August 16, 2022

Optex Systems Holdings, Inc. Announces *Amended* Three and Nine Months Ended July 3, 2022 Financial Highlights

RICHARDSON, TX / ACCESSWIRE / August 16, 2022 /Optex Systems Holdings, Inc. (OTCQB:OPXS), a leading manufacturer of precision optical sighting systems for domestic and worldwide military and commercial applications, announced financial highlights for the three and nine months ended July 3, 2022.

Danny Schoening, CEO of Optex Systems Holdings, Inc., commented, "We are extremely pleased with the progress over the last several months. While we continue to work issues caused by material and labor based inflation, we've been able to overcome material supply issues and maintain shipments to meet the requirements of our customers. Demand remains strong as the increase in backlog demonstrates and we continue to develop new processes and products to broaden our offerings for future growth."

Danny Schoening further commented: *"Based on firm customer orders, the Company anticipates a consolidated revenue increase of 21-23% for the twelve months ending October 2, 2022 as compared to the twelve months ended October 3, 2021 combined with increased operating profit and adjusted EBITDA."*

For the three and nine months ended July 3, 2022, our total revenues increased by $1.7 million and $2.5 million, or 39.2% and 19.0%, respectively, compared to the prior year period. The increase in revenue for the three and nine month periods were primarily driven by an increase in revenue at the Applied Optics Center segment, partially offset by a decrease in revenue at the Optex Richardson, over the prior year periods **.** During the year ended October 3, 2021, we realized a significant increase in customer orders and backlog for the Applied Optics Center segment. For the first nine months of fiscal year 2022, new orders on a consolidated basis were 86.7% higher than in the prior year period driven by increases in both operating segments.

Consolidated gross margin for the three and nine months ended July 3, 2022 increased by $0.5 million and $0.8 million, or 70.0% and 43.3%, respectively, compared to the prior year periods. The increase in margin was primarily attributable to increased revenue at the Applied Optics Center segment.

Our operating profit for the three and nine months ended July 3, 2022 increased by $0.5 million and $0.6 million, or 794.7% and 219.7%, respectively, compared to the prior year periods. The increase in operating profit was primarily driven by increases in revenue and gross margin at the Applied Optics Center segment.

As of July 3, 2022, the Company had working capital of $13.3 million, as compared to $12.9 million as of October 3, 2021. During the nine months, we generated operating cash flow of

$1.9 million, and spent $236 thousand on purchases of equipment and $366 thousand for the purchase of 118,414 shares against our stock repurchase program. We ended the quarter with a strong cash balance of $5.2 million as compared to $3.9 million as of the fiscal year end 2021. As of July 3, 2022, our outstanding accounts receivable was $1.9 million. As of July 3, 2022, the Company had an outstanding payable balance of zero against our line of credit. The line of credit was renewed on April 12, 2022 through April 15, 2023 for a maximum borrowing amount of $1.1 million.

Our key performance measures for the three-and nine months ended July 3, 2022 and June 27, 2021 are summarized below.

	(Thousands)					
	Three months ended			Nine months ended		
Metric	**July 3, 2022**	**June 27, 2021**	**% Change**	**July 3, 2022**	**June 27, 2021**	**% Change**
Revenue	$ 6,170	$ 4,433	39.2	$ 15,645	$ 13,149	19.0
Gross Margin	$ 1,268	$ 746	70.0	$ 2,807	$ 1,959	43.3
Gross Margin %	20.6 %	16.8 %	22.6	17.9 %	14.9 %	20.1
Operating Income	$ 510	$ 57	794.7	$ 334	$ (279)	(219.7)
Gain (Loss) on Change Fair Value of Warrants	$ -	$ 1,167	(100.0)	$ -	$ 2,025	(100.0)
Net Income (Loss) Applicable to Common Shareholders	$ 428	$ 910	(53.0)	$ 306	$ 1,237	(75.3)
Adjusted EBITDA (non-GAAP)	$ 620	$ 181	242.5	$ 682	$ 87	683.9

Beginning in April 2020 through October 3, 2021, we experienced a significant reduction in new orders and ending customer backlog in our Optex Richardson segment, resulting in an overall decrease in backlog of 40% between September 29, 2019 and October 3, 2021. We attribute the lower orders to a combination of factors including a COVID-19 driven slow-down of contract awards for both U.S. military sales and foreign military sales (FMS), combined with significant shifting in defense spending budget allocations in US military sales and FMS away from Army ground system vehicles toward other military agency applications. In addition, the pandemic has caused several program delays throughout the defense supply chain as a result of plant shutdowns, employee illnesses, travel restrictions, remote work arrangements and similar supply chain issues.

While the Applied Optics Center segment experienced a significant decline in orders during the second half of fiscal year 2020, the segment saw a sizable increase in new orders during the fiscal year ended October 3, 2021 as a result of increased military spending in Army infantry optical equipment and a larger customer base and higher customer demand for commercial optical assemblies. As of October 3, 2021, the Applied Optics Center segment backlog had increased by 153% as compared to the level on September 29, 2019. As a result of this significant shift in orders and backlog between segments, we anticipate corresponding shifts in revenue during the 2022 fiscal year, with decreasing revenue at the

Optex Richardson segment, and increasing revenue at the Applied Optics Center segment.

Backlog as of July 3, 2022 has increased by $2.7 million or 9.9% to $30.0 million as compared to backlog of $27.3 million as of October 3, 2021. Backlog has increased 132.6%, or $17.1 million, from $12.9 million as of June 27, 2021.

We are seeing increases in demand and proposal activity for both our Applied Optics Center laser coated filters and optical assemblies and anticipate additional order bookings for both our commercial and military products for deliveries in fiscal year 2023 and beyond.

	(millions)				
	July 3, 2022	**October 3, 2021**	**% Change**	**June 27, 2021**	**% Change**
Backlog as of period end	$ 30.0	$ 27.3	9.9	$ 12.9	132.6

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

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

The table below summarizes our three and nine month operating results for the periods ended July 3, 2022 and June 27, 2021, in terms of both the GAAP net income measure and the non-GAAP Adjusted EBITDA measure. We believe that including both measures allows the reader better to evaluate our overall performance.

	(Thousands)			
	Three months ended		**Nine months ended**	
	July 3, 2022	**June 27, 2021**	**July 3, 2022**	**June 27, 2021**
Net Income (Loss) (GAAP)	$ 428	$ 1,374	$ 306	$ 1,859
Add:				
Loss (Gain) on Change in Fair Value of Warrants	-	(1,167)	-	(2,025)
Federal Income Tax (Benefit) Expense	82	(154)	28	(122)
Depreciation	74	67	221	195
Stock Compensation	36	57	127	171
Interest Expense	-	4	-	9
Adjusted EBITDA - Non GAAP	**$ 620**	**$ 181**	**$ 682**	**$ 87**

Our net income decreased by ($1.0) million to $0.4 million net income for the three months ended July 3, 2022, as compared to net income of $1.4 million for the prior year period. Our adjusted EBITDA increased by $0.4 million to $0.6 million for the three months ended July 3, 2022, as compared to $0.2 million for the prior year period. The increase in adjusted EBITDA for the most recent three-month period is primarily driven by increased revenue as compared to the prior year period.

Our net income decreased by ($1.6) million to a net income of $0.3 million for the nine months ended July 3, 2022, as compared to a net income of $1.9 million for the prior year period. Our adjusted EBITDA increased by $0.6 million to $0.7 million for the nine months ended July 3, 2022, as compared to $0.1 million for the prior year period. The increase in adjusted EBITDA for the most recent nine-month period is primarily driven by increased revenue as compared to the prior year period.

During the three and nine months ended July 3, 2022, we did not recognize either a gain or a loss on the change in fair value of warrants, as the warrants had expired on August 26, 2021 in accordance with their terms. By comparison, during the three months ended June 27, 2021, we recognized a gain on the change in fair value of warrants of $1.2 million, and during the nine months ended June 27, 2021, we recognized a gain on the change in fair value of warrants of $2.0 million.

Highlights of the unaudited Condensed Consolidated and Segment Results of Operations have been prepared in accordance with GAAP. These financial highlights do not include all information and disclosures required in the consolidated financial statements and footnotes, and should be read in conjunction with our Quarterly Report on Form 10-Q for the period ended July 3, 2022 filed with the SEC on August 15, 2022 and our Annual Report on Form 10-K for the year ended October 3, 2021 filed with the SEC on December 20, 2021.

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

	(Thousands, except share and per share data)			
	Three months ended		Nine months ended	
	July 3, 2022	June 27, 2021	July 3, 2022	June 27, 2021
Revenue	**$ 6,170**	**$ 4,433**	**$ 15,645**	**$ 13,149**
Cost of Sales	4,902	3,687	12,838	11,190
Gross Margin	**1,268**	**746**	**2,807**	**1,959**
General and Administrative Expense	758	689	2,473	2,238
Operating Income (Loss)	**510**	**57**	**334**	**(279)**
Gain on Change in Fair Value of Warrants	-	1,167	-	2,025
Interest Expense	-	(4)	-	(9)
Other Income	-	**1,163**	-	**2,016**
Income Before Taxes	**510**	**1,220**	**334**	**1,737**
Income Tax (Benefit) Expense, net	$ 82	$ (154)	$ 28	$ (122)
Net Income	**$ 428**	**$ 1,374**	**$ 306**	**$ 1,859**
Deemed dividends on participating securities	-	(464)	-	(622)
Net income applicable to common shareholders	**$ 428**	**$ 910**	**$ 306**	**$ 1,237**
Basic income per share	**$ 0.05**	**$ 0.11**	**$ 0.04**	**$ 0.15**
Weighted Average Common Shares Outstanding - basic	**8,187,318**	**8,101,223**	**8,223,492**	**8,204,994**
Diluted income per share	**$ 0.05**	**$ 0.11**	**$ 0.04**	**$ 0.15**
Weighted Average Common Shares Outstanding - diluted	**$ 8,285,996**	**$ 8,138,106**	**$ 8,297,341**	**$ 8,292,544**

The accompanying notes in our Quarterly Report on Form 10-Q for the period ended July 3, 2022 filed with the SEC on August 15, 2022 are an integral part of these financial statements.

Optex Systems Holdings, Inc.
Condensed Consolidated Balance Sheets

	(Thousands, except share and per share data)	
	July 3, 2022	October 3, 2021
	(Unaudited)	
ASSETS		
Cash and Cash Equivalents	$ 5,169	$ 3,900
Accounts Receivable, Net	1,918	3,183
Inventory, Net	8,559	7,583
Prepaid Expenses	324	262
Current Assets	**15,970**	**14,928**
Property and Equipment, Net	**1,033**	**1,017**
Other Assets		
Deferred Tax Asset	948	1,288
Right-of-use Asset	3,339	3,599
Security Deposits	23	23
Other Assets	**4,310**	**4,910**
Total Assets	**$ 21,313**	**$ 20,855**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$ 838	$ 551
Operating Lease Liability	599	528
Accrued Expenses	787	851
Accrued Warranty Costs	196	78
Customer Deposits	256	-
Current Liabilities	**2,676**	**2,008**
Operating Lease Liability, net of current portion	**2,875**	**3,133**
Total Liabilities	**5,551**	**5,141**
Commitments and Contingencies	-	-
Stockholders' Equity		
Common Stock - ($0.001 par, 2,000,000,000 authorized, 8,322,951 and 8,523,704 shares issued, and 8,322,951 and 8,488,149 outstanding, respectively)	8	9
Treasury Stock (at cost, zero and 35,555 shares held, respectively)	-	(69)
Additional Paid in Capital	25,426	25,752
Accumulated Deficit	(9,672)	(9,978)
Stockholders' Equity	**15,762**	**15,714**
Total Liabilities and Stockholders' Equity	**$ 21,313**	**$ 20,855**

The accompanying notes in our Quarterly Report on Form 10-Q for the period ended July 3, 2022 filed with the SEC on August 15, 2022 are an integral part of these financial statements.

ABOUT OPTEX SYSTEMS

Optex, which was founded in 1987, is a Richardson, Texas based ISO 9001:2015 certified concern, which manufactures optical sighting systems and assemblies, primarily for Department of Defense (DOD) 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 also manufactures and delivers numerous periscope configurations, rifle and surveillance sights, and night vision optical assemblies. Optex delivers its products both directly to the military services and to prime contractors. For additional information, please visit the Company's website at www.optexsys.com .

Safe Harbor Statement

This press release contains certain forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, including those relating to the products and services described herein. You can identify these statements by the use of the words "may," "will," "could," "should," "would," "plans," "expects," "anticipates," "continue," "estimate," "project," "intend," "likely," "forecast," "probable," and similar expressions. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. 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.

You must carefully consider any such statement and should understand that many factors could cause actual results to differ from the Company's forward-looking statements. These factors include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward-looking statement can be guaranteed and actual future results may vary materially. The Company does not assume the obligation to update any forward-looking statement. You should carefully evaluate such statements in light of factors described in the Company's filings with the SEC, especially on Forms 10-K, 10-Q and 8-K. In various filings the Company has identified important factors that could cause actual results to differ from expected or historic results. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete list of all potential risks or uncertainties.

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