and 6,873,938 shares issued and outstanding, respectively)	7	7
Additional Paid in Capital	21,557	21,465
Accumulated Deficit	(1,820)	(2,664)
Stockholders' Equity	**19,744**	**18,808**
Total Liabilities and Stockholders' Equity	**$ 24,806**	**$ 25,518**

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

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

	(Thousands, except share and per share data) Three months ended	
	December 29, 2024	**December 31, 2023**
Revenue	**$ 8,198**	**$ 6,968**
Cost of Sales	6,070	5,284
Gross Profit	**2,128**	**1,684**
General and Administrative Expense	1,212	1,131
Operating Income	**916**	**553**
Interest Expense	(13)	(7)
Income Before Taxes	**903**	**546**
Income Tax Expense, net	59	115
Net income	**$ 844**	**$ 431**
Basic income per share	**$ 0.12**	**$ 0.06**
Weighted Average Common Shares Outstanding - basic	**6,813,938**	**6,666,290**
Diluted income per share	**$ 0.12**	**$ 0.06**
Weighted Average Common Shares Outstanding - diluted	**6,912,594**	**6,721,661**

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

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

	(Thousands) Three months ended	
	December 29, 2024	**December 31, 2023**
Cash Flows from Operating Activities:		
Net Income	$ 844	$ 431
Adjustments to Reconcile Net Income to Net Cash provided by Operating Activities:		
Depreciation and Amortization	129	92
Stock Compensation Expense	92	113
Deferred Tax	59	35
Accounts Receivable	2,029	1,194
Inventory	189	(532)
Contract Asset	23	78
Prepaid Expenses	(48)	65
Leases	(1)	4
Accounts Payable and Accrued Expenses	(383)	713
Federal Income Taxes Payable	-	79
Accrued Warranty Costs	(29)	(27)
Accrued Selling Expense	(12)	(56)
Customer Advance Deposits	(45)	-
Contract Loss Reserves	(46)	65
Total Adjustments	**1,957**	**1,823**
Net Cash provided by Operating Activities	**2,801**	**2,254**
Cash Flows used in Investing Activities		
Purchases of Property and Equipment	(319)	(58)
Net Cash used in Investing Activities	**(319)**	**(58)**
Cash Flows used in Financing Activities		
Payments to Credit Facility	(1,000)	(1,000)
Cash Paid for Taxes Withheld on Net Settled Restricted Stock Unit Shares Issued	-	(27)
Net Cash used in Financing Activities	**(1,000)**	**(1,027)**
Net Increase in Cash and Cash Equivalents	1,482	1,169
Cash and Cash Equivalents at Beginning of Period	1,009	1,204
Cash and Cash Equivalents at End of Period	**$ 2,491**	**$ 2,373**
Supplemental Cash Flow Information		
Cash Paid for Interest	$ 13	$ 7
Cash Paid for Taxes	-	-

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

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

	Three months ended December 29, 2024				
	Common Shares Issued	**Common Stock**	**Additional Paid in Capital**	**Accumulated Deficit**	**Total Stockholders Equity**
Balance at September 29, 2024	6,873,938	$ 7	$ 21,465	$ (2,664)	$ 18,808
Stock Compensation Expense	-	-	92	-	92
Restricted Board Shares Issued(1)	22,800	-	-	-	-
Net Income	-	-	-	844	844
Balance at December 29, 2024	**6,896,738**	**$ 7**	**$ 21,557**	**$ (1,820)**	**$ 19,744**

	Three months ended December 31, 2023				
	Common Shares Issued	**Common Stock**	**Additional Paid in Capital**	**Accumulated Deficit**	**Total Stockholders Equity**
Balance at October 1, 2023	6,763,070	$ 7	$ 21,285	$ (6,432)	$ 14,860
Stock Compensation Expense	-	-	113	-	113
Vested Performance Based Shares net of withheld taxes(2)	60,623	-	(27)	-	(27)
Net Income	-	-	-	431	431
Balance at December 31, 2023	**6,823,693**	**$ 7**	**$ 21,371**	**$ (6,001)**	**$ 15,377**

(1) Restricted Share Grant on November 5, 2024 to independent board members of 7,600 shares each, vesting on January 1, 2026.
(2) Performance based shares vested October 2, 2023, December 22, 2023 and December 29, 2023 issued net of tax withheld. Shares were vested based on reaching 30-day VWAP of $3.70, $4.45 and $5.35 on the respective vesting dates.

The accompanying notes are an integral part of these condensed consolidated 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 for the three months ended December 29, 2024 were derived from the U.S. government (26%), five major U.S. defense contractors (18%, 9%, 8%, 7%, and 6%, respectively), one major commercial customer (6%) and all other customers (20%). Approximately 94% of the total company revenue is generated from domestic customers and 6% is derived from foreign customers. Optex Systems Holdings' operations are based in Dallas and Richardson, Texas in leased facilities comprising 93,967 square feet. As of December 29, 2024, Optex Systems Holdings operated with 128 full-time equivalent employees.

Note 2 - Accounting Policies

Basis of Presentation

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

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

These condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and the notes thereto included in the Optex Systems Holdings' Form 10-K for the year ended September 29, 2024 and other reports filed with the SEC.

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

Inventory: As of December 29, 2024 and September 29, 2024, inventory included:

	(Thousands)	
	December 29, 2024	**September 29, 2024**
Raw Material	$ 8,963	$ 9,460
Work in Process	6,086	5,954
Finished Goods	732	556
Gross Inventory	**$ 15,781**	$ 15,970
Less: Inventory Reserves	(1,107)	(1,107)
Net Inventory	**$ 14,674**	**$ 14,863**

Concentration of Credit Risk: Optex Systems Holdings' accounts receivables as of December 29, 2024 consisted of U.S. government agencies (11%), six major U.S. defense contractors (17%, 15%, 13%, 11%, 10% and 9%, respectively), one foreign military customer (8%) and all other customers (6%). The Company does not believe that this concentration results in undue credit risk given of the financial strength of the respective customers and the Company's long history with them.

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 December 29, 2024, and September 29, 2024, the Company had warranty reserve balances of $22 and $52 thousand, respectively.

The table below summarizes the warranty activity for the three months ended December 29, 2024 and December 31, 2023.

	Three months ended	
	December 29, 2024	**December 31, 2023**
Beginning balance	$ 52	$ 75
Incurred costs for warranties satisfied during the period	-	(32)
Warranty Expenses:		
Warranties reserved for new product shipped during the period*(1)*	12	52
Change in estimate for pre-existing warranty liabilities*(2)*	(42)	(47)
Warranty Expense	(30)	5
Ending balance	**$ 22**	**$ 48**

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

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

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

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

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

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

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

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

Revenue Recognition: The majority of the Company's contracts and customer orders originate with fixed determinable unit prices for each deliverable quantity of goods defined by the customer order line item (performance obligation) and include the specific due date for the transfer of control and title of each of those deliverables to the customer at pre-established payment terms, which are generally within thirty to sixty days from the transfer of title and control. We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods. In addition, the Company has one ongoing service contract which relates to optimized weapon system support (OWSS) and includes ongoing program maintenance, repairs and spare inventory support for the customer's existing fleet units in service during the duration of the contract. Revenue recognition for this program has been recorded by the Company, and compensated by the customer, at fixed monthly increments over time, consistent with the defined contract maintenance period. During the three months ended December 29, 2024 and December 31, 2023 there was $126 thousand and $115 thousand in service contract revenue recognized over time.

During the three months ended December 29, 2024 and December 31, 2023, there was $45 thousand and zero of revenue recognized from customer deposit liabilities (deferred contract revenue). As of December 29, 2024 and September 29, 2024, customer deposit liabilities were $210 thousand and $255 thousand, respectively.

As of December 29, 2024 and September 29, 2024, there was $224 thousand and $237 thousand in accrued selling expenses and $196 and $219 thousand in contract assets related to a $3.4 million contract booked in November 2022. The selling costs are amortized against the revenue for the contract deliveries which began in the first half of fiscal year 2024 and are expected to extend through fiscal year 2025. During the three months ended December 29, 2024 and December 31 2023, we booked $23 thousand and $22 thousand of selling expenses against the contract asset for shipments against the contract, respectively.

Contract Loss Reserves: The Company records loss provisions in the event that the current estimated total revenue against a contract and the total estimated cost remaining to fulfill the contract indicate a loss upon completion. When the estimated costs indicate a loss, we record the entire value of the loss against the contract loss reserve in the period the determination is made. The Company has several long-term fixed price contracts that are currently indicative of a loss condition due to recent inflationary pressures on material and labor, combined with increased manufacturing overhead costs. Some of these long-term contracts have option year ordering periods ending in February 2025 with deliveries that may extend into February 2026. As of December 29, 2024 and September 29, 2024, the accrued contract loss reserves were $213 thousand and $259 thousand, respectively.

During the three months ended December 29, 2024, the Company recognized $7 thousand in loss reserves on new contract awards and made shipments resulting in reductions of $53 thousand against existing loss reserves. During the three months ended December 31, 2023, the Company recognized $90 thousand in loss reserves on new contract awards and made shipments resulting in reductions of $25 thousand against existing loss reserves.

Income Tax/Deferred Tax: As of December 29, 2024 and September 29, 2024, Optex Systems, Inc. has a deferred tax asset valuation allowance of ($0.8) million against deferred tax assets of $1.7 million, for a net deferred tax asset of $0.9 million. The valuation allowance has been established due to historical losses resulting in a Net Operating Loss Carryforward for each of the fiscal years 2011 through 2016 which may not be fully recognized due to an IRS Section 382 limitation related to a change in control.

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

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

For the three months ended December 29, 2024, 82,800 shares of unvested restricted stock and 59,000 restricted stock units (which convert to an aggregate of 98,656 incremental shares) were included in the diluted earnings per share calculation.

For the three months ended December 31, 2023, 120,000 shares of unvested restricted stock and 39,000 restricted stock units (which convert to an aggregate of 55,371 incremental shares) were included in the diluted earnings per share calculation and 54,000 performance shares were excluded from diluted earnings per share as they were below the target price.

Note 3 - Segment Reporting

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

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

Optex Systems ("OPX") – Richardson, Texas

Optex Systems revenues are primarily in support of prime and subcontracted military customers. Military sales to prime and subcontracted customers represented approximately 100% and sales to commercial customers represented less than 1% of the external segment revenue for the three months ended December 29, 2024. The Optex Systems segment revenue is comprised of approximately 86% domestic military customers and 14% foreign military customers. For the three months ended December 29, 2024, Optex Systems represented 42% of the Company's total consolidated revenue and consisted of revenue from one major defense contractor (13%), the U.S. Government (19%) and all other customers (10%).

Optex Systems is located in Richardson Texas, with leased premises consisting of approximately 49,100 square feet. As of December 29, 2024, the Richardson facility operated with 82 full time equivalent employees in a single shift operation which includes 8 home office support employees. The facilities at Optex Systems, Richardson serve 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 represented approximately 11% and military sales to prime and subcontracted customers represented approximately 89% of the external segment revenue for the three months ended December 29, 2024. Approximately 95% of the AOC revenue was derived from external customers and approximately 5% was related to intersegment sales to Optex Systems in support of military contracts. For the three months ended December 29, 2024, AOC represented 58% of the Company's total consolidated revenue and consisted of revenue from five major defense contractors (9%, 8%, 7%, 6% and 5%), the U.S. Government (6%), one commercial customer (6%), and all other customers (11%).

The Applied Optics Center is located in Dallas, Texas with leased premises consisting of approximately 44,867 square feet of space. As of December 29, 2024, AOC operated with 46 full time equivalent employees in a single shift operation.

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

Reportable Segment Financial Information (thousands) As of and for the three months ended December 29, 2024

	Optex Systems Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	$ 3,415	$ 4,783	$ -	$ 8,198
Intersegment revenues	-	271	(271)	-
Total revenue	$ 3,415	$ 5,054	$ (271)	$ 8,198
Depreciation and amortization	$ 64	$ 65	$ -	$ 129
Interest Expense	-	-	$ 13	$ 13
Income (loss) before taxes	$ (285)	$ 1,293	$ (105)	$ 903
Other significant noncash items:				
Allocated home office expense	$ (328)	$ 328	$ -	$ -
Stock compensation expense	$ -	$ -	$ 92	$ 92
Warranty expense	$ -	$ (30)	$ -	$ (30)
Segment assets	$ 16,881	$ 7,925	$ -	$ 24,806
Expenditures for segment assets	$ 74	$ 245	$ -	$ 319

Reportable Segment Financial Information (thousands) As of and for the three months ended December 31, 2023	Optex Systems Richardson	Applied Optics Center Dallas	Other (non-allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	$ 3,394	$ 3,574	$ -	$ 6,968
Intersegment revenues	-	187	(187)	-
Total revenue	$ 3,394	$ 3,761	$ (187)	$ 6,968
Depreciation and amortization	$ 10	$ 82	$ -	$ 92
Interest expense	$ -	-	$ 7	$ 7
Income (loss) before taxes	$ 15	$ 651	$ (120)	$ 546
Other significant noncash items:				
Allocated home office expense	$ (343)	$ 343	$ -	$ -
Stock compensation expense	$ -	$ -	$ 113	$ 113
Warranty expense	$ -	$ 5	$ -	$ 5
Segment assets	$ 14,336	$ 8,053	$ -	$ 22,389
Expenditures for segment assets	$ 33	$ 25	$ -	$ 58

Note 4 - Commitments and Contingencies

Non-cancellable Operating Leases

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

The facility leased by Optex Systems Inc. located at 1420 Presidential Drive, Richardson, Texas consists of 49,100 square feet of space at the premises. The previous lease term for this location expired March 31, 2021 and the monthly base rent was $24.6 thousand through March 31, 2021. On January 11, 2021 the Company executed a sixth amendment extending the terms of the lease for eighty-six (86) months, commencing on April 1, 2021 and ending on May 31, 2028. The initial base rent is set at $25.3 thousand and escalates 3% on April 1 each year thereafter. The initial term included 2 months of rent abatement for April and May of 2021. The monthly rent includes approximately $13.1 thousand for additional Common Area Maintenance fees and taxes (“CAM”), to be adjusted annually based on actual expenses incurred by the landlord.

The facility leased by Applied Optics Center located at 9839 and 9827 Chartwell Drive, Dallas, Texas, consists of 44,867 square feet of space at the premises. The previous lease term for this location expired on October 31, 2021 and the monthly base rent was $21.9 thousand through the end of the lease. On January 11, 2021 the Company executed a first amendment extending the terms of the lease for eighty-six (86) months, commencing on November 1, 2021 and ending on December 31, 2028. The initial monthly base rent is set at $23.6 thousand as of January 1, 2022 and escalates 2.75% on January 1 each year thereafter. The initial term included 2 months of rent abatement for November and December of 2021. The amendment provides for a five-year renewal option at the end of the lease term at the greater of the then “prevailing rental rate” or the then current base rental rate. Our obligations to make payments under the lease are secured by a $125,000 standby letter of credit. The monthly rent includes approximately $9.3 thousand for additional CAM, to be adjusted annually based on actual expenses incurred by the landlord.

As of December 29, 2024, the remaining minimum lease and estimated CAM payments under the non-cancelable facility space leases are as follows:

	(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
2025 Base year lease	$ 254	$ 230	$ 11	$ 495	$ 219
2026 Base year lease	346	313	3	662	293
2027 Base year lease	357	322	-	679	298
2028 Base year lease	241	330	-	571	213
2029 Base year lease	-	83	-	83	30
Total base lease payments	**$ 1,198**	**$ 1,278**	**$ 14**	**$ 2,490**	**$ 1,053**
Imputed interest on lease payments (1)	(100)	(123)	-	(223)	
Total Operating Lease Liability(2)	**$ 1,098**	**$ 1,155**	**$ 14**	**$ 2,267**	
Right-of-use Asset(3)	**$ 1,013**	**$ 1,076**	**$ 14**	**$ 2,103**	

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

(2) Includes $164 thousand of unamortized deferred rent.

(3) Short-term and Long-term portion of Operating Lease Liability is $643 thousand and $1,624 thousand, respectively.

Total facilities rental and CAM expense under both facility lease agreements for the three months ended December 29, 2024 and December 31, 2023 was $224 and $217 thousand, respectively. Total office equipment rentals included in operating expenses was $7 and $5 thousand for the three months ended December 29, 2024 and December 31, 2023, respectively.

Note 5 - Debt Financing

Credit Facility — Texas Capital Bank

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

The commitment period for advances under the Texas Capital Facility is twenty-six months expiring on May 22, 2025. We refer to the expiration of that time period as the "Maturity Date." Outstanding advances under the Texas Capital Facility will accrue interest at a rate equal to the secured overnight financing rate (SOFR) plus a specified margin, subject to a specified floor interest rate. As of December 29, 2024, the interest rate was 7.35% per annum.

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

During the three months ended December 29, 2024, the Company paid $1 million against the outstanding loan balance. The outstanding balance under the Texas Capital Facility was zero as of December 29, 2024 and $1 million as of September 29, 2024.

For the three months ended December 29, 2024, the interest expense under the Texas Capital Facility was $13 thousand.

Note 6 - Stock Based Compensation

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

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

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Restricted Shares	Weighted Average Grant Date Fair Value	Performance Shares	Weighted Average Grant Date Fair Value
Outstanding at October 1, 2023	**39,000**	**$ 3.06**	**120,000**	**$ 2.20**	**135,000**	**$ 2.37**
Granted	40,500	7.17	-	-	-	-
Vested	(13,000)	3.06	(60,000)	2.20	(135,000)	2.37
Forfeited	-	-	-	-	-	-
Outstanding at September 29, 2024	**66,500**	**$ 5.56**	**60,000**	**$ 2.20**	**-**	**$ -**
Granted	-	-	22,800	8.10	-	-
Vested	-	-	-	-	-	-
Forfeited	(7,500)	5.19	-	-	-	-
Outstanding at December 29, 2024	**59,000**	**$ 5.61**	**82,800**	**$ 3.82**	**-**	**$ -**

Restricted Stock Units

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

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

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

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

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

As of December 29, 2024, there were 59,000 unvested restricted stock units outstanding.

Restricted Shares

On April 30, 2020, the Board of Directors voted to increase the annual board compensation for the three independent directors from \$22,000 to \$36,000 with an effective date of January 1, 2020, in addition to granting 100,000 shares of restricted stock to each independent director which vest at a rate of 20% per year (20,000 shares) each January 1st through January 1, 2025. The total fair value for the 300,000 shares was \$525 thousand based on the stock price of \$1.75 as of April 30, 2020. On each of January 1, 2021, January 1, 2022, and January 1, 2023, 60,000 of the restricted director shares vested. On February 16, 2023, 40,000 of the unvested restricted shares were forfeited and cancelled when one of the independent directors departed the Board. On May 9, 2023, the Board of Directors approved a grant of 40,000 shares of restricted stock to independent board member Dayton Judd. The shares vest 50% on each of December 31, 2023 and January 1, 2025. As of the grant date, the fair value of the shares was \$124 thousand, to be amortized on a straight-line basis through December 31, 2024. The Company amortizes the grant date fair value to stock compensation expense on a straight-line basis across the five-year and two-year vesting periods beginning on April 30, 2020 and May 9, 2023, respectively. As of December 29, 2024, there were 60,000 of such unvested restricted shares outstanding which will vest on January 1, 2025.

On November 5, 2024, the Board of Directors approved the following Board compensation for the three independent directors, effective January 1, 2025: (a) a cash payment of \$44,000, and (b) \$66,000 in restricted stock awarded under the 2023 Equity Incentive Plan, with 100% vesting on January 1, 2026, the share price calculated on the basis of the 10-day VWAP, and the number of shares rounded up to the nearest 100 shares. The restricted stock award was made on November 5, 2024 and consisted of 7,600 shares of restricted stock for each independent director. The total fair value for the 22,800 shares was \$185 thousand based on the stock price of \$8.10 as of November 5, 2024. As of December 29, 2024, there were 22,800 of such unvested restricted shares outstanding which will vest on January 1, 2026.

Performance Shares

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

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

On December 22, 2023 and December 29, 2023, 27,000 performance shares vested each date for reaching the 30-day VWAP for Tranche 2 and Tranche 3. On January 8, 2024 the Company issued a total of 39,563 shares in settlement of the vested shares, net of tax withheld of \$91 thousand. Tax withholding for the share settlement occurred on January 8, 2024 and as such will be reported during the next three-month period ending March 31, 2024.

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

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

As of December 29, 2024, there were no performance shares remaining to vest.

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

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

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

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

Stock Based Compensation Expense

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

	Stock Compensation (thousands)							
	Recognized Compensation Expense Three months ended				Unrecognized Compensation Expense As of period ended			
	December 29, 2024		December 31, 2023		December 29, 2024		September 29, 2024	
Restricted Shares	$	59	$	41	$	158	$	33
Performance Based Shares		-		64		-		-
Restricted Stock Units		33		8		252		284
Total Stock Compensation	**$**	**92**	**$**	**113**	**$**	**410**	$	**317**

The unrecognized compensation expense for restricted shares and restricted stock units as of December 29, 2024, is expected to be recognized over a weighted-average period of 1.0 years and 1.9 years, respectively.

Note 7 - Stockholders' Equity

Dividends

No dividends were declared or paid during the three months ended December 29, 2024 or December 31, 2023.

Common stock

On September 22, 2021, the Company announced authorization of a $1 million stock repurchase program. The shares authorized to be repurchased under the repurchase program may be purchased from time to time at prevailing market prices, through open market transactions or in negotiated transactions, depending upon market conditions and subject to Rule 10b-18 as promulgated by the SEC.

During the three months ended December 29, 2024 and December 31, 2023, there were zero common shares repurchased under the program.

During the three months ended December 31, 2023, the Company issued 60,623 shares to Danny Schoening and Karen Hawkins in settlement of 81,000 performance shares which vested during the three months. The shares were issued net of 20,377 shares withheld for taxes.

During the three months ended December 29, 2024, the Company issued 22,800 restricted shares to the three independent board members which will vest on January 1, 2026.

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

Note 8 - Subsequent Events

On January 1, 2025, 60,000 restricted shares issued to independent board members were vested.

On January 13, 2025 there was $81 thousand and $58 thousand in bonus payments to Danny Schoening, CEO and Karen Hawkins, CFO, respectively, representing a 25% bonus achievement against the 2024 performance metrics.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to supplement and complement our audited consolidated financial statements and notes thereto for the fiscal year ended September 29, 2024 and our unaudited condensed consolidated financial statements and notes thereto for the quarter ended December 29, 2024, prepared in accordance with U.S. generally accepted accounting principles (GAAP). You are encouraged to review our condensed consolidated financial statements in conjunction with your review of this MD&A. The financial information in this MD&A has been prepared in accordance with GAAP, unless otherwise indicated. In addition, we use non-GAAP financial measures as supplemental indicators of our operating performance and financial position. We use these non-GAAP financial measures internally for comparing actual results from one period to another, as well as for planning purposes. We will also report non-GAAP financial results as supplemental information, as we believe their use provides more insight into our performance. When a non-GAAP measure is used in this MD&A, it is clearly identified as a non-GAAP measure and reconciled to the most closely corresponding GAAP measure.

The following discussion highlights the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described. The operating results for the periods presented were not significantly affected by inflation.

Cautionary Note Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q, in particular the MD&A, contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements. When used in this Quarterly Report on Form 10-Q and other reports, statements, and information we have filed with the Securities and Exchange Commission ("Commission" or "SEC"), in our press releases, presentations to securities analysts or investors, or in oral statements made by or with the approval of an executive officer, the words or phrases "believes," "may," "will," "expects," "should," "continue," "anticipates," "intends," "will likely result," "estimates," "projects" or similar expressions and variations thereof are intended to identify such forward-looking statements.

These forward-looking statements represent our expectations, beliefs, intentions or strategies concerning future events, including, but not limited to, any statements regarding growth strategy; product and development programs; financial performance and financial condition (including revenue, net income, profit margins and working capital); orders and backlog; expected timing of contract deliveries to customers and corresponding revenue recognition; increases in the cost of materials and labor; costs remaining to fulfill contracts; contract loss reserves; labor shortages; follow-on orders; supply chain challenges; the continuation of historical trends; the sufficiency of our cash balances for future liquidity and capital resource needs; the expected impact of changes in accounting policies on our results of operations, financial condition or cash flows; anticipated problems and our plans for future operations; and the economy in general or the future of the defense industry.

We caution that these statements by their nature involve risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors. Such risks and uncertainties include, but are not limited to, continued funding of defense programs and military spending, the timing of such funding, general economic and business conditions, including unforeseen weakness in the Company's markets, effects of continued geopolitical unrest and regional conflicts, competition, changes in technology and methods of marketing, delays in completing engineering and manufacturing programs, changes in customer order patterns, changes in product mix, continued success in technological advances and delivering technological innovations, changes in the U.S. Government's interpretation of federal procurement rules and regulations, changes in spending due to policy changes in any new federal presidential administration, market acceptance of the Company's products, shortages in components, production delays due to performance quality issues with outsourced components, inability to fully realize the expected benefits from acquisitions and restructurings or delays in realizing such benefits, challenges in integrating acquired businesses and achieving anticipated synergies, changes to export regulations, increases in tax rates, changes to generally accepted accounting principles, difficulties in retaining key employees and customers, unanticipated costs under fixed-price service and system integration engagements, changes in the market for microcap stocks regardless of growth and value and various other factors beyond our control. Some of these risks and uncertainties are identified in this Management's Discussion and Analysis of Financial Condition and Results of Operations and the section "Risk Factors" in our Annual Report on Form 10-K and you are urged to review those sections. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete list of all potential risks or uncertainties.

We do not assume the obligation to update any forward-looking statement. You should carefully evaluate such statements in light of factors described in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K.

Background

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

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

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

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

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

Material Trends and Recent Developments

We have experienced substantial increases in the costs of aluminum, steel and acrylic commodities, which has affected our net income in the quarter ended December 29, 2024 and is expected to continue to have a negative effect on the margins generated under several of our long-term fixed contracts over the next two years. See also “*Item 1A. Risk Factors – Risks Related to Our Business - Certain of our products are dependent on specialized sources of supply potentially subject to disruption which could have a material, adverse impact on our business”* in our Annual Report on Form 10-K for the year ended September 29, 2024.

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

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

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

Results of Operations

<u>Segment Information</u>

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. Management of Optex Systems Holdings uses the selected financial measures by segment internally to evaluate its ongoing segment operations and to allocate resources within the organization accordingly. Segments are determined based on differences in products, location, internal reporting and how operational decisions are made. Management has determined that the Optex Systems, Richardson plant (to which we refer below as the Optex Richardson segment or Optex Systems), and the Applied Optics Center, Dallas plant (to which we refer below as the Applied Optics Center segment, or Applied Optics Center) are separately managed, organized, and internally reported as separate business segments. The table below provides a summary of selective statement of operations data by operating segment for the three months ended December 29, 2024 and December 31, 2023 reconciled to the Condensed Consolidated Results of Operations as presented in Item 1, "Condensed Consolidated Financial Statements."

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

	December 29, 2024				December 31, 2023			
	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	$ 3,415	4,783	-	8,198	$ 3,394	3,574	-	6,968
Intersegment Revenues	-	271	(271)	-	-	187	(187)	-
Total Segment Revenue	**3,415**	**5,054**	**(271)**	**8,198**	**3,394**	**3,761**	**(187)**	**6,968**
Total Cost of Sales	3,088	3,253	(271)	6,070	2,841	2,630	(187)	5,284
Gross Profit	**327**	**1,801**	**-**	**2,128**	**553**	**1,131**	**-**	**1,684**
Gross Margin %	***9.6%***	***35.6%***	**-**	***26.0%***	***16.3%***	***30.1%***	**-**	***24.2%***
General and Administrative Expense	940	180	92	1,212	881	137	113	1,131
Segment Allocated G&A Expense	(328)	328	-	-	(343)	343	-	-
Net General & Administrative Expense	612	508	92	1,212	538	480	113	1,131
Operating Income (Loss)	**(285)**	**1,293**	**(92)**	**916**	**15**	**651**	**(113)**	**553**
Operating Income (Loss) %	***(8.3)%***	***25.6%***	**-**	***11.2%***	***0.4%***	***17.3%***	**-**	***7.9%***
Interest Expense	-	-	(13)	(13)	-	-	(7)	(7)
Net Income (Loss) before taxes	**$ (285)**	**1,293**	**(105)**	**903**	**15**	**651**	**(120)**	**546**
Net Income (Loss) %	***(8.3)%***	***25.6%***	**-**	***11.0%***	***0.4%***	***17.3%***	**-**	***7.8%***

For the three months ended December 29, 2024, our total revenues increased by $1.2 million, or 17.7%, compared to the prior year period. The increase in revenue was primarily driven by increased revenue at the Applied Optics Center during the most recent three months as compared to the prior year period.

Consolidated gross profit for the three months ended December 29, 2024 increased by $0.4 million, or 26.4%, compared to the prior year period. Increased gross profit during the period was primarily driven by changes in product mix combined with higher revenue against a fixed cost base at the Applied Optics Center segment, offset by lower gross profit at the Optex Richardson segment on changes in product mix.

Our operating income for the three months ended December 29, 2024 increased by $0.4 million compared to the prior year period. The increase in operating income was primarily driven by higher revenue and gross profit, which outpaced increased general and administrative spending.

Non-GAAP Adjusted EBITDA

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

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

The table below summarizes our three-month operating results for the periods ended December 29, 2024 and December 31, 2023, in terms of both the GAAP net income measure and the non-GAAP Adjusted EBITDA measure. We believe that including both measures allows the reader better to evaluate our overall performance.

	(Thousands) Three months ended	
	December 29, 2024	**December 31, 2023**
Net Income (GAAP)	$ 844	$ 431
Add:		
Depreciation and Amortization	129	92
Federal Income Tax Expense	59	115
Stock Compensation	92	113
Interest Expense	13	7
Adjusted EBITDA - Non GAAP	**$ 1,137**	**$ 758**

Our net income increased by $0.4 million to $0.8 million for the three months ended December 29, 2024, as compared to $0.4 million for the prior year period. Our adjusted EBITDA increased by $0.4 million to $1.1 million for the three months ended December 29, 2024, as compared to $0.8 million for the prior year period.

The increase is primarily driven by higher revenue and gross profit at the Applied Optics Center segment. Operating segment performance is discussed in greater detail throughout the following sections.

New Orders and Backlog

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

During the three months ended December 29, 2024, the Company booked $6.0 million in new orders, representing a 40.6% decrease over the prior year period orders of $10.1 million. The orders for the most recently completed three months consist of $2.6 million for our Optex Richardson segment and $3.3 million attributable to the Applied Optics Center segment.

The following table depicts the new customer orders for the three months ending December 29, 2024 as compared to the prior year period in millions of dollars:

Product Line	Three months ended December 29, 2024 (Millions)	Three months ended December 31, 2023	Variance	% Chg
Periscopes	$ 1.5	$ 4.9	$ (3.4)	(69.4)%
Sighting Systems	0.1	(0.3)	0.4	(133.3)%
Howitzer	-	-	-	-%
Other	1.0	1.6	(0.6)	(37.5)%
Optex Systems – Richardson	**2.6**	**6.2**	**(3.6)**	**(58.1)%**
Optical Assemblies	0.7	0.9	(0.2)	(22.2)%
Laser Filters	2.4	2.4	-	-%
Day Windows	-	-	-	-%
Other	0.3	0.6	(0.3)	(50.0)%
Applied Optics Center – Dallas	**3.4**	**3.9**	**(0.5)**	**(12.8)%**
Total Customer Orders	**$ 6.0**	**$ 10.1**	**$ (4.1)**	**(40.6)%**

Orders for the Optex Richardson segment decreased by $3.6 million, or 58.1%, from the prior year period, primarily as a result of order timing. We continue to be the sole source supplier on the majority of our backlog and our customers recognize the overall lead time has increased on many of these products. Based on this, our customers are placing periscope orders earlier in anticipation of longer lead times to delivery. For the year ended September 29, 2024, our periscope orders had increased $4 million, or 25.2% and as such our Optex Richardson order backlog remains strong and above the prior period backlog levels. In addition, we have several large proposals in process for which we expect an award in the next three to six months.

Orders for the Applied Optics Center decreased by $0.5 million, or 12.8%, from the prior year period, primarily as a result of order timing. As of February 5, 2025, we have booked an additional $1.1 million in new orders for the Applied Optics Center. Orders for the Applied Optics Center can be somewhat volatile from quarter to quarter depending on factors such as government funding and commercial sales levels of key customers.

Backlog as of December 29, 2024 was $42.0 million as compared to a backlog of $45.0 million as of December 31, 2023, representing a decrease of 6.7%. The following table depicts the current expected delivery by quarter of all contracts awarded as of December 29, 2024, as well as the December 29, 2024 backlog as compared to the backlog on December 31, 2023.

Product Line	Q2 2025 (Millions)	Q3 2025	Q4 2025	2025 Delivery	2026+ Delivery	Total Backlog 12/29/2024	Total Backlog 12/31/2023	Variance	% Chg
Periscopes	$ 4.5	$ 6.5	$ 6.1	$ 17.1	$ 4.2	$ 21.3	$ 17.8	$ 3.5	19.7%
Sighting Systems	0.6	0.5	0.5	1.6	1.8	3.4	4.0	(0.6)	(15.0)%
Howitzer	-	-	-	-	2.3	2.3	2.3	-	-%
Other	0.7	1.2	1.0	2.9	1.1	4.0	5.2	(1.2)	(23.1)%
Optex Systems - Richardson	**5.8**	**8.2**	**7.6**	**21.6**	**9.4**	**31.0**	**29.3**	**1.7**	**5.8%**
Optical Assemblies	0.2	0.5	0.2	0.9	-	0.9	2.5	(1.6)	(64.0)%
Laser Filters	2.6	2.3	0.9	5.8	2.5	8.3	10.5	(2.2)	(21.0)%
Day Windows	0.3	0.2	0.1	0.6	0.2	0.8	1.5	(0.7)	(46.7)%
Other	0.6	0.2	0.1	0.9	0.1	1.0	1.2	(0.2)	(16.7)%
Applied Optics Center - Dallas	**3.7**	**3.2**	**1.3**	**8.2**	**2.8**	**11.0**	**15.7**	**(4.7)**	**(29.9)%**
Total Backlog	**$ 9.5**	**$ 11.4**	**$ 8.9**	**$ 29.8**	**$ 12.2**	**$ 42.0**	**$ 45.0**	**$ (3.0)**	**(6.7)%**

Optex Richardson backlog as of December 29, 2024, was $31.0 million as compared to a backlog of $29.3 million as of December 31, 2023, representing an increase of $1.7 million or 5.8%. The increased backlog for the Optex Richardson segment is primarily driven by higher customer demand for periscopes and the earlier timing of awards from our customers due to the current increased lead times from order to delivery.

Applied Optics Center backlog as of December 29, 2024 was $11.0 million as compared to a backlog of $15.7 million as of December 31, 2023, representing a decrease of $4.7 million or 29.9%. The decrease in backlog for the Applied Optics Center is across all product groups and is primarily attributed to the timing of customer orders. We are anticipating new orders in the near term for delivery in the current fiscal year.

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

The Company continues to pursue domestic, international and commercial opportunities in addition to maintaining its current footprint with U.S. vehicle manufacturers, 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 December 29, 2024 Compared to the Three Months Ended December 31, 2023

Revenue. For the three months ended December 29, 2024, revenue increased by $1.2 million or 17.7% compared to the prior year period as set forth in the table below:

	Three months ended (Thousands)			
Product Line	**December 29, 2024**	**December 31, 2023**	**Variance**	**% Chg**
Periscopes	$ 2,903	$ 1,976	$ 927	46.9%
Sighting Systems	414	359	55	15.3%
Howitzers	-	-	-	-
Other	98	1,059	(961)	(90.7)%
Optex Systems - Richardson	**3,415**	**3,394**	**21**	**0.6%**
Optical Assemblies	473	1,226	(753)	(61.4)%
Laser Filters	3,602	1,837	1,765	96.1%
Day Windows	292	161	131	81.4
Other	416	350	66	18.9%
Applied Optics Center - Dallas	**4,783**	**3,574**	**1,209**	**33.8%**
Total Revenue	**$ 8,198**	**$ 6,968**	**$ 1,230**	**17.7%**

Optex Richardson revenue increased by $21 thousand or 0.6% for the three months ended December 29, 2024 as compared to the prior year period with higher revenue in periscopes and sighting systems, offset by lower revenue on other product line, which include collimators, beamsplitters and objective cells and mirror assemblies. Based on our current backlog, we expect revenues to increase across all Optex Richardson product lines over the next three quarters.

Applied Optics Center revenue increased by $1.2 million or 33.8% for the three months ended December 29, 2024 as compared to the prior year period. The revenue increase is primarily attributable to military spending on filters, day windows and other, partially offset by lower revenue from commercial optical assemblies during the three months ended December 29, 2024 as compared to the prior year period.

Gross Margin. The gross margin during the three-month period ended December 29, 2024 was 26.0% of revenue as compared to a gross margin of 24.2% of revenue for the prior year period. The increase in gross profit is primarily attributable to higher revenue against a fixed cost base combined with changes in product mix between segments. Cost of sales increased to $6.1 million for the recently completed period as compared to the prior year period of $5.3 million due to higher revenue.

G&A Expenses. During the three months ended December 29, 2024 and December 31, 2023, we recorded operating expenses of $1.2 million and $1.1 million, respectively. Operating expenses increased by 7.2% over the prior year period primarily due to increases in royalties and selling expenses over the prior year period.

Operating Income. During the three months ended December 29, 2024, we recorded operating income of $0.9 million, as compared to operating income of $0.6 million during the three months ended December 31, 2023. The $0.4 million increase in operating income is primarily due to higher revenue and gross profit, slightly offset by increased general and administrative spending.

Liquidity and Capital Resources

As of December 29, 2024, Optex Systems Holdings had working capital of $15.9 million, as compared to $15.1 million as of September 29, 2024. During the three months ended December 29, 2024, we generated operating cash of $2.8 million, primarily driven by higher net income and collections against accounts receivable. During the three months ended December 29, 2024, we paid $1.0 million against the credit facility.

The Company has capital commitments of $110 thousand for the purchase of property and equipment.

Backlog as of December 29, 2024 was $42.0 million as compared to $45.0 million as of December 31, 2023, representing a decrease of 6.7%. For further details, see "*Results of Operations – New Orders and Backlog*" above.

The Company has historically funded its operations through cash from operations, convertible notes, common and preferred stock offerings and bank debt. The Company's ability to generate positive cash flows depends on a variety of factors, including the continued development and successful marketing of the Company's products.

At December 29, 2024, the Company had approximately $2.5 million in cash and no draws against our revolving credit line. As of December 29, 2024, our outstanding accounts receivable balance was $1.7 million, which has been collected during the second quarter of fiscal 2025.

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

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

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

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

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

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

On March 22, 2023, the Company and its subsidiary, Optex Systems, Inc. ("Optex", and with the Company, the "Borrowers"), entered into a Business Loan Agreement (the "Loan Agreement") with Texas Capital Bank (the "Lender"), pursuant to which the Lender will make available to the Borrowers a revolving line of credit in the principal amount of $3 million (the "Credit Facility"). The commitment period for advances under the Credit Facility is twenty-six months expiring on May 22, 2025. We refer to the expiration of that time period as the "Maturity Date." Outstanding advances under the Credit Facility will accrue interest at a rate equal to the secured overnight financing rate (SOFR) plus a specified margin, subject to a specified floor interest rate. As of December 29, 2024, the interest rate was 7.35% per annum.

The Loan Agreement contains customary events of default (including a 25% change in ownership) and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes (including changes in management), investments, and restricted payments (including cash dividends). The Loan Agreement also requires the Borrowers to maintain a fixed charge coverage ratio of at least 1.25:1 and a total leverage ratio of 3.00:1. The Credit Facility is secured by substantially all of the operating assets of the Borrowers as collateral. The Borrowers' obligations under the Credit Facility are subject to acceleration upon the occurrence of an event of default as defined in the Loan Agreement. The Loan Agreement further provides for a $125,000 Letter of Credit sublimit. As of December 29, 2024, there was zero borrowed under the Credit Facility. As of December 29, 2024, the Company was in compliance with all covenants under the Credit Facility.

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

On September 22, 2021 the Company announced authorization for an additional $1 million stock repurchase program. As of September 29, 2024, there was an authorized balance of $560 thousand remaining to be spent against the repurchase program. During the three months ended December 29, 2024, there were no stock repurchases against the plan.

During the three months ended December 29, 2024 the Company declared and paid no dividends. As of December 29, 2024, there are no outstanding declared and unpaid dividends.

Critical Accounting Estimates

A critical accounting estimate is an estimate that:

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

Our significant accounting policies are fundamental to understanding our results of operations and financial condition. Some accounting policies require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. These policies are described in "Critical Policies and Accounting Pronouncements" and Note 2 (Accounting Policies) to consolidated financial statements in our Annual Report on Form 10-K for the year ended September 29, 2024.

Our critical accounting estimates include warranty costs, contract losses and the deferred tax asset valuation. Future warranty costs are based on the estimated cost of replacement for expected returns based upon our most recent experience rate of defects as a percentage of warranty covered sales. Our warranty covered sales primarily include the Applied Optics Center optical assemblies. While our warranty period is 12 months, our reserve balances assume a general 90-day return period for optical assemblies previously delivered plus any returned backlog in-house that has not yet been repaired or replaced to our customer. If our actual warranty returns should significantly exceed our historical rates on new customer products, significant production changes, or substantial customer changes to the 90-day turn-around times on returned goods, the impact could be material to our operating profit. We have not experienced any significant changes to our warranty trends in the preceding three years and do not anticipate any significant impacts in the near term. We monitor the actual warranty costs incurred to the expected values on a quarterly basis and adjust our estimates accordingly. As of December 29, 2024, the Company had accrued warranty costs of $22 thousand, as compared to $52 thousand as of September 29, 2024. The primary reason for the $30 thousand decrease in reserve balances relates to lower-than-expected warranty returns on product deliveries during the three months ended December 29, 2024.

As of December 29, 2024 and September 29, 2024, we had $213 thousand, and $259 thousand, respectively, of contract loss reserves included in our balance sheet accrued expenses. These loss contracts are related to some of our older legacy periscope IDIQ contracts which were priced in 2018 through early 2020, prior to Covid-19 and the significant downturn in defense spending on ground system vehicles. Due to inflationary price increases on component parts and higher internal manufacturing costs (as a result of escalating labor costs and higher burden rates on reduced volume), some of these contracts are in a loss condition, or at marginal profit rates. These contracts are typically three-year IDIQ contracts with two optional award years, and as such, we are obligated to accept new task awards against these contracts until the contract expiration. Should contract costs continue to increase above the negotiated selling price, or in the event the customer should release substantial quantities against these existing loss contracts, the losses could be material. For contracts currently in a loss status based on the estimated per unit contract costs, losses are booked immediately on new task order awards. During the three months ended December 29, 2024, the Company recognized $7 thousand in loss reserves on new contract awards, made shipments resulting in reductions of $53 thousand against existing loss reserves.

As of December 29, 2024 and September 29, 2024, Optex Systems, Inc. has a deferred tax asset valuation allowance of ($0.8) million against deferred tax assets of $1.7 million, for a net deferred tax asset of $0.9 million. The valuation allowance has been established due to historical losses resulting in a Net Operating Loss Carryforward for each of the fiscal years 2011 through 2016 which may not be fully recognized due to an IRS Section 382 limitation related to a change in control. The valuation allowance covers certain deferred tax assets where we believe we will be unlikely to recover those tax assets through future operations. The valuation reserve includes assumptions related to future taxable income which would be available to cover net operating loss carryforward amounts. Because of the uncertainties of future income forecasts combined with the complexity of some of the deferred assets, these forecasts are subject to change over time. While we believe our current estimate to be reasonable, changing market conditions and profitability, changes in equity structure and changes in tax regulations may impact our estimated reserves in future periods.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by our Quarterly Report on Form 10-Q for the quarter ended December 29, 2024, management performed, with the participation of our Principal Executive Officer and Principal Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's forms, and that such information is accumulated and communicated to our management including our Principal Executive Officer and our Principal Financial Officer, to allow timely decisions regarding required disclosures. Based upon the evaluation described above, our Principal Executive Officer and our Principal Financial Officer concluded that, as of December 29, 2024, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the three months ended December 29, 2024, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in risk factors since the risk factors set forth in the Form 10-K filed for the year ended September 29, 2024.

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

Unregistered Sales

None.

Issuer Purchases of Equity Securities

There were no purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) of its common stock under the Exchange Act) during the three months ended December 29, 2024.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not applicable**.**

Item 6. Exhibits

Exhibit No.	Description
10.1	Form of Restricted Stock Agreement (Directors)
31.1 and 31.2	Certifications pursuant to Section 302 of Sarbanes Oxley Act of 2002
32.1 and 32.2	Certifications pursuant to Section 906 of Sarbanes Oxley Act of 2002
EX-101.INS	Inline XBRL Instance Document
EX-101.SCH	Inline XBRL Taxonomy Extension Schema Document
EX-101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
EX-101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
EX-101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
EX-101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

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

	OPTEX SYSTEMS HOLDINGS, INC.
Date: February 10, 2025	By: */s/ Danny Schoening*
	Danny Schoening Principal Executive Officer
	OPTEX SYSTEMS HOLDINGS, INC.
Date: February 10, 2025	By: */s/ Karen Hawkins*
	Karen Hawkins Principal Financial Officer and Principal Accounting Officer

Exhibit 10.1

CONFIDENTIAL

OPTEX SYSTEMS HOLDINGS, INC.
RESTRICTED STOCK AGREEMENT FOR DIRECTORS

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

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

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

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

1. GRANT

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

2. RESTRICTIONS AND RESTRICTED PERIOD

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

(b) Lapse of Restrictions.

(i) Subject to Section 2(b)(ii), the restrictions set forth above shall lapse and the Restricted Stock shall vest and become transferable (provided that such transfer is otherwise in accordance with federal and state securities laws) and non-forfeitable in accordance with the following schedule, but if, and only if, the Grantee is still a director of the Company on the applicable vesting date:

[As to _____% of the Restricted Stock:
On the _____[1] anniversary of the Date of Grant.]

[1] NTD: Restriction period must be at least one year under Section 9(b) of the Plan.

(ii) Subject to the Committee's ability to accelerate vesting pursuant to Section 11(c) of the Plan, all unvested shares of Restricted Stock shall become immediately and fully vested upon the occurrence of any of the following events (each an "Accelerated Vesting Event"), but if, and only if, the Grantee is still a director of the Company on the date the Accelerated Vesting Event occurs: (A) the Grantee's death or Disability, or (B) a Change of Control of the Company.

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

3. FORFEITURE

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

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

4. DEFINITION

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

5. CERTIFICATES; POWER OF ATTORNEY

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

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

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

6. AMENDMENT OR MODIFICATION

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

7. LIMITED INTEREST

(a) No Right to Service. The grant of this Award shall not confer on the Grantee any right to continue as a director, nor interfere in any way with the right of the Company to dismiss the Grantee as a director as provided by applicable law.

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

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

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

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

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

9. SEVERABILITY

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

10. COUNTERPARTS

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

[Signature Page Follows]

[SIGNATURE PAGE TO RESTRICTED STOCK AGREEMENT]

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

OPTEX SYSTEMS HOLDINGS, INC.

By: ____________________________
Name:
Title:

____
[Grantee]

EXHIBIT A

ASSIGNMENT SEPARATE FROM CERTIFICATE

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

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

Dated: ____________________, 20___

____

Print name: ______________________________________

INSTRUCTIONS:

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

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: February 10, 2025

Exhibit 31.2

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

I, Karen Hawkins, certify that:

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

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

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

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

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

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

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

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

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

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

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

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

Dated: February 10, 2025

Exhibit 32.1

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

In connection with this Quarterly Report of Optex Systems Holdings, Inc. (the "Company") on this Form 10-Q for the quarter ended December 29, 2024, 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: February 10, 2025

Exhibit 32.2

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

In connection with this Quarterly Report of Optex Systems Holdings, Inc. (the "Company") on this Form 10-Q for the quarter ended December 29, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karen Hawkins, Principal Financial Officer and Principal Accounting Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Dated: February 10, 2025