Risk Factors Comparison 2023-12-18 to 2022-12-19 Form: 10-K

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We expect our competitors to continue to improve the design and performance of their products. We cannot assure investors that our competitors will not develop enhancements to, or future generations of, competitive products that will offer superior price or performance features, or that new technology or processes will not emerge that render our products less competitive or obsolete. Increased competitive pressure could lead to lower prices for our products, thereby adversely affecting our business, financial condition and results of operations. Also, competitive pressures may force us to implement new technologies at a substantial cost, and we may not be able to successfully develop or expend the financial resources necessary to acquire new technology. We cannot assure you that we will be able to compete successfully in the future. Employees and Human Capital We had ~~84~~ **106** full time equivalent employees as of October ~~2~~ **1** , ~~2022~~ **2023** and ~~88~~ **102** employees as of December ~~1~~ **6** , ~~2022~~ **2023** , which include a small temporary work force to handle peak loads as needed. We are in compliance with local prevailing wage, contractor licensing and insurance regulations, and have good relations with our employees, who are not currently unionized. We use outside consultants for various services. We have not experienced any work stoppages and are not a party to a collective bargaining agreement. Management considers labor relations to be good. We are dedicated to preserving operational excellence and remaining an employer of choice. We provide and maintain a work environment that is designed to attract, develop and retain top talent through offering our employees an engaging work experience that contributes to their career development. We recognize that our success is based on the collective talents and dedication of those we employ, and we are highly invested in their success. We value our employees and believe that employee loyalty and enthusiasm are key elements of our operating performance. Corporate History Optex Systems Holdings, Inc. is a Delaware corporation originally organized in Delaware as Sustut Exploration, Inc. in April 2006. Optex Systems, Inc. is a Delaware corporation organized in September 2008. In March 2009, Optex Systems, Inc. engaged in a reverse merger with Sustut Exploration, Inc., in connection with which the latter was renamed Optex Systems Holdings, Inc. and the former became a wholly- owned subsidiary of Optex Systems Holdings, Inc. Internet Address The Company maintains an internet website at the following address: www. optexsys. com. The information on the Company' s website is not incorporated by reference in this Annual Report on Form 10- K. Item 1A. Risk Factors Investing in our common stock involves a high degree of risk. Prospective investors should carefully consider the risks described below, together with all of the other information included or referred to in this Annual Report, before purchasing shares of our common stock. There are numerous and varied risks, known and unknown, that may prevent us from achieving our goals. The risks described below are not the only risks we face. If any of these risks actually materializes, our business, financial condition or results of operations may be materially adversely affected. In such case, the trading price of our common stock could decline and investors in our common stock could lose all or part of their investment. The risks and uncertainties described below are not exclusive and are intended to reflect the material risks that are specific to us, our industry and companies that have securities trading on an over- the- counter market. Risks Related to our Business Our results of operations could be adversely affected by economic and political conditions globally and the effects of these conditions on our customers' businesses and levels of business activity. Economic and political events ~~this~~ **in the past few** ~~year~~ **years** have altered the landscape in which we and other U. S. companies operate in a variety of ways. In response to inflationary pressures, the U. S. Federal Reserve has raised interest rates, resulting in an increase in the cost of borrowing for us, our customers, our suppliers, and other companies relying on debt financing. World events, such as the Russian invasion of Ukraine and the resulting economic sanctions, have impacted the global economy, including by exacerbating inflationary and other pressures linked to COVID- related supply chain disruptions. **In addition, the threat of a larger war in the Middle East after the Hamas terrorist attacks on Israel could affect oil prices and have other, potentially recessionary, effects on the global economy.** Prolonged inflationary conditions ~~,~~ **and prolonged periods of** high ~~and / or increased~~ interest rates ~~, and additional sanctions or retaliatory measures related to the Russia- Ukraine crisis, or other situations,~~ could further negatively affect U. S. and international commerce and exacerbate or prolong the period of high energy prices and supply chain constraints. At this time, the extent and duration of these economic and political events and their effects on the economy and the Company are impossible to predict. Low unemployment and tight labor markets may adversely affect our labor costs and our ability to hire and retain a sufficient workforce required to meet the backlog and customer demands. If we are not able to maintain a sufficient workforce and attract and retain additional personnel as required, we may not be able to implement our business plan and our results of operations could be materially and adversely affected. We compete with several other large defense contractors, as well as homebuilding, industrial manufacturing and warehousing industries within the immediate area of our manufacturing facilities for both lower and higher skill level manufacturing employees. The limited supply of available workers for hire, combined with increasing competition among other local industries **,** may result in increased production costs associated with higher wages, employee bonuses, overtime premiums and enhanced employee benefits in addition to cost increases associated with employee recruitment, employee turnover, training and learning curve inefficiencies. We may be unable to fill the labor positions required to meet our customer demands in a timely or cost- effective manner **,** which would impede our ability to meet current or increasing production levels in line with our customer expectations and adversely affect our ability to grow revenue or maintain our current margin levels. Our ability to fulfill our backlog may have an effect on our long- term ability to procure contracts and fulfill current contracts. Our ability to fulfill our backlog may be limited by our ability to devote sufficient financial and human capital resources and limited by available material supplies. Disruptions in our supply chain and transportation delays, combined with inflationary pressures and tight labor market conditions could impede our ability to meet customer requirements. If we do not fulfill our backlog in a timely manner, we may experience delays in product delivery which would postpone receipt of revenue from those delayed deliveries. Additionally, if we are consistently unable to fulfill our backlog, this may be a disincentive to customers to award large contracts to us in the future until they are comfortable that we can effectively manage our backlog. Our historical operations depend on government contracts and subcontracts. We face risks related to contracting with the federal government, including federal budget issues and fixed price contracts. Future general political and economic conditions, which cannot be accurately predicted, may directly and indirectly affect the quantity and allocation of expenditures by federal agencies. Even the timing of incremental funding commitments to existing, but partially funded, contracts can be affected by these factors. Therefore, cutbacks or re- allocations in the federal budget could have a material adverse impact on our results of operations. Obtaining government contracts may also involve long purchase and payment cycles, competitive bidding, qualification requirements, delays or changes in funding, budgetary constraints, political agendas, extensive specification development, price negotiations and milestone requirements. In addition, our government contracts are primarily fixed price contracts, which may prevent us from recovering costs incurred in excess of budgeted costs. Fixed price contracts require us to estimate the total project cost based on preliminary projections of the project’ s requirements. The financial viability of any given project depends in large part on our ability to estimate such costs accurately and complete the project on a timely basis. Some of those contracts are for products that are new to our business and are thus subject to unanticipated impacts to manufacturing costs. Even if our estimates are reasonable at the time made, prices of materials are subject to unanticipated adverse fluctuation. In the event our actual costs exceed **the** fixed ~~contractual~~ costs ~~of~~ **determined under** our product contracts, we will not be able to recover the excess costs which could have a material adverse effect on our business and results of operations. We examine these contracts on a regular basis and accrue for anticipated losses on these contracts, if necessary. **We have several multiyear IDIQ contracts at fixed prices which have open ordering periods and are currently at low profit rates or in a loss condition. These contracts are typically three- year IDIQ contracts with two optional award years, and as such, we are obligated to accept new task awards against these contracts until the contract expiration. Should contract costs continue to increase above the negotiated selling price, or in the event the customer should release substantial quantities against these existing loss contracts, the losses could be material. For contracts currently in a loss status based on the estimated per unit contract costs, losses are booked immediately on new task order awards.** As of October ~~2~~ **1** , ~~2022~~ **2023** , there was $ ~~289~~ **243** thousand in accrued loss provisions for loss contracts or cost overruns. Approximately ~~77~~ **92** % of our contracts contain termination clauses for convenience. In the event these clauses should be invoked by our customer, future revenues against these contracts could be affected, however these clauses allow for a full recovery of any incurred contract costs plus a reasonable fee up through and as a result of the contract termination. We are currently unaware of any pending terminations on our existing contracts. In some cases, contract awards may be issued that are subject to renegotiation at a date (up to 180 days) subsequent to the initial award date. Generally, these subsequent negotiations have had an immaterial impact (zero to 5 %) on the contract price of the affected contracts. Currently, none of our awarded contracts are subject to renegotiation. We have sought to minimize the adverse impact from the slower pace of U. S. military orders on our results of operations by seeking to obtain foreign military orders, expanding our customer base as well as seeking new commercial business. We do not expect these markets to completely mitigate the negative impact of lower U. S. defense spending. If we fail to scale our operations appropriately in response changes in demand, we may be unable to meet competitive challenges or exploit potential market opportunities, and our business could be materially and adversely affected. Significant fluctuations in customer demand place a significant strain on our management personnel, infrastructure and resources. To implement our current business and product plans, we need to appropriately manage our cost base, as well as train, manage and motivate our workforce, while continuing to maintain our critical operational and financial systems and our manufacturing and service capabilities. All of these endeavors require substantial management effort and potential capital. If we are unable to effectively manage our operations to our customer demand levels, we may be unable to scale our business quickly enough to meet competitive challenges or exploit potential market opportunities, and our current or future business could be materially and adversely affected. We do not have employment agreements with our key personnel, other than our Chief Executive and Financial Officers, and our management has minimal unencumbered equity ownership in us. If we are not able to retain our key personnel or attract additional key personnel as required, we may not be able to implement our business plan and our results of operations could be materially and adversely affected. We depend to a large extent on the abilities and continued participation of our executive officers and other key employees. The loss of **either executive officer or** any **other** key employee could have a material adverse effect on our business. We currently have only two employment agreements ~~, with our Chief Executive Officer which currently expires on November 30, 2025, and our Chief Financial Officer which expires on December 31, 2023 with renewable terms each 18 months thereafter~~ . We do not presently maintain “ key man ” insurance on any other key employees. We believe that experienced personnel will continue to be required to implement our business plan. Competition for such personnel is intense, and we cannot assure you that they will be available when required, or that we will have the ability to attract and retain them. In addition, due to our small size, we do not presently have depth of staffing in our executive, operational and financial management areas in order to have an effective succession plan should the need arise. Thus, in the event of the loss of one or more of our management employees, our results of operations could be vulnerable to challenges associated with recruiting additional key personnel, if such recruiting efforts are not successful in a timely manner. Certain of our products are dependent on specialized sources of supply potentially subject to disruption which could have a material, adverse impact on our business. We expect recent supply chain disruptions driven by the pandemic and Russia’ s invasion of Ukraine and the related sanctions, combined with raw material shortages, labor shortages, transportation delays and inflationary pressures, to continue for the foreseeable future. These conditions have strained our suppliers and extended supplier delivery lead times, affecting their ability to sustain operations. We are experiencing market wide material shortages for paint and resin products as well as critical epoxies and chemicals used in our manufacturing process. In addition, we are seeing substantial increases in the costs of aluminum, steel and acrylic commodities. In addition, we have experienced supplier schedule delays for other key components which are driven by supplier labor and material shortages. In several cases, spotty supply and material shortages have resulted in stocking higher inventory " safety stock " levels to ensure adequate lead time to replenish critical supplies. We have selectively single- sourced some of our material components in order to mitigate excess procurement costs associated with significant tooling and startup costs. Furthermore, because of the nature of government contracts, we are often required to purchase selected items from U. S. government approved suppliers, which may further limit our ability to utilize multiple supply sources for these key components. To the extent any of these single sourced or government approved suppliers may have disruptions in deliveries due to production, quality, or other issues, we may also experience related production delays or unfavorable cost increases associated with retooling and qualifying alternate suppliers. The impact of delays resulting from disruptions in supply for these items could negatively impact our revenue, our reputation with our customers, and our results of operations. In addition, significant price increases from single- source suppliers could have a negative impact on our profitability to the extent that we are unable to recover these cost increases on our fixed price contracts. Each contract has a specific quantity of material which needs to be purchased, assembled, and shipped. Prior to bidding on a contract, we contact potential sources of material and receive qualified quotations for this material. In some cases, the entire volume is given to a single supplier and in other cases; the volume might be split between several suppliers. If a contract has a single source supplier and that supplier fails to meet their obligations (e. g., quality, delivery), then we would seek to find an alternate supplier and bring this information back to the final customer. Contractual deliverables would then generally be re- negotiated (e. g., specifications, delivery, price **)** . As of December 1, ~~2022~~ **2023** , approximately ~~1~~ **9** % of our material requirements are single- sourced across ~~7~~ **13** suppliers representing approximately ~~12~~ **27** % of our active supplier order value. Single- sourced component requirements span across all of our major product lines. We consider it a material financial or schedule risk if we believe it will take us at least three months to identify and qualify a suitable replacement for specialized single source suppliers. In the table below, we identify those specialized single source suppliers with respect to which we face such a material risk and the product lines supported by those materials utilized by us as of December ~~1~~ **6** , ~~2022~~ **2023** . Product Line Supply Item Risk Purchase Orders Sighting Systems M36 DDAN Digital camera system Alternative source would take in excess of six months to qualify Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. Periscopes Die- cast housings All die cast tooling is consolidated at this supplier. It would take approximately six months to move tooling and re- qualify a new supplier. Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule. Periscopes Steel castings Alternative supplier source would take six months to qualify. Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. Vision Blocks MIL Spec welded housings for vision blocks Would take approximately 8- 10 months to re- qualify a new supplier source. Currently working with current vendor to keep supply of these parts Vision Blocks Large / Small / Customs Blocks Would take approximately 4- 6 months to re- qualify a new supplier source. Currently working with single source for purchasing material on a forecast projection basis MRS AL Castings for Housing Would take approximately 8- 12 months to re- qualify a new supplier source. Currently, ordering for a single source, new casting tool and FAT will be required to qualify a new **sourceShort** ~~source Short~~ / Long Drivers Mirrors Would take approximately 8- 12 months to re- qualify a new supplier source. Currently working with single source for purchasing material on a forecast projection basis Big Eye Sand castings for big eye binocular parts Would take approximately 4- 6 months to re- qualify a new supplier source Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. **Beamsplitter Glass tight dimensions and Special Coating Limited number of suppliers that can meet tight customer specifications without deviation Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements.** Applied Optics Center M22 / M24 Binocular Spare Components Only approved source due to proprietary rights. Alternate source cannot be developed. **Current firm fixed price and quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule. Applied Optics Center LIF Assembly Container Wrench and Retaining Ring Mold tooling was manufactured by and used by one source. Tooling would not fit other potential supplier' s equipment. Finding another source would be very expensive and take approximately 1 year to transition Current firm fixed price and quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule. Applied Optics Center LIF Assembly Rubber Seal Mold tooling was manufactured by and used by one source. Tooling would not fit other potential supplier' s equipment. Finding another source would be very expensive and take approximately 1 year to transition Current firm fixed price and quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule. Applied Optics Center Assorted LFU Assemblies ARD (Anti- Reflective Device) Only one approved Government source of supply at this time** Current firm fixed price and quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule. The defense technology supply industry is subject to technological change and if we are not able to keep up with our competitors and / or they develop advanced technology as response to our products, we may be at a competitive disadvantage. The market for our products is generally characterized by technological developments, evolving industry standards, changes in customer requirements, frequent new product introductions and enhancements, short product life cycles and severe price competition. Our competitors could also develop new, more advanced technologies in reaction to our products. Currently accepted industry standards may change. Our success depends substantially on our ability, on a cost- effective and timely basis, to continue to enhance our existing products and to develop and introduce new products that take advantage of technological advances and adhere to evolving industry standards. An unexpected change in one or more of the technologies related to our products, in market demand for products based on a particular technology or of accepted industry standards could materially and adversely affect our business. We may or may not be able to develop new products in a timely and satisfactory manner to address new industry standards and technological changes, or to respond to new product announcements by others. In addition, new products may or may not achieve market acceptance. Unexpected warranty and product liability claims could adversely affect our business and results of operations. The possibility of future product failures could cause us to incur substantial expense to repair or replace defective products. We warrant the quality of our products to meet customer requirements and be free of defects for twelve months subsequent to delivery. We establish reserves for warranty claims based on our historical rate of returned shipments against these contracts. There can be no assurance that this reserve will be sufficient if we were to experience an unexpectedly high incidence of problems with our products. Significant increases in the incidence of such claims may adversely affect our sales and our reputation with consumers. Costs associated with warranty and product liability claims could materially affect our financial condition and results of operations. We rely on the proper function, availability and security of information technology systems to operate our business and a cyber- attack or other breach of these systems could have a material adverse effect on our business, financial condition or results of operations. We rely on information technology systems to process, transmit, and store electronic information in our day- to- day operations. Similar to other companies, the size and complexity of our information technology systems makes them vulnerable to a cyber- attack, malicious intrusion, breakdown, destruction, loss of data privacy, or other significant disruption. Our information systems require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards. On July 13, 2021, we experienced a ransomware attack. While we do not expect that attack to have material adverse consequences, similar attacks, if not caught and effectively addressed in a timely manner, could have a material adverse effect on our business, financial condition and results of operations. Any failure by us to maintain or protect our information technology systems and data integrity, including from cyber- attacks, intrusions or other breaches, could result in the unauthorized access to personally identifiable information, theft of intellectual property or other misappropriation of assets, or otherwise compromise our confidential or proprietary information and disrupt our operations. Any of these events may cause us to have difficulty preventing, detecting, and controlling fraud, be subject to legal claims and liability, have regulatory sanctions or penalties imposed, have increases in operating expenses, incur expenses or lose revenues as a result of a data privacy breach or theft of intellectual property, or suffer other adverse consequences, any of which could have a material adverse effect on our business, financial condition or results of operations. We ~~may face risks as a result of the COVID- 19 pandemic. We may be at risk as a result of the continuing COVID- 19 pandemic. Risks that could affect our business include the duration and scope of the COVID- 19 pandemic and the impact on the demand for our products; actions by governments, businesses and individuals taken in response to the pandemic; the length of time of the COVID- 19 pandemic and the possibility of its reoccurrence; the timing required to develop and implement effective treatments and achieve acceptable vaccination rates in the event of future outbreaks; the eventual impact of the pandemic and actions taken in response to the pandemic on global and regional economies; and the pace of recovery when the COVID- 19 pandemic subsides. The pandemic has caused several program delays throughout the defense supply chain as a result of plant shutdowns, employee illnesses, travel restrictions, remote work arrangements and similar supplier issues. The sweeping and evolving nature of the COVID- 19 pandemic makes it extremely difficult to predict how our business operations will be affected in the long term by the COVID- 19 outbreak, variants of COVID- 19, and any virus that spreads in a similar fashion. A repeat of the cascading effects of the COVID- 19 pandemic could materially increase our costs, severely negatively impact our revenue, net income, and other results of operations, and impact our liquidity position, possibly significantly. The extent and duration of any such impacts on our business, financial condition, and results of operations cannot be predicted. We~~ derive almost all of our revenue from a small number of customers and the loss of any of these customers could have a material adverse effect on our revenues. For the year ended October ~~2~~ **1** , ~~2022~~ **2023** , the Company' s consolidated revenues were derived from U. S. government agencies (~~14~~ **22** %), three U. S. defense contractors (~~22~~ **14** %, ~~15~~ **7** %, and ~~7~~ **6** %), one major commercial customer (~~22~~ **23** %) and all other customers (~~20~~ **28** %). Approximately ~~93~~ **95** % of total Company revenue is generated from domestic customers and ~~7~~ **5** % is derived from foreign customers, primarily Canada. In particular, a decision by one of our major defense contract customers, U. S. government agencies, or major commercial customers to cease issuing contracts to us could have a significant material impact on our business and results of operations given that they represent over ~~80~~ **72** % of our gross business revenue. There can be no assurance that we could replace these customers on a timely basis or at all. We have approximately ~~111~~ **151** discrete contracts with major defense contractors and the U. S. Government (primarily Defense Logistics Agencies (DLA ~~)~~), and other prime U. S. defense contractors. If they choose to terminate these contracts, we are entitled to fully recover all contractual costs and reasonable profits incurred up to or as a result of the terminated contract. We only possess six patents and rely primarily on trade secrets to protect our intellectual property. We utilize several highly specialized and unique processes in the manufacture of our products, for which we rely solely on trade secrets to protect our innovations. We cannot assure you that we will be able to maintain the confidentiality of our trade secrets or that our non- disclosure agreements will provide meaningful protection of our trade secrets, know- how or other proprietary information in the event of any unauthorized use, misappropriation or other disclosure. The non- disclosure agreements that are designed to protect our trade secrets could be breached, and we might not have adequate remedies for the breach. It is also possible that our trade secrets will otherwise become known or independently developed by our competitors, many of which have substantially greater resources than us, and these competitors may have applied for or obtained, or may in the future apply for or obtain, patents that will prevent, limit or interfere with our ability to make and sell some of our products. Although based upon our general knowledge (and we have not conducted patent searches), we believe that our products do not infringe on the patents or other proprietary rights of third parties; however, we cannot assure you that third parties will not assert infringement claims against us or that such claims will not be successful. We may need to raise additional capital in the future beyond any cash flow from our existing business; additional funds may not be available on terms that are acceptable to us, or at all. We may need to raise additional capital in the future to finance our future working capital needs. We cannot assure you that any additional capital will be available on a timely basis, on acceptable terms, or at all. Future equity or debt financings may be difficult to obtain. If we are not able to obtain additional capital as may be required, our business, financial condition and results of operations could be materially and adversely affected. We anticipate that our capital requirements will depend on many factors, including: ● our ability to fulfill backlog; ● our ability to procure additional production contracts; ● our ability to control costs; ● the timing of payments and reimbursements from government and other contracts, including but not limited to changes in federal government military spending and the federal government procurement process; ● increased sales and marketing expenses; ● technological advancements and competitors' response to our products; ● capital improvements to new and existing facilities; ● our relationships with customers and suppliers; and ● general economic conditions including the effects of future economic slowdowns, acts of war or terrorism and the current international conflicts. Even if available, financings may involve significant costs and expenses, such as legal and accounting fees, diversion of management' s time and efforts, and substantial transaction costs. If adequate funds are not available on acceptable terms, or at all, we may be unable to finance our operations, develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures. Risks Related to **our Credit Facility and Liquidity Our level of debt and restrictions in our credit agreement could negatively affect our operations and limit our liquidity and our ability to react to changes in the economy. Our Loan Agreement with Texas Capital Bank contains restrictive covenants that require us to maintain a fixed charge coverage ratio of at least 1. 25: 1 and a total leverage ratio of 3. 00: 1, which we may fail to meet if there is a material decrease in our profitability or liquidity. In addition, the Loan Agreement contains restrictive covenants governing indebtedness, liens, fundamental changes (including changes in management), investments, and restricted payments (including cash dividends). The borrowings under the Loan Agreement are secured by substantially all of our operating assets as collateral. A breach of any of the restrictions and covenants could result in a default under our Loan Agreement, which, if not cured or waived, could cause any outstanding indebtedness under the agreement (or under any future financing arrangements) to become immediately due and payable, and result in the termination of commitments to extend further credit. We may not have sufficient funds on hand to repay the loan, and if we are forced to refinance these borrowings on less favorable terms, or are unable to refinance at all, our results of operations and financial condition could be materially adversely affected by increased costs and rates. If our debt level significantly increases in the future, it could have significant consequences on our ongoing operations including requiring us to dedicate a significant portion of our cash flow from operations to servicing debt rather than using it to execute our strategic initiatives; limiting our ability to obtain additional debt financing for future working capital, capital expenditures, or other worthwhile endeavors; and limiting our ability to react to changes in the market. Risks Related to** Our Stock Our ~~common~~ stock **typically trades in low volumes daily** ~~is currently quoted on an Over- The- Counter Market,~~ which ~~affects the~~ **could lead to** ~~liquidity~~ **illiquidity** ~~of~~ **, volatility,** ~~our~~ - **or depressed** ~~common stock and may affect its~~ stock price. **Our** ~~Although we have recently applied to list our common stock on the NASDAQ Capital Market, there can be no assurances that the application will be granted and no assurances on the timing of any uplisting. Until such time, if any, as our~~ stock is listed on **Nasdaq** ~~the NASDAQ Capital Market~~ , **but typically trades** ~~it will continue to be quoted on OTCQB under the trading symbol " OPXS ". Trading~~ in **low daily volumes. Because of a history of low** ~~our common stock has been very limited and we cannot make any assurances that the~~ trading volume ~~will increase~~ , ~~or~~ **our** ~~, if and when it increases, that it will be sustained at any level. Over- the- counter markets are generally considered to be less efficient than, and not as broad as, a~~ stock ~~exchange. Our share~~ **is relatively illiquid and its** price ~~could decrease as a result of this limited liquidity or otherwise, and our share price is likely to be highly volatile. Specifically, stockholders may have difficulties reselling significant numbers of shares of common stock at any particular time, and may not be able to resell their shares of common stock at or above the price paid for such shares. As a result, stockholders~~ may be **volatile** ~~required to hold shares of common stock for an indefinite period of time~~ . **This** ~~In addition, sales of substantial amounts of common stock could lower the prevailing market price of our common stock. Furthermore, our ability to raise additional capital is impaired because of the less liquid nature of the over- the- counter markets. We~~ may ~~not be able to complete an equity financing on acceptable terms, or at all. In that context, investors should consider that not having the common stock listed on a national securities exchange makes us ineligible to use shorter and less costly filings, such as Form S- 3, to register our securities for sale. While we may use Form S- 1 to register a sale of our stock to raise capital or complete acquisitions, doing so would cause us to incur higher transaction costs and adversely impact our ability to raise capital or complete acquisitions of other companies in a timely manner. In addition, if we are able to complete equity financings, the dilution from any equity financing while our shares are quoted on an over- the- counter market could be greater than if we were to complete a financing while our common stock were listed on a national securities exchange. Finally, if we cease to qualify for quotation on OTCQB, our common stock may be forced to trade on the " pink sheets, " and the market for resale of our common stock would be extremely limited. In that case, holders of our common stock may find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our common stock, and the market value of our common stock may decline as a result. We are subject to penny stock rules, which discourages broker- dealers from effecting transactions in our common stock. The SEC has adopted a number of rules to regulate " penny stock " that restricts transactions involving our shares of common stock. Such rules include Rules 3a51- 1, 15g- 1, 15g- 2, 15g- 3, 15g- 4, 15g- 5, 15g- 6, 15g- 7, and 15g- 9 under the Exchange Act. These rules may have the effect of reducing the liquidity of penny stocks. " Penny stocks " generally are equity securities with a price of less than $ 5. 00 per share, subject to certain exclusions. As long as we are not listed on a securities exchange or NASDAQ, our shares of common stock constitute " penny stock " within the meaning of the rules. The additional sales practice and disclosure requirements imposed upon U. S. broker- dealers in connection with effecting transactions in " penny stocks " may discourage such broker- dealers from effecting transactions in shares of our common stock, which could severely limit the market liquidity of such shares and impede their sale in the secondary market. A U. S. broker- dealer selling penny stock to anyone other than an established customer or " accredited investor " must make a special suitability determination for the purchaser and must receive the purchaser' s written consent to the transaction prior to sale, unless the broker- dealer or the transaction is otherwise exempt. In addition, the penny stock~~

~~regulations require the U. S. broker- dealer to deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared in accordance with SEC standards relating to the penny stock market, unless the broker- dealer or the transaction is otherwise exempt. A U. S. broker- dealer is also required to disclose commissions payable to the U. S. broker- dealer and the registered representative and current quotations for the securities. Finally, a U. S. broker- dealer is required to submit monthly statements disclosing recent price information with respect to the penny stock held in a customer' s account and information with respect to the limited market in penny stocks. In addition to the " penny stock " rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker- dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker- dealers must make reasonable efforts to obtain information about the customer' s financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements~~ make it more difficult for ~~broker~~ **our stockholders to resell shares when desired or at attractive prices. Some investors view low** - ~~dealers~~ **volume stocks as unduly speculative and therefore not appropriate candidates for investment. Also, due** to ~~recommend that their~~ -- **the** ~~customers buy~~ **low volume of shares traded on any trading day, persons buying or selling in relatively small quantities may easily influence prices of our stock. Any analysts covering our stock could negatively impact the stock price. The trading market for** our common stock ~~, which~~ **will likely be influenced by the research and reports that industry or securities analysts** may ~~limit~~ **publish about us,** ~~your~~ - **our** ~~ability to buy and sell~~ **business, our market or our competitors. If any such analysts downgrade their evaluation of** our stock ~~and have~~ **, the price of our stock could decline. Furthermore, if our operating results fail to meet analysts' expectations, our stock price would likely decline. Our stock price has been** ~~an~~ **and** ~~adverse effect~~ **will likely continue to be extremely volatile, and, as a result, stockholders may not be able to resell shares at or above their purchase price, and we may be more vulnerable to securities class action litigation. Since our common stock was listed** on **Nasdaq in March 2023, our stock price, as reported by Nasdaq, has ranged from a low of $ 2. 87 to a high of $ 4. 47. As a result,** the market **price and trading volume** ~~for our shares. Furthermore, transfers~~ of **our common stock is likely to be similarly volatile in the future, and investors in** our common stock may **experience a decrease** ~~require broker- dealers to submit notice filings and pay fees in certain states~~ , which **could be substantial, in the value of their stock, including decreases unrelated to our results of operations or prospects, and could lose part or all of their investment. In the past, following periods of volatility in the market price of a company' s securities, securities class action litigation has often been brought against that company. Because of the potential volatility of our stock price, we** may ~~discourage broker- dealers~~ **become the target of securities litigation in the future. If we were to become involved in securities litigation, it could result in substantial costs, divert management' s attention and resources** from ~~effecting transactions~~ **our business and adversely affect our business. We are a " smaller reporting company " as defined** in **SEC regulations, and the reduced disclosure requirements applicable to smaller reporting companies may make** our common stock **less attractive to investors** . **We** ~~You should also be aware~~ -- **are** ~~that, according to the~~ **a " smaller reporting company " as defined under** SEC **regulations and we may take advantage of certain exemptions** ~~, the market for penny stocks has suffered in recent years~~ from **various reporting requirements** ~~patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker- dealers~~ that are ~~often related~~ **applicable to other public companies that are not smaller reporting companies including, among other things, reduced financial disclosure requirements including being permitted to provide only** ~~to~~ **two years of audited financial statements and reduced disclosure obligations regarding executive compensation. As a result, our stockholders may not have access to certain information that** ~~the~~ **they** ~~promoter~~ **may deem important. We could remain a smaller reporting company indefinitely. As a smaller reporting company, investors may deem** ~~or~~ **our stock less attractive** ~~issuer; (ii) manipulation of prices through prearranged matching of purchases~~ and ~~sales~~ **, as a result, there may be less active trading of our common stock,** and **our stock** ~~false and misleading press releases; (iii) " boiler room " practices involving high- pressure sales tactics and unrealistic~~ price **may be more volatile** ~~projections by inexperienced sales persons; (iv) excessive and undisclosed bid- ask differentials and markups by selling broker- dealers; and (v) the wholesale dumping of the same securities by promoters and broker- dealers after prices have been manipulated to a desired level, resulting in investor losses~~ . General Risk Factors Changes in current economic conditions may adversely affect our ability to continue operations. Changes in current economic conditions may cause a decline in business, consumer and defense spending and capital market performance, which could adversely affect our business and financial performance. Our ability to raise funds, which could be required for business continuity or expansion of our operations, may be adversely affected by current and future economic conditions, such as a reduction in the availability of credit, financial market volatility and economic recession. In the future, we may look to acquire other businesses in our industry and the acquisitions will require us to use substantial resources. In the future, we may decide to pursue acquisitions of other businesses in our industry. In order to successfully acquire other businesses, we would be forced to spend significant resources for both acquisition and transactional costs, which could divert substantial resources in terms of both financial and personnel capital from our current operations. Additionally, we might assume liabilities of the acquired business, and the repayment of those liabilities could have a material adverse impact on our cash flow. Furthermore, when a new business is integrated into our ongoing business, it is possible that there would be a period of integration and adjustment required which could divert resources from ongoing business operations. The elimination of monetary liability against our directors, officers and employees under Delaware law and the existence of indemnification rights to our directors, officers and employees may result in substantial expenditures by us and may discourage lawsuits against our directors, officers and employees. We provide indemnification to our directors and officers to the extent provided by Delaware law. The foregoing indemnification obligation could result in our incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which we may be unable to recoup. These provisions and resultant costs may also discourage us from bringing a lawsuit against directors and officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by our stockholders against our directors and officers even though such actions, if successful, might otherwise benefit us and our stockholders. Our stock price is speculative, and there is a risk of litigation. The trading price of our common stock has in the past and may in the future be subject to wide fluctuations in response to factors such as the following: ● revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community; ● speculation in the press or investment community; ● wide fluctuations in stock prices, particularly with respect to the stock prices for other defense industry companies; ● announcements of technological innovations by us or our competitors; ● new products or the acquisition of significant customers by us or our competitors; ● changes in investors' beliefs as to the appropriate price- earnings ratios for us and our competitors; ● changes in management; ● sales of common stock by directors and executive officers; ● rumors or dissemination of false or misleading information, particularly through Internet chat rooms, instant messaging, and other rapid- dissemination methods; ● conditions and trends in the defense industry generally; ● the announcement of acquisitions or other significant transactions by us or our competitors; ● adoption of new accounting standards affecting our industry; ● general market conditions; ● domestic or international terrorism and other factors; and ● other factors as described in this section. Fluctuations in the price of our common stock may expose us to the risk of securities class action lawsuits. Although no such lawsuits are currently pending against us and we are not aware that any such lawsuit is threatened to be filed in the future, there is no assurance that we will not be sued based on fluctuations in the price of our common stock. Defending against such suits could result in substantial cost and divert management' s attention and resources. In addition, any settlement or adverse determination of such lawsuits could subject us to significant liability. **Adverse developments affecting the financial services industry, including events or concerns involving liquidity, defaults or non- performance by financial institutions or transactional counterparties, could adversely affect our business, results of operations or financial condition. Events involving limited liquidity, defaults, non- performance or other adverse developments that affect financial institutions, transactional counterparties or other companies in the financial services industry, or concerns or rumors about any events of these kinds or other similar risks, have in the past and may in the future lead to market- wide liquidity problems. For example, on March 10, 2023, Silicon Valley Bank (" SVB ") was closed by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation (" FDIC ") as receiver; on March 12, 2023, Signature Bank and Silvergate Capital Corp. were each swept into receivership; and on May 1, 2023, First Republic Bank failed and regulators sold substantially all of its assets to JPMorgan Chase & Co. The failure of First Republic Bank occurred despite a previous attempt by some of the nation' s largest banks to shore up First Republic' s capital. Although we assess our banking and customer relationships as we believe necessary or appropriate, our access to funding sources and other credit arrangements in amounts adequate to finance or capitalize our current and projected future business operations could be significantly impacted. In addition, investor concerns regarding the U. S. or international financial systems could result in less favorable commercial financing terms, including higher interest rates or costs and tighter financial and operating covenants, or systemic limitations on access to credit and liquidity sources, thereby making it more difficult for us to acquire financing on acceptable terms or at all. Any decline in available funding or access to our cash and liquidity resources could, among other risks, adversely impact our ability to meet our operating expenses, financial obligations or other obligations, result in breaches of our contractual obligations or result in violations of federal or state wage and hour laws. Any of these impacts, or any other impacts resulting from the factors described above or other related or similar factors not described above, could have material adverse impacts on our liquidity and our business, results of operations or financial condition.** Item 2. Properties