

Optex Systems Holdings Inc
Form 10-Q/A
January 13, 2011

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

AMENDMENT NO. 2 TO FORM 10-Q/A

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

For the quarterly period ended June 28, 2009

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 (State or other jurisdiction of incorporation) | 333-143215 (Commission File Number) | 33-143215 (IRS Employer Identification No.) |
| 1420 Presidential Drive, Richardson, TX (Address of principal executive offices) | | 75081-2439 (Zip Code) |

Registrant's telephone number, including area code: 972-238-0722

(Former Name or Former Address if Changed Since Last Report)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and

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post such files). Yes No Not applicable.

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b`-2 of the Exchange Act.

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of August 4, 2009: 139,444,940 shares of common stock.

OPTEX SYSTEMS HOLDINGS, INC.
FORM 10-Q
June 28, 2009

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PART I— FINANCIAL INFORMATION

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Item 1. Financial Information

OPTEX SYSTEMS HOLDINGS, INC.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 28, 2009 (Restated)

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OPTEX SYSTEMS HOLDINGS, INC.

BALANCE SHEETS AS OF JUNE 28, 2009 (SUCCESSOR) (UNAUDITED) (RESTATED) AND
SEPTEMBER 28, 2008 (PREDECESSOR) (RESTATED) F-1

STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 28, 2009 (SUCCESSOR)
AND JUNE 29, 2008 (PREDECESSOR) (UNAUDITED) FOR THE PERIOD OCTOBER 15, 2008
THROUGH JUNE 28, 2009 (SUCCESSOR) AND FOR THE PERIOD SEPTEMBER 29, 2008 THROUGH
OCTOBER 14, 2008 (PREDECESSOR) (UNAUDITED) (RESTATED) F-3

STATEMENTS OF CASH FLOWS FOR THE PERIOD OCTOBER 15, 2008 THROUGH JUNE 28, 2009
(SUCCESSOR) AND FOR THE PERIOD SEPTEMBER 29, 2008 THROUGH OCTOBER 14, 2008
(PREDECESSOR) (UNAUDITED) (RESTATED) F-4

STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE PERIOD OCTOBER 15, 2008 THROUGH
JUNE 28, 2009 (SUCCESSOR) AND FOR THE PERIOD SEPTEMBER 29, 2008 THROUGH OCTOBER
14, 2008 (PREDECESSOR) (UNAUDITED) (RESTATED) F-6

FINANCIAL STATEMENT FOOTNOTES (UNAUDITED) (RESTATED) F-7

Optex Systems Holdings, Inc.
(formerly known as Sustut Exploration, Inc.)
Condensed Consolidated Balance Sheets

Restated
Successor
June 28, 2009 (Unaudited)

Restated
Predecessor
September 28, 2008

| ASSETS | | | |
|-------------------------------------|-----------|-------------------|----------------------|
| Current Assets | | | |
| Cash | \$ | 492,325 | \$ 170,183 |
| Accounts Receivable | | 3,228,098 | 2,454,235 |
| Net Inventory | | 6,843,017 | 4,547,726 |
| Prepaid Expenses | | 158,797 | 307,507 |
| Total Current Assets | | 10,722,237 | 7,479,651 |
| Property and Equipment | | | |
| Property Plant and Equipment | | 1,341,271 | 1,314,109 |
| Accumulated Depreciation | | (1,073,745) | (994,542) |
| Total Property and Equipment | | 267,526 | 319,567 |
| Other Assets | | | |
| Security Deposits | | 20,684 | 20,684 |
| Intangibles | | 2,483,395 | 1,100,140 |
| Goodwill | | 7,110,415 | 10,047,065 |
| Total Other Assets | | 9,614,494 | 11,167,889 |
| Total Assets | \$ | 20,604,257 | \$ 18,967,107 |

The accompanying notes are an integral part of these financial statements

Optex Systems Holdings, Inc.
(formerly known as Sustut Exploration, Inc.)
Balance Sheets – Continued

| | Restated Successor June 28, 2009 (Unaudited) | Restated Predecessor September 28, 2008 |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities | | |
| Accounts Payable | \$ 3,223,278 | \$ 1,821,534 |
| Accrued Expenses | 628,033 | 798,974 |
| Accrued Warranties | 314,446 | 227,000 |
| Accrued Contract Losses | 687,111 | 821,885 |
| Loans Payable | 459 | 373,974 |
| Interest on Loans Payable | 11,101 | |
| Income Tax Payable | 85,179 | 4,425 |
| Total Current Liabilities | 4,949,607 | 4,047,792 |
| Other Liabilities | | |
| Note Payable | - | \$ 2,000,000 |
| Accrued Interest on Note | - | 336,148 |
| Due to Parent | - | 4,300,151 |
| Total Other Liabilities | - | 6,636,299 |
| Total Liabilities | 4,949,607 | \$ 10,684,091 |
| Stockholders' Equity | | |
| Optex Systems Holdings, Inc. – (par value \$0.001 per share, 200,000,000 shares authorized, 138,914,940 shares issued and outstanding as of June 28, 2009) | 138,915 | |
| Optex Systems Holdings, Inc. preferred stock (par value \$0.001 per share, 5,000 shares authorized, 1,027 Series A Preferred shares issued and outstanding as of June 28, 2009) | 1 | |
| Optex Systems, Inc. – (Texas) (predecessor) common stock (no par 100,000 shares authorized, 18,870 shares issued and 10,000 shares outstanding as of September 28, 2008) | | 164,834 |
| Optex Systems, Inc. (Texas) (predecessor) Treasury Stock (8,870 shares at cost as of September 28, 2008) | - | (1,217,400) |
| Additional Paid-in-capital | 16,244,318 | 15,246,282 |
| Retained Deficit | (728,584) | (5,910,700) |
| Total Stockholders' Equity | \$ 15,654,650 | \$ 8,283,016 |
| Total Liabilities and Stockholders' Equity | \$ 20,604,257 | \$ 18,967,107 |

The accompanying notes are an integral part of these financial statements

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Optex Systems Holdings, Inc.
(formerly known as Sustut Exploration, Inc.)
Condensed Consolidated Statements of Operations – Restated and Unaudited

| | Successor Three Months ended June 28, 2009 | Predecessor Three Months ended June 29, 2008 | Successor For the period Three Months October 15, 2008 through June 28, 2009 | Predecessor For the period September 29, 2008 through October 14, 2008 | Predecessor Nine Months ended June 29, 2008 |
|---|--|---|--|--|--|
| Revenues | \$ 6,983,930 | \$ 3,881,053 | \$ 20,084,362 | \$ 871,938 | \$ 13,925,073 |
| Total Cost of Sales | 6,417,926 | 2,851,287 | 18,135,020 | 739,868 | 11,716,785 |
| Gross Margin | 566,004 | 1,029,766 | 1,949,342 | 132,070 | 2,208,288 |
| General and Administrative | | | | | |
| Salaries and Wages | 176,869 | 253,594 | 502,883 | 22,028 | 744,119 |
| Employee Benefits & Taxes | 29,716 | 76,438 | 228,847 | 495 | 246,071 |
| Employee Stock Bonus Plan | - | 100,174 | 4,812 | (4,812) | 279,034 |
| Amortization of Intangible | 101,159 | 54,123 | 303,475 | - | 169,368 |
| Rent, Utilities and Building Maintenance | 50,838 | 69,959 | 150,780 | 12,493 | 160,999 |
| Investor Relations | 88,326 | - | 88,326 | - | - |
| Legal and Accounting Fees | 128,274 | 20,166 | 296,627 | 360 | 117,695 |
| Consulting and Contract Service Fees | 43,210 | 66,678 | 167,261 | 10,527 | 267,222 |
| Travel Expenses | 16,294 | 28,376 | 41,317 | - | 116,338 |
| Corporate Allocations | - | 508,275 | - | - | 1,450,905 |
| Board of Director Fees | 37,500 | - | 87,500 | - | - |
| Other Expenses | 87,749 | 47,127 | 167,531 | 16,155 | 124,729 |
| Total General and Administrative | 759,935 | 1,224,910 | 2,039,359 | 57,246 | 3,676,480 |
| Operating Income (Loss) | (193,931) | (195,144) | (90,017) | 74,824 | (1,468,192) |
| Other Expenses | | | | | |
| Other (Income) and Expense | (351) | 3 | (1,434) | - | (499) |
| Interest (Income) Expense - Net | - | 46,000 | 174,710 | 9,492 | 145,503 |
| Total Other | (351) | 46,003 | 173,276 | 9,492 | 145,004 |
| Income (Loss) Before Taxes | (193,580) | (241,147) | (263,293) | 65,332 | (1,613,196) |
| Income Taxes (Benefit) | 114,973 | - | 465,291 | - | - |
| Net Income (Loss) After Taxes | \$ (308,553) | \$ (241,147) | \$ (728,584) | \$ 65,332 | \$ (1,613,196) |
| Basic and diluted loss per share | | | | | |
| (1) | \$ (0.00) | \$ (24.11) | \$ (0.01) | \$ 6.53 | \$ (161.32) |

| | | | | | |
|---|-------------|--------|-------------|--------|--------|
| Weighted Average Common Shares Outstanding | 138,914,940 | 10,000 | 121,891,852 | 10,000 | 10,000 |
|---|-------------|--------|-------------|--------|--------|

The accompanying notes are an integral part of these financial statements

(1) Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. Diluted earnings per share is computed by assuming that any dilutive convertible securities outstanding were converted, with related preferred stock dividend requirements and outstanding common shares adjusted accordingly. In a loss year, the calculation for basic and diluted earnings per share is considered to be the same, as the impact of potential common shares is anti-dilutive.

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Optex Systems Holdings, Inc.
(formerly known as Sustut Exploration, Inc.)
Statements of Cash Flows Restated and Unaudited

| | Successor | Predecessor | Predecessor |
|---|---|--|------------------------------|
| | For the period October 15, 2008 through June 28, 2009 | For the period September 29, 2008 through October 14, 2008 | For the period June 29, 2008 |
| Cash flows (to) from operating activities: | | | |
| Net Income (Loss) | \$ (728,584) | \$ 65,332 | \$ (1,613,196) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 1,622,907 | 9,691 | 570,566 |
| Provision for (use of) allowance for inventory valuation | 158,273 | 27,363 | |
| Noncash interest expense | 170,882 | 9,500 | 145,503 |
| Stock option compensation expense | 15,174 | - | |
| (Increase) decrease in accounts receivable | (1,823,665) | 1,049,802 | 460,783 |
| (Increase) decrease in inventory (net of progress billed) | (1,617,361) | (863,566) | 321,273 |
| (Increase) decrease in other current assets | 317,669 | 18,541 | (190,829) |
| Increase (decrease) in accounts payable and accrued expenses | 1,416,854 | (186,051) | (510,043) |
| Increase (decrease) in accrued warranty costs | 87,446 | - | |
| Increase (decrease) in due to parent | - | 1,428 | 1,595,954 |
| Increase (decrease) in accrued estimated loss on contracts | (119,470) | (15,304) | (1,021,761) |
| Increase (decrease) in income taxes payable | 85,179 | - | |
| Total adjustments | 313,888 | 51,404 | 1,371,446 |
| Net cash (used in) provided by operating activities | (414,696) | 116,736 | (241,750) |
| Cash flows (to) from investing activities: | | | |
| Cash Received through Optex Systems, Inc. (Texas) acquisition | | | |
| | 253,581 | - | - |
| Purchased of property and equipment | (13,824) | (13,338) | (103,974) |
| Net cash (used in) provided by investing activities: | 239,757 | (13,338) | (103,974) |
| Cash flows (to) from financing activities: | | | |
| Private Placement net of stock issuance cost | 874,529 | - | |
| Repayment of Loans Payable | (207,265) | (20,000) | |
| Net cash (used in) provided by financing activities: | 667,264 | (20,000) | - |
| Net increase (decrease) in cash and cash equivalents | 492,325 | 83,398 | (345,724) |
| Cash and cash equivalents at beginning of period | - | 170,183 | 504,753 |

| | | | | | | |
|--|----|---------|----|---------|----|---------|
| Cash and cash equivalents at end of period | \$ | 492,325 | \$ | 253,581 | \$ | 159,029 |
|--|----|---------|----|---------|----|---------|

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Optex Systems Holdings, Inc.
 (formerly known as Sustut Exploration, Inc.)
 Statements of Cash Flows – Restated and Unaudited – continued

| | Successor For the period October 29, 2008 through June 28, 2009 | Predecessor For the period September 14, 2008 through October 14, 2008 | Predecessor Nine months ended June 29, 2008 |
|---|--|---|--|
| Noncash investing and financing activities: | | | |
| Optex Systems, Inc. (Delaware) (Successor) purchase of Optex Systems, Inc. (Texas) (Predecessor) | | | |
| Cash received | \$ 253,581 | - | - |
| Accounts Receivable | 1,404,434 | - | - |
| Inventory | 5,383,929 | - | - |
| Intangibles | 4,036,790 | - | - |
| Other Assets | 632,864 | - | - |
| Accounts Payable | (1,953,833) | - | - |
| Other Liabilities | (1,868,180) | - | - |
| Debt | (6,000,000) | - | - |
| Goodwill | 7,110,415 | - | - |
| Issuance of Stock | \$ 9,000,000 | - | - |
| Conversion of Debt to Series A Preferred stock | | | |
| Additonal Paid in Capital (\$6,000,000 debt retirement plus accrued interest of \$159,780) | \$ 6,159,780 | - | - |
| Issuance of Common shares in exchange for Investor Relations Services | | | |
| Additonal Paid in Capital (1,250,000 shares issued at \$0.001 par) | \$ 187,500 | - | - |
| Supplemental cash flow information: | | | |
| Cash paid for interest | \$ 3,817 | - | - |
| Cash paid for taxes | \$ 380,112 | - | - |

The accompanying notes are an integral part of these financial statements

Optex Systems Holdings, Inc.
(formerly known as Sustut Exploration, Inc.)
Statement of Stockholders' Equity and Comprehensive Income/(Loss) (Restated)

| | Common Shares Outstanding | Series A Preferred Shares | Preferred Common Stock | Preferred Series A Stock | Treasury Stock Optex Systems, Inc. (Texas) | Additional Paid in Capital | Retained Earnings | Total Stockholders Equity |
|---|---------------------------------|---------------------------------|------------------------------|--------------------------------|--|----------------------------------|----------------------|---------------------------------|
| Predecessor Entity | | | | | | | | |
| Balance at September 28, 2008 | 10,000 | | \$ 164,834 | | \$ (1,217,400) | \$ 15,246,282 | \$ (5,910,700) | \$ 8,283,016 |
| Net Income | | | | | | | 65,332 | 65,332 |
| Balance at October 14, 2008 | 10,000 | - | \$ 164,834 | \$ - | \$ (1,217,400) | \$ 15,246,282 | \$ (5,845,368) | \$ 8,348,348 |
| Successor Entity | | | | | | | | |
| Balance at October 15, 2008 | - | - | - | - | - | - | - | - |
| Issuance of common stock (1) | | | | | | | | |
| | 113,333,282 | - | \$ 113,333 | \$ - | \$ - | \$ 8,886,667 | \$ - | \$ 9,000,000 |
| Conversion of 6,000,000 Debt and Interest to Series A Preferred shares | | | | | | | | |
| | - | 1,027 | - | 1 | - | 6,159,780 | - | 6,159,781 |
| Sustut Exploration reorganization (2) | | | | | | | | |
| | 17,449,991 | - | 17,450 | - | - | 170,050 | - | 187,500 |
| Stock Option Compensation Expense | | | | | | | | |
| | - | - | - | - | - | 15,174 | - | 15,174 |
| Private Placement Sale of Stock (2) | | | | | | | | |
| | 8,131,667 | - | 8,132 | - | - | 1,012,647 | - | 1,020,779 |
| | - | - | - | - | - | - | (728,584) | (728,584) |

Net Earnings
(Loss) from
continuing
operations

Balance at June

| | | | | | | | | | | |
|----------|-------------|-------|------------|------|----|---|---------------|----|-----------|---------------|
| 28, 2009 | 138,914,940 | 1,027 | \$ 138,915 | \$ 1 | \$ | - | \$ 16,244,318 | \$ | (728,584) | \$ 15,654,650 |
|----------|-------------|-------|------------|------|----|---|---------------|----|-----------|---------------|

The accompanying notes are an integral part of these financial statements

(1)After giving affect to the equivalent number of shares issued to existing Optex shareholders due to the reorganization.

(2)reorganization and private placement transactions which occurred on March 30, 2009.

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OPTEX SYSTEMS HOLDINGS, INC.
(formerly known as Sustut Exploration, Inc.)
Notes to Condensed Consolidated Financial Statements

Note 1 - Organization and Operations

On March 30, 2009, Optex Systems Holdings, Inc., (formerly known as Sustut Exploration, Inc.), a Delaware corporation, along with Optex Systems, Inc. , a privately held Delaware corporation which is Optex Systems Holdings' wholly-owned subsidiary (also known as Successor), entered into a reorganization agreement and Plan of reorganization, pursuant to which Optex Systems, Inc. (Delaware) was acquired by Optex Systems Holdings in a share exchange transaction. Optex Systems Holdings became the surviving corporation. At the closing, Optex Systems Holdings changed its name from Sustut Exploration Inc. to Optex Systems Holdings, Inc. and its year end from December 31 to a fiscal year ending on the Sunday nearest September 30.

On October 14, 2008, certain senior secured creditors of Irvine Sensors Corp., Longview Fund, L.P. and Alpha Capital Anstalt formed Optex Systems, Inc. (Delaware), which acquired all of the assets and assumed certain liabilities of Optex Systems, Inc., a Texas corporation and wholly owned subsidiary of Irvine Sensors Corporation, (also known as Predecessor) in a transaction that was consummated via purchase at a public auction. Following this asset purchase, Optex Systems, Inc. (Texas) remained a wholly-owned subsidiary of Irvine Sensors Corporation.

In accordance with SFAS 141 "Business Combination" and EITF 98-3 "Determining Whether a Non-monetary Transaction Involves Receipt of Productive Assets or of a Business" Optex Delaware's purchase of substantially all of the assets and assumption of certain liabilities represented the acquisition of a business. EITF 98-3 outlines the guidance in determining whether a "business" has been acquired in a transaction. For a transferred set of activities and assets to be a business, it must contain all of the inputs and processes necessary for it to continue to conduct normal operations after the transferred set of assets is separated from the transferor, which include the ability to sustain a revenue stream by providing its outputs to customers. Optex Systems, Inc. (Delaware) obtained the inputs and processes necessary for normal operations.

Optex Systems, Inc. (Texas) was a privately held Subchapter "S" Corporation from inception in 1987 until December 30, 2005 when 70% of the issued and outstanding stock was acquired by Irvine Sensors Corporation, and Optex Systems, Inc. (Texas) was automatically converted to a Subchapter "C" Corporation. On December 29, 2006, the remaining 30% equity interest in Optex Systems, Inc. (Texas) was purchased by Irvine Sensors Corporation.

On February 20, 2009, Sileas Corp., a newly-formed Delaware corporation, owned by present members of the company's management, purchased 100% of Longview's equity and debt interest in Optex Systems, Inc. (Delaware), representing 90% of the issued and outstanding common equity interests in Optex Systems, Inc. (Delaware), in a private transaction (the "Acquisition"). See Note 4.

Optex Systems, Inc. (Delaware) operated as a privately-held Delaware corporation until March 30, 2009, when as a result of the reorganization agreement (described above and also in Note 5), it became a wholly-owned subsidiary of Optex Systems Holdings. Sileas is the majority owner (parent) of Optex Systems Holdings owning approximately 73% of Optex Systems Holdings. Optex Systems Holdings plans to carry on the business of Optex Systems, Inc. (Delaware) as its sole line of business and all of Optex Systems Holdings' operations are conducted by and through Optex Systems, Inc. (Delaware). Accordingly, in subsequent periods the financial statements presented will be those of the accounting acquirer. The financial statements of Optex Systems Holdings represent subsidiary statements and do not include the accounts of its majority owner.

The Company's operations are based in Richardson, Texas in a leased facility comprising 49,100 square feet. As of June 28, 2009, Optex Systems Holdings operated with 107 full-time equivalent employees.

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Optex Systems Holdings manufactures optical sighting systems and assemblies, primarily for Department of Defense applications. Its products are installed on a variety of U.S. military land vehicles such as the Abrams and Bradley fighting vehicles, light armored and advanced security vehicles and have been selected for installation on the Stryker family of vehicles. Optex Systems Holdings also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Optex Systems Holdings' products consist primarily of build to customer print products that are delivered both directly to the military and to other defense prime contractors.

In February 2009, Optex Systems Holdings' ISO certification status was upgraded from 9001:2000 to 9001:2008 bringing Optex Systems Holdings into compliance with the new ISO standards rewritten to align with ISO 14001.

Note 2 - Accounting Policies

Basis of Presentation

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

The accompanying financial statements include the results of operations and cash flows of Optex Systems, Inc. (Delaware), the accounting acquirer in the Sustut reorganization and the Successor in the October 14, 2008 Optex Systems, Inc. (Texas) asset purchase transaction, for the period from October 15, 2008 through June 28, 2009. The accompanying financial statements include the balance sheet at September 28, 2008 and the results of operations, changes in stockholders' equity and cash flows for the period from September 29, 2008 through October 14, 2008 of Optex Systems, Inc. (Texas), Predecessor.

Although, Optex Systems, Inc. (Texas) (predecessor) has been majority owned by various parent companies described in the preceding paragraphs, no accounts of the parent companies or the effects of consolidation with any parent companies have been included in the accompanying financial statements. The Optex Systems, Inc. (Texas) accounts have been presented on the basis of push down accounting in accordance with Staff Accounting Bulletin No. 54 Application of "Push Down" Basis of Accounting in Financial Statements of Subsidiaries Acquired by Purchase. SAB 54 states that the push down basis of accounting should be used in a purchase transaction in which the entity becomes wholly-owned. Under the push down basis of accounting certain transactions incurred by the parent company, which would otherwise be accounted for in the accounts of the parent, are "pushed down" and recorded on the financial statements of the subsidiary. Accordingly, items resulting from the Optex Systems, Inc. (Texas) purchase transaction such as goodwill, debt incurred by the parent to acquire the subsidiary and other costs related to the purchase have been recorded on the financial statements of Optex Systems Holdings.

Upon completing the business combination with Sustut on March 30, 2009, Optex Systems Holdings elected to change its fiscal year to match that of Optex Systems, Inc. (Delaware). Accordingly, all activity of the combined companies was presented as of the quarter's end of the accounting acquirer, which was March 29, 2009.

Although the effective date of the merger was March 30, 2009, all transactions related to the business combination (and only those transactions), with Sustut have been reflected as if they had taken place one day prior (on March 29, 2009) so as to coincide with the accounting acquirer's quarter end of March 29, 2009. See Note 5 for details of the reorganization.

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 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 Optex Systems Holdings believes that the disclosures are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the annual audited financial statements and the notes thereto included in Optex Systems Holdings' Forms 8-K and other reports filed with the SEC.

The accompanying unaudited interim 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.

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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.

Inventory: Inventory is recorded at the lower of cost or market value, and adjusted as appropriate for decreases in valuation and obsolescence. Adjustments to the valuation and obsolescence reserves are made after analyzing market conditions, current and projected sales activity, inventory costs and inventory balances to determine appropriate reserve levels. Cost is determined using the first-in first-out method. Under arrangements by which progress payments are received against certain contracts, the customer retains a security interest in the undelivered inventory identified with these contracts. Payments received for such undelivered inventory are classified as unliquidated progress payments and deducted from the gross inventory balance. At June 28, 2009, and September 28, 2008 inventory included:

| | Successor As of June 28, 2009 | Predecessor As of September 28, 2008 |
|--------------------------------|-------------------------------------|---|
| Raw Materials | \$ 6,939,094 | \$ 5,575,520 |
| Work in Process | 3,529,351 | 4,199,657 |
| Finished Goods | 780,828 | 28,014 |
| Gross Inventory | \$ 11,249,273 | \$ 9,803,191 |
| Less: | | |
| Unliquidated Progress Payments | (3,546,890) | (4,581,736) |
| Inventory Reserves | (859,366) | (673,729) |
| Net Inventory | \$ 6,843,017 | \$ 4,547,726 |

Stock-Based Compensation: In December 2004, FASB issued SFAS No. 123R, Share-Based Payment. SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued.

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of EITF 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" and EITF 00-18, "Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees." The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, which ever is more readily determinable in accordance with SFAS 123R.

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Earnings per Share: Basic earnings per common share is computed by dividing net earnings by the weighted average number of common shares outstanding during each year presented. Diluted earnings per common share give the effect to the assumed exercise of stock options when dilutive. In a loss year, the calculation for basic and diluted earnings per share is considered to be the same, as the impact of potential common shares is anti-dilutive. For the period October 15, 2008 through June 28, 2009 there were 2,681,649 stock options issued and outstanding that could dilute future earnings. For the period September 29, 2008 through October 14, 2008 and for the nine months ended June 29, 2008, there were no stock options that could dilute future earnings

Note 3 - Recent Accounting Pronouncements

In June 2008, FASB issued FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities". FSP EITF 03-6-1 clarifies that share-based payment awards that entitle their holders to receive nonforfeitable dividends or dividend equivalents before vesting should be considered participating securities. As participating securities, we will be required to include these instruments in the calculation of our basic earnings per share, and we will need to calculate basic earnings per share using the "two-class method." Restricted stock is currently included in our dilutive earnings per share calculation using the treasury stock method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, Optex Systems Holdings is required to adopt these provisions at the beginning of the fiscal year ending October 3, 2010. Optex Systems Holdings does not expect adoption of FSP EITF 03-6-1 to have a material effect on Optex Systems Holdings' financial statements.

In May 2009, FASB issued SFAS No. 165, "Subsequent Events". SFAS 165 establishes principles and requirements for the reporting of events or transactions that occur after the balance sheet date, but before financial statements are issued or are available to be issued. SFAS 165 is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009. As such, Optex Systems Holdings adopted these provisions at the beginning of the interim period ended June 28, 2009. Adoption of SFAS 165 did not have a material effect on Optex Systems Holdings' financial statements.

In June 2009, FASB issued Statement of Financial Accounting Standard No. 168, "The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162". SFAS 168 replaces Statement 162 and establishes the FASB Accounting Standards CodificationTM (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. SFAS 168 is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As such, Optex Systems Holdings is required to adopt these provisions at the beginning of the interim period ending September 27, 2009. Optex Systems Holdings does not expect adoption of SFAS 168 to have a material effect its financial statements.

In June 2006, FASB issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No.109". This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on Optex Systems Holdings' financial position, results of operations, or cash flows.

In September 2006, the FASB issued FASB Statement 157, "Fair Value Measurements". FASB No. 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. FASB No. 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, FASB No. 157 does not require any new fair value measurements. However, for some entities, the application of FASB No. 157 will change current practice. The changes to current practice resulting from the application of FASB No. 157 relate to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. The provisions of FASB No. 157 are effective as of January 1, 2008, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. However, delayed application of this statement is permitted for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of FASB No. 157 did not have a material impact on Optex Systems Holdings' financial position, results of operations, or cash flows.

In February 2007, Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115," was issued. This standard allows a company to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities on a contract-by-contract basis, with changes in fair value recognized in earnings. The provisions of this standard are effective as of the beginning of our fiscal year 2008, with early adoption permitted. The adoption of FASB No. 159 did not have a material impact on Optex Systems Holdings' financial position, results of operations, or cash flows.

In March 2007, EITF issued No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements". EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The adoption of EITF 06-10 did not have a material impact on Optex Systems Holdings' financial position, results of operations, or cash flows.

In December 2007, FASB issued SFAS No. 141(R), "Business Combinations" and SFAS No. 160, "Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51". These new standards will significantly change the accounting for and reporting of business combinations and non-controlling (minority) interests in consolidated financial statements. Statement Nos. 141(R) and 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. Optex Systems Holdings is currently evaluating the impact of adopting SFAS Nos. 141(R) and SFAS 160 on its financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110. SAB 110 permits companies to continue to use the simplified method, under certain circumstances, in estimating the expected term of "plain vanilla" options beyond December 31, 2007. SAB 110 updates guidance provided in SAB 107 that previously stated that the Staff would not expect a company to use the simplified method for share option grants after December 31, 2007. Optex Systems Holdings does not have any outstanding stock options issued before December 31, 2007.

In March 2008, FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133". SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. As such, Optex Systems Holdings is required to adopt these provisions at the beginning of the fiscal year ended September 30, 2009. Optex Systems Holdings is currently evaluating the impact of SFAS 161 on its financial statements but does not expect it to have a material effect.

In May 2008, FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of FASB No. 162 did not have a material impact on Optex Systems Holdings' financial position, results of operations, or cash flows.

In May 2008, FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60". SFAS 163 interprets Statement 60 and amends existing accounting pronouncements to clarify their application to the financial guarantee insurance contracts included within the scope of that Statement. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, Optex Systems Holdings is required to adopt these provisions at the beginning of the fiscal year ended September 30, 2011. Optex Systems Holdings is currently evaluating the impact of

SFAS 163 on its financial statements but does not expect it to have a material effect.

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Note 4 — Acquisition of Substantially All of the Assets of Optex Systems, Inc. (Texas)

Acquisition of Assets of Optex Systems, Inc. (Texas) by Optex Systems, Inc. (Delaware) on October 14, 2008

On October 14, 2008, in a purchase transaction that was consummated via public auction, Optex Systems, Inc. (Delaware) (Successor) purchased all of the assets of Optex Systems, Inc. (Texas) (Predecessor) in exchange for \$15 million of Irvine Sensors Corporation debt owned by it and the assumption of approximately \$3.8 million of certain Optex Systems, Inc. (Texas) liabilities. The \$15 million of Irvine Sensors Corporation debt was contributed by Longview and Alpha to Optex Systems, Inc. (Delaware), Arland Holdings, Ltd. as discussed below, in exchange for a \$6 million note payable from Optex Systems, Inc. (Delaware) and a \$9 million equity interest in Optex Systems, Inc. (Delaware) (which consisted of the issuance by Optex Systems, Inc. (Delaware) of 45,081,350 and 4,918,650 shares of its common stock to each of Longview Fund and Alpha, respectively). On October 30, 2008, Alpha sold its Optex Systems, Inc. (Delaware) common stock to Arland Holdings, Ltd. There was no contingent consideration associated with the purchase. Longview and Arland Holdings, Ltd., owned Optex Systems, Inc. (Delaware) until February 20, 2009, when Longview sold 100% of its equity interests in Optex Systems, Inc. (Delaware) to Sileas, as discussed below.

Optex Systems, Inc. (Delaware) purchased all of the assets of Optex Systems, Inc. (Texas), including: intellectual property, production processes and know-how, and outstanding contracts and customer relationships. Optex Systems, Inc. (Delaware) also assumed certain liabilities of Optex Systems, Inc. (Texas) consisting of accounts payable and accrued liabilities. Optex Systems Holdings' management intends to improve the business's ability to serve its existing customers and to attract new customers by providing quality products and superior service which will be achieved by improving Optex Systems Holdings' working capital availability as opposed to the limited working capital that was available during the time period in which the assets were owned by Irvine Sensors Corporation.

Optex Systems, Inc. (Delaware) has allocated the consideration for its acquisition of the Purchased Assets among tangible and intangible assets acquired and liabilities assumed based upon their fair values. Assets that met the criteria for recognition as intangible assets apart from goodwill were also valued at their fair values.

The purchase price was assigned to the acquired interest in the assets and liabilities of Optex Systems Holdings as of October 14, 2008 as follows:

| | |
|---|----------------------|
| Assets: | |
| Current assets, consisting primarily of inventory of \$5,383,929 and accounts receivable of \$1,404,434 | \$ 7,330,910 |
| Identifiable intangible assets | 4,036,789 |
| Purchased Goodwill | 7,110,416 |
| Other non-current assets, principally property and equipment | 343,898 |
| Total assets | \$ 18,822,013 |
| Liabilities: | |
| Current liabilities, consisting of accounts payable of \$1,953,833 and accrued liabilities of \$1,868,180 | 3,822,013 |
| Acquired net assets | \$ 15,000,000 |

The following table summarizes the estimate of the fair values of the intangible assets as of the asset transfer date:

| | |
|---|---------------------|
| | Total |
| Contracted Backlog - Existing Orders | \$ 2,763,567 |
| Program Backlog - Forecasted Indefinite Delivery/Indefinite Quantity awards | 1,273,222 |
| Total Intangible Asset to be amortized | \$ 4,036,789 |

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Identifiable intangible assets primarily consist of customer and program backlog and will be amortized between general and administrative expenses and costs of sales according to their respective estimated useful lives as follows:

| | | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|-----|--------------|--------------|------------|------------|------------|
| Contracted backlog amortized by delivery schedule | COS | \$ 1,666,559 | \$ 718,289 | \$ 126,158 | \$ 19,614 | \$ 4,762 |
| Contracted backlog amortized by delivery schedule | G&A | 149,990 | 64,646 | 11,354 | 1,765 | 429 |
| Program backlog amortized straight line across 5 years | G&A | 254,645 | 254,645 | 254,645 | 254,645 | 254,645 |
| Total Amortization by Year | | \$ 2,071,194 | \$ 1,037,580 | \$ 392,157 | \$ 276,024 | \$ 259,836 |

The accompanying unaudited pro forma financial information for the consolidated predecessor and successor three and nine months ended June 28, 2009 and successor three and nine months ended June 29, 2008 present the historical financial information of the accounting acquirer. The pro forma financial information is presented for informational purposes only. Such information is based upon the standalone historical results of each entity and does not reflect the actual results that would have been reported had the acquisition been completed when assumed, nor is it indicative of the future results of operations for the combined enterprise.

Pro forma revenue and earnings per share information is presented cumulatively in Note 5.

Secured Promissory Note Issued in Connection with Purchase by Optex Systems, Inc. (Delaware) (Successor)

In connection with the public sale of the Optex Systems, Inc. (Texas) (Predecessor) assets to Optex Systems, Inc. (Delaware) (Successor), Optex Systems, Inc. (Delaware) delivered to Longview and Alpha Secured Promissory Notes, due September 19, 2011, in the principal amounts of \$5,409,762 and \$540,976, respectively. On February 20, 2009, Longview sold its Optex Systems, Inc. (Delaware) promissory note to Sileas, as described below. On March 27, 2009, Sileas and Alpha exchanged their Notes plus accrued and unpaid interest thereon for 1,027 shares of Optex Systems, Inc. (Delaware) Series A preferred stock.

Acquisition by Sileas on February 20, 2009

On February 20, 2009, Sileas purchased 100% of the equity and debt interest held by Longview, representing 90% of Optex Systems, Inc. (Delaware), in the "Acquisition". As of the date of this transaction, Sileas is the majority owner of Optex Systems Holdings.

Secured Promissory Note Due February 20, 2012/Longview Fund, LP

As a result of the transaction described above between Sileas and Longview Fund, LP on February 20, 2009, Sileas, currently majority owner of Optex Systems Holdings, executed and delivered to Longview, a Secured Promissory Note due February 20, 2012 in the principal amount of \$13,524,405. The Note bears simple interest at the rate of 4% per annum, and the interest rate upon an event of default increases to 10% per annum. In the event Optex Systems Holdings sells or conveys all or substantially all its assets to a third party entity for more than nominal consideration, other than a reorganization into Sileas or reincorporation in another jurisdiction, then this Note shall be immediately due and owing without demand. In the event that a Major Transaction occurs prior to the maturity date resulting in the

Borrower receiving Net Consideration with a fair market value in excess of the principal and interest due under the terms of this Secured Note, (the “Optex Consideration”), then in addition to paying the principal and interest due, Sileas shall also pay an amount equal to 90% of the Optex Consideration. The obligations of Sileas under the Note are secured by a security interest in Optex Systems Holdings’ common and preferred stock owned by Sileas that was granted to Longview pursuant to a Stock Pledge Agreement delivered by Sileas to Longview and also by a lien on all of the assets of Sileas.

Optex Systems Holdings has not guaranteed the note and Longview is not entitled to pursue Optex Systems Holdings in the event of a default by Sileas. Therefore, there are no actual or potential cash flow commitments from Optex Systems Holdings. In the event of default by Sileas on its obligations under the note, Longview would only be entitled to receive Optex Systems Holdings common and preferred stock held by Sileas.

Note 5 –reorganization Plan and Private Placement

Reorganization/Share Exchange

On March 30, 2009, the reorganization occurred whereby the then existing shareholders of Optex Systems, Inc. (Delaware) exchanged their shares of common stock with the shares of common stock of Optex Systems Holdings as follows: (i) the outstanding 85,000,000 shares of Optex Systems, Inc. (Delaware) common stock were exchanged by Optex Systems Holdings for 113,333,282 shares of Company common stock, (ii) the outstanding 1,027 shares of Optex Systems, Inc. (Delaware) Series A preferred stock were exchanged by Optex Systems Holdings for 1,027 shares of Company Series A preferred stock and (iii) the 8,131,667 shares of Optex Systems, Inc. (Delaware) common stock purchased in the private placement were exchanged by Optex Systems Holdings for 8,131,667 shares of Company common stock. Following the reorganization, Optex Systems, Inc. (Delaware) remained a wholly-owned subsidiary of Optex Systems Holdings.

Shares outstanding of Optex Systems Holdings just prior to the close consisted of 17,441,991 shares of which 1,250,000 shares were issued on March 27, 2009 as payment for Investor Relations Services, of which 700,000 were surrendered to Optex Systems Holdings upon termination of one of the Investor Relations contracts in June 2009. See Note 11 – “Subsequent Events” for a further discussion of the termination of the relationship with one of Optex Systems Holdings’ investor relations firms and appointment of a replacement service provider.

Private Placement

Prior to the closing of the reorganization agreement, as of March 30, 2009 , Optex Systems Holdings accepted subscriptions from accredited investors for a total of 27.1 units, for \$45,000 per unit, with each unit consisting of 300,000 shares of common stock, of Optex Systems Holdings and warrants to purchase 300,000 shares of common stock for \$0.45 per share for a period of five years from the initial closing, which were issued by Optex Systems Holdings after the closing referenced above. Gross proceeds to Optex Systems Holdings were \$1,219,750, and after deducting (i) a cash finder’s fee of \$139,555, (ii) non-cash consideration of indebtedness owed to an investor of \$146,250, and (iii) stock issuance costs of \$59,416, net proceeds were \$874,529. The finder also received five year warrants to purchase 2.39 units, at an exercise price of \$49,500 per unit.

The following table represents the reorganization and Private Placement transactions which occurred on March 30, 2009 reflected in March 29, 2009 statements due to the election to report as of the accounting acquirers’ period end:

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Optex Systems Holdings, Inc.

Balance Sheet Adjusted for reorganization and Private Placement

| | Unaudited Quarter Ended March 29, 2009 | reorganization Adjustments (1) | Private Placement Adjustments | Unaudited Quarter Ended March 29, 2009 |
|---|---|--------------------------------------|-------------------------------------|--|
| Assets | | | | |
| Current Assets | \$ 8,880,436 | \$ 187,500 | \$ 929,738 | \$ 9,997,674 |
| Non-current Assets | 10,422,425 | - | - | 10,422,425 |
| Total Assets | \$ 19,302,861 | \$ 187,500 | \$ 929,738 | \$ 20,420,099 |
| Liabilities | | | | |
| Loans Payable | 146,709 | | (146,250) | 459 |
| Other Current Liabilities | 4,416,403 | - | 55,209 | 4,471,612 |
| Total Liabilities | \$ 4,563,112 | \$ - | \$ (91,041) | \$ 4,472,071 |
| Equity | | | | |
| Optex Systems Holdings, Inc. – (par \$0.001 per share, 200,000,000 shares authorized, 138,914,940 shares issued and outstanding as of March 29, 2009) | 113,333 | 17,450 | 8,132 | 138,915 |
| Optex Systems Holdings, Inc. preferred stock (par value \$0.001 per share, 5,000 shares authorized, 1027 shares of Series A Preferred issued and outstanding) | 1 | | | 1 |
| Additional Paid in Capital | 15,046,446 | 170,050 | 1,012,647 | 16,229,144 |
| Retained Earnings | (420,031) | | | (420,031) |
| Total Stockholders Equity | \$ 14,739,749 | \$ 187,500 | \$ 1,020,779 | \$ 15,948,028 |
| Total Liabilities and Stockholders Equity | \$ 19,302,861 | \$ 187,500 | \$ 929,738 | \$ 20,420,099 |

(1) Sustut Exploration, Inc. Balance Sheet as of the March 30, 2009 reorganization. Other assets include \$187,500 in prepaid expenses for investor relation services to be realized over the next 12 months. The services were prepaid by the issue of 1,250,000 Sustut shares issued by Sustut prior to March 30, 2009. The prepaid expense covers April 2009 through April 2010 and will be reflected on the consolidated Statement of Operations for Optex Systems Holdings as expensed. See Note 11 - Subsequent Events. 700,000 of these shares were returned to Optex Systems Holdings subsequent to the quarter end.

The expenses reflected by Optex Systems Holdings on its Statement of Operations for the period from April 1, 2009 through March 31, 2010 will be increased by \$46,875 per calendar quarter (as a non-cash expense) as a result of the issuance of the 1,250,000 shares for Investor Relations Services by Sustut and are carried on the Sustut Balance Sheet as a prepaid expense. The same Investor Relations agreements also call for an aggregate cash payment of \$8,000 per month which will increase the expense by an additional \$24,000 per quarter. Therefore, the total impact of the agreements for Investor Relations Services is \$70,875 per quarter (pretax) including both the current cash expense and

the amortization of the prepaid expense which is carried on the Condensed Consolidated Balance Sheet of Optex Systems Holdings. See Note 11 - Subsequent Events. 700,000 of these shares were returned to Optex Systems Holdings subsequent to the quarter end.

The accompanying unaudited pro forma financial information for the consolidated successor and predecessor nine months ended June 28, 2009 and successor nine months ended June 29, 2008 present the historical financial information of the accounting acquirer. The pro forma financial information is presented for information purposes only. Such information is based upon the standalone historical results of each company and does not reflect the actual results that would have been reported had the acquisition been completed when assumed, nor is it indicative of the future results of operations for the combined enterprise.

The following represents condensed pro forma revenue and earnings information for the three and six months ended June 28, 2009 and June 29, 2008 as if the acquisition of Optex Systems, Inc. (Texas) and reorganization Plan had occurred on the first day of each of the years.

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| | Unaudited Three Months Ended | | Unaudited Nine Months Ended | |
|-------------------------------------|---------------------------------|------------------|--------------------------------|------------------|
| | June 28, 2009 | June 29, 2008 | June 28, 2009 | June 29, 2008 |
| Revenues | 6,983,930 | 3,881,053 | 20,956,300 | 13,925,073 |
| Net Income (Loss) | (308,553) | 35,877 | (653,750) | (780,016) |
| Diluted earnings per share | \$ (0.00) | \$ (0.00) | \$ (0.00) | \$ (0.01) |
| Weighted Average Shares Outstanding | 138,914,940 | 138,914,940 | 138,914,940 | 138,914,940 |

The pro forma information depicted above reflect the impacts of reduced interest expense, increased intangible amortization expenses, the elimination of corporate allocation costs from Irvine Sensors Corporation and the elimination of employee stock bonus compensation previously allocated from Irvine Sensors Corporation to reflect the costs of the ongoing entity. There is no expected tax effect of the proforma adjustments for the periods affected in 2008 due to net loss and accumulated retained deficit of Irvine Sensors Corporation.

Note 6 Commitments and Contingencies

Leases

Optex Systems Holdings leases its office and manufacturing facilities under two non-cancellable operating leases expiring November 2009 and February 2010 in addition to maintaining several non-cancellable operating leases for office and manufacturing equipment. Optex Systems Holdings is in negotiation to enter into new leases for the facilities; however, in the event the negotiations are not successful, Optex Systems Holdings believes it can secure replacement facilities upon similar terms in the surrounding vicinity. Total expenses under these facility lease agreements for the three and nine months ended June 28, 2009 was \$77,350 and 232,343 respectively. Total expenses for manufacturing and office equipment for the three and nine months ended June 28, 2009 was \$796 and \$2,464, respectively. At June 28, 2009, the remaining minimum lease payments under non-cancelable operating leases for equipment, office and facility space are as follows:

| | Operating Leases |
|------------------------------|---------------------|
| Fiscal Years: | |
| 2009 | \$ 119,461 |
| 2010 | 79,867 |
| 2011 | 16,753 |
| 2012 | - |
| 2013 | - |
| Thereafter | - |
| Total minimum lease payments | \$ 216,081 |

Note 7 - Debt Financing

Non-Related parties

Short Term Note Payable/Longview Fund - On September 23, 2008, Optex Systems, Inc. (Delaware) borrowed \$146,709 from Longview and issued a promissory note dated September 23, 2008, to Longview in connection therewith. Pursuant to an Allonge No. 1 to Promissory Note, dated January 20, 2009, the Maturity Date was extended until March 31, 2009. On March 30, 2009 in conjunction with the reorganization and Private Placement, Longview

Fund purchased 3.25 units of the Private Placement using \$146,250 of the outstanding Note Payable as consideration for the purchase. (See Note 5).

Short term note payable (Qioptic) - On November 20, 2008, Optex Systems, Inc. (Delaware) issued a promissory note to Qioptic Limited in the amount of \$117,780. The Note originated as a trade payable as of September 28, 2008 in the amount of \$227,265, and was paid in full as of March 29, 2009.

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Note 8 – Stockholders Equity

Common Stock:

Stock Split

On March 26, 2009, Optex Delaware’s Board of Directors reconfirmed a 1.7:1 forward split of its common stock to holders of record as of February 23, 2009. Accordingly, as a result of the forward split, the 45,081,350 shares of common stock held by Sileas was split into 76,638,295 shares, and the 4,918,650 shares of common stock held by Arland Holdings, Ltd. was split into 8,361,705 shares.

As of March 30, 2009, Optex Systems, Inc. (Delaware) was authorized to issue 200,000,000 shares of \$0.001 par value common stock, of which 85,000,000 shares were issued and outstanding as follows:

| | |
|--------------------------|-------------------|
| Sileas Corporation | 76,638,295 |
| Arland Holdings, Ltd. | 8,361,705 |
| Total Outstanding | 85,000,000 |

Reorganization & Private Placement:

On March 29, 2009, as a result of the reorganization agreement and private placement, the 85,000,000 outstanding shares of Optex Systems, Inc. (Delaware) as of March 30, 2009 were exchanged for 113,333,282 shares of Optex Systems Holdings (formerly Sustut Exploration, Inc.). An additional 8,131,667 shares were issued as a result of the private placement closed prior to the reorganization.

Each share of stock entitles the holder to one vote on matters brought to a vote of the shareholders.

The company granted an officer at the consummation of the reorganization, options: to purchase 1,414,649 shares with exercise price of \$0.15 per share. The options vest 34% one year following the date of grant, and 33% on each of the second and third anniversaries following the date of grant. See Note 10 - Stock Based Compensation.

Series A preferred stock

On March 24, 2009, Optex Systems Holdings filed a Certificate of Designation with the Secretary of State of the State of Delaware authorizing a series of preferred stock, under its articles of incorporation, known as “Series A preferred stock”. This Certificate of Designation was approved by Optex Systems Holdings’ Board of Directors and Shareholders at a Board Meeting and Shareholders Meeting held on February 25, 2009. The Certificate of Designation sets forth the following terms for the Series A preferred stock: (i) number of authorized shares: 1,027; (ii) per share stated value: \$6,000; (iii) liquidation preference per share: stated value; (iv) conversion price: \$0.15 per share as adjusted from time to time; and (v) voting rights: votes along with the common stock on an as converted basis with one vote per share.

The Series A preferred stock entitles the holders to receive cumulative dividends at the rate of 6% per annum payable in cash at the discretion of Board of Directors. Each share of preferred stock is immediately convertible into common shares at the option of the holder which entitles the holder to receive the equivalent number of common shares equal to the stated value of the preferred shares divided by the conversion price, which was initially set at \$0.15 per share.

Holders of preferred shares receive preferential rights in the event of liquidation. Additionally the preferred stock shareholders are entitled to vote together with the common stock on an “as-converted” basis.

On March 27, 2009, Sileas and Alpha exchanged their promissory notes in the total amount of \$6,000,000 plus accrued and unpaid interest thereon into 1,027 shares of Series A preferred stock. On March 30, 2009 shares of Optex Systems, Inc. Series A preferred stock was exchanged on a 1:1 basis for Series A preferred stock of Optex Systems Holdings.

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On March 30, 2009, 1,414,649 stock options with an exercise price of \$0.15 were granted to an officer of Optex Systems Holdings which vest as follows: 34% after the first year, and 33% each after the second and third years. These options carry a grant expiration date of seven years after issuance. On May 14, 2009, 1,267,000 stock options were issued to other Company employees, including 250,000 shares to one Company officer. These stock options vest 25% per year after each year of employment and carry a grant expiration date of seven years after issuance. For shares granted as of May 14, 2009, Optex Systems Holdings anticipates an annualized employee turnover rate of 3% per year, and as such anticipate that only 1,174,786 of the 1,267,000 shares will vest as of the end of the contract term. As of June 28, 2009 none of the stock options had vested.

For the three months and nine months ended June 28, 2009, Optex Systems Holdings recorded compensation costs for options and shares granted under the plan amounting to \$15,174. There were no stock options or shares granted or outstanding prior to September 28, 2008, therefore no compensation expense was recorded in 2008. The impact of this expense was immaterial to the basic and diluted net loss per share for the three months and nine months ended June 28, 2009. A deduction is not allowed for income tax purposes until nonqualified options are exercised. The amount of this deduction will be the difference between the fair value of Optex Systems Holdings' common stock and the exercise price at the date of exercise. For the three months ended June 28, 2009 estimated deferred tax assets were deemed immaterial and have not been recorded for the tax effect of the financial statement expense. The tax effect of the income tax deduction in excess of the financial statement expense, if any, will be recorded as an increase to additional paid-in capital. No tax deduction is allowed for incentive stock options. Accordingly no deferred tax asset is recorded for GAAP expense related to these options.

Management has valued the options at their date of grant utilizing the Black Scholes option pricing model. The fair value of the underlying shares was determined based on the closing price of Optex Systems Holdings' publicly-traded shares as of June 26, 2009. Further, the expected volatility was calculated using the historical volatility of a diversified index of companies in the defense, homeland security, and space industry in accordance with Question 6 of SAB Topic 14.D.1. In making this determination and trying to find another similar company, Optex Systems Holdings considered the industry, stage of life cycle, size and financial leverage of such other entities. Based on the development stage of Optex Systems Holdings, similar companies with enough historical data were not available. Optex Systems Holdings utilized the three year volatility of the SPADE Defense Index, which is a diversified index of 58 companies in the same industry as Optex Systems Holdings. The risk-free interest rate is based on the implied yield available on U.S. Treasury issues with an equivalent term approximating the expected life of the options depending on the date of the grant and expected life of the options. The expected life of options used was based on the contractual life of the option granted. Optex Systems Holdings determined the expected dividend rate based on the assumption and expectation that earnings generated from operations are not expected to be adequate to allow for the payment of dividends in the near future. The following weighted-average assumptions were utilized in the fair value calculations for options granted:

| | Nine months Ended June 28, 2009 |
|---------------------------------|------------------------------------|
| Expected dividend yield | 0% |
| Expected stock price volatility | 27.8% |
| Risk-free interest rate (1) | 2.8%-4.07% |
| Expected life of options | 4.5 to 7 Years |

(1) 2.8% for grant expected life less than 7 years

(2) 4.07% for grant expected life of 7 years.

Optex Systems Holdings has granted stock options to officers and employees as follows:

| Date of Grant | Shares Granted | Exercise Price | Shares Outstanding As of 06/28/09 | Expiration Date | Vesting Date |
|---------------|----------------|----------------|-----------------------------------|-----------------|--------------|
| 03/30/09 | 480,981 | \$ 0.15 | 480,981 | 03/29/2016 | 03/30/2010 |
| 03/30/09 | 466,834 | 0.15 | 466,834 | 03/29/2016 | 03/30/2011 |
| 03/30/09 | 466,834 | 0.15 | 466,834 | 03/29/2016 | 03/30/2012 |
| 05/14/09 | 316,750 | 0.15 | 316,750 | 05/13/2016 | 05/14/2010 |
| 05/14/09 | 316,750 | 0.15 | 316,750 | 05/13/2016 | 05/14/2011 |
| 05/14/09 | 316,750 | 0.15 | 316,750 | 05/13/2016 | 05/14/2012 |
| 05/14/09 | 316,750 | 0.15 | 316,750 | 05/13/2016 | 05/14/2013 |
| Total | | | 2,681,649 | | |

The following table summarizes the status of Optex Systems Holdings' aggregate stock options granted under the incentive stock option plan:

| Subject to Exercise | Number of Shares Remaining Options | Weighted Average Intrinsic Price | Weighted Average Life (Years) | Aggregate Value |
|---------------------------------|------------------------------------|----------------------------------|-------------------------------|-----------------|
| Outstanding as of June 29, 2008 | - | \$ - | - | - |
| Granted – 2009 | 2,681,649 | \$ 0.09 | 5.38 | \$ 233,049 |
| Forfeited – 2009 | - | \$ - | - | - |
| Exercised – 2009 | - | \$ - | - | - |
| Outstanding as of June 28, 2009 | 2,681,649 | \$ 0.09 | 5.38 | \$ 233,049 |
| Exercisable as of June 28, 2009 | 0 | \$ - | - | \$ - |

The weighted-average grant date fair value of options granted during the nine months ended June 28, 2009 was \$0.14. The total intrinsic value of options exercised during the nine months June 28, 2009 was \$ 0.0

The following table summarizes the status of Optex Systems Holdings' aggregate non-vested shares granted under the 2009 Stock Option Plan (See Note 9):

| | Number of Non-vested Shares Subject to Options | Weighted-Average Grant-Date Fair Value |
|--|--|--|
| Non-vested as of June 28, 2009 | - | \$ - |
| Non-vested granted — nine months ended June 28, 2009 | 2,681,649 | \$ 0.14 |
| Vested — nine months ended June 28, 2009 | - | \$ 0.00 |
| Forfeited — nine months ended June 28, 2009 | - | \$ - |
| Non-vested as of June 28, 2009 | 2,681,649 | \$ 0.14 |

As of June 28, 2009, the unrecognized compensation cost related to non-vested share based compensation arrangements granted under the plan that was approximately \$357,196. These costs are expected to be recognized on a straight line basis from March 30, 2009 through May 13, 2013. The total fair value of options and shares vested during the year period ended June 28, 2009 was \$0.0.

Note 11-Subsequent Events

Investor Relations:

On June 26, 2009, Optex Systems Holdings terminated its Investor Relations Agreement with American Capital Ventures, Inc., and pursuant to this termination, American Capital Ventures returned 700,000 of the 1,000,000 restricted shares of Company common stock it received pursuant to the agreement.

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Effective as of June 29, 2009, Optex Systems Holdings entered into a Consulting Agreement with ZA Consulting, Inc. for the provision of consulting services to Optex Systems Holdings' management including investor support; broker relations; conducting due diligence meetings with brokers, analysts, institutional money managers and financial media companies; attendance at investor conferences and trade shows; and assistance in the preparation and dissemination of press releases and stockholder communications. ZA Consulting will also assist Optex Systems Holdings with corporate communications involving brand, product, and corporate awareness. The term of the Agreement is for one year terminating June 30, 2010. For services rendered, ZA Consulting was paid \$150,000 upon execution of the Agreement and will receive \$5,000 per month for the duration of the agreement, and it received 480,000 shares of common stock which vest at the rate of 40,000 shares per month.

The expenses reflected by Optex Systems Holdings on its Statement of Operations for the period from June 29, 2009 through June 27, 2010 will be increased by \$36,000 over the next twelve months due to amortization of the prepaid expense of \$150,000 and non cash related stock issues as a result of the change in firms.

Private Placement:

On June 29, 2009, 750,000 common shares were sold in a private transaction for gross proceeds of \$150,000.

Lease Agreement:

On October 27, 2009, Optex Systems Holdings borrowed \$250,000 from Longview pursuant to a promissory note, which originally expired on December 1, 2009, but was extended until July 15, 2010. The note bears interest at the rate of 10% per annum, and all accrued and unpaid interest will be due upon maturity. Optex will make a prepayment equal to 50% of the then outstanding principal amount plus accrued and unpaid interest thereon upon the closing of a credit facility or other equity or debt financing from which the net proceeds are at least \$900,000, with any remaining unpaid balance due on July 15, 2010. In exchange for the extension, Optex Systems Holdings granted Longview a warrant to purchase 100,000 shares of restricted common stock with an exercise price of \$0.15 per share and a term of three years.

Effective as of January 4, 2010, Optex Systems Holdings, Inc. renewed its Richardson, TX lease. Under the terms of the amendment:

- The lease term is extended until July 31, 2015.
- The base rent is as follows: until 7/31/2010, \$0.00 per square foot, from 8/1/2010 – 7/31/2013, \$4.70 per square foot and from 8/1/2013 – 7/31/2015, \$4.95 per square foot.
- A \$195,352.00 improvement allowance is included.
- For the first two years of the extended term, the landlord has granted the option to take over additional space at similar terms as in the amendment.

The company has evaluated subsequent events for the period March 30, 2009 through January 8, 2010, the date its financial statements were issued, and concluded there were no other events or transactions occurring during this period that required recognition of disclosure in its financial statements.

Note 12-Restatement of September 28, 2008 financial statements

The financial statements have been reissued for the correction of an error to properly reflect the following:

- Optex Systems Holdings reclassified the asset impairment of goodwill from other expenses to an operating expense. This reclassification increased the loss from operations by \$1,586,416 to \$4,653,743 with no change to the net loss.

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- Note 2 has been restated to accurately reflect Optex Systems Holdings' revenue recognition policy.
- Note 5 has been restated to properly state the pro forma earnings as if the acquisition of Optex Systems, Inc. (Texas) had occurred on the first day of each of the years.
- Note 7 has been restated to reflect the estimated general and administrative expenses assuming Optex Systems, Inc. (Texas) was operated on a stand-alone basis.
- Note 14 has been revised to reflect only those transactions related to the predecessor entity.

The above restatements had no effect on the balance sheet, statements of stockholders' equity, net loss or cash flows for the year ended September 28, 2008.

Note 13-Restatement of June 28, 2009 financial statements

The presentation of the October 14, 2008 Optex Systems, Inc. (Delaware) acquisition of all the assets and certain liabilities of Optex Systems, Inc. (Texas) has been restated to properly reflect Optex Systems, Inc. (Delaware) as the successor entity and Optex Systems, Inc. (Texas) as the predecessor entity. The acquisition of the assets and certain liabilities of Optex Systems, Inc. (Texas) was deemed a business acquisition (See Note 1) therefore the activity of Optex Systems, Inc. (Texas) is presented as the predecessor. Additionally, Optex Systems Holdings, Inc's outstanding common stock and additional paid in capital has been restated to properly reflect the number and dollar value of Sustut Exploration Shares as of the date of reorganization.

The effect of the restatement is a reclassification of stockholders' equity as follows:

| | Originally Reported | Restatement |
|---|------------------------|-------------|
| Additional Paid-in-Capital | 22,087,136 | 16,244,318 |
| Optex Systems Holdings, Inc. Common Stock | 141,465 | 138,915 |
| Retained Earnings | (6,573,952) | (728,584) |

Assets and liabilities remained unchanged. There is no effect on overall net income and cash flows however the Statements of Operations and Cash Flows have been restated to present the breakdown for the period between successor and predecessor.

Note 5 has been restated to reflect the estimated general and administrative expenses assuming Optex Systems, Inc. (Texas) was operated on a stand alone basis.

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

Management's Discussion and Analysis or Plan of Operations

This management's discussion and analysis reflects information known to management as at June 28, 2009. This MD&A is intended to supplement and complement our audited financial statements and notes thereto for the year ended September 28, 2008 (Predecessor), prepared in accordance with U.S. generally accepted accounting principles (GAAP). You are encouraged to review our financial statements in conjunction with your review of this MD&A. The financial information in this MD&A has been prepared in accordance with GAAP, unless otherwise indicated. In addition, we use non-GAAP financial measures as supplemental indicators of our operating performance and financial position. We use these non-GAAP financial measures internally for comparing actual results from one period to another, as well as for planning purposes. We will also report non-GAAP financial results as supplemental information, as we believe their use provides more insight into our performance. When non-GAAP measures are used in this MD&A, they are clearly identified as a non-GAAP measure and reconciled to the most closely corresponding GAAP measure.

The following discussion highlights the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described. This discussion contains forward-looking statements. Please see "Special cautionary statement concerning forward-looking statements" and "Risk factors" for a discussion of the uncertainties, risks and assumptions associated with these forward-looking statements. The operating results for the periods presented were not significantly affected by inflation.

Background

On March 30, 2009, the reorganization was consummated pursuant to which the then existing shareholders of Optex Systems, Inc. (Delaware) exchanged their shares of common stock with the shares of common stock of Optex Systems Holdings as follows: (i) the outstanding 85,000,000 shares of Optex Systems, Inc. (Delaware) common stock were exchanged by Optex Systems Holdings for 113,333,282 shares of Company common stock, (ii) the outstanding 1,027 shares of Optex Systems, Inc. (Delaware) Series A preferred stock were exchanged by Optex Systems Holdings for 1,027 shares of Company Series A preferred stock, and (iii) the 8,131,667 shares of Optex Systems, Inc. (Delaware) common stock purchased in the private placement were exchanged by Optex Systems Holdings for 8,131,667 shares of Company common stock. Optex Systems, Inc. (Delaware) has remained a wholly-owned subsidiary of Optex Systems Holdings.

As a result of the reorganization, Optex Systems Holdings changed its name from Sustut Exploration Inc. to Optex Systems Holdings, Inc. and its year end from December 31 to a fiscal year ending on the Sunday nearest September 30.

Immediately prior to the closing under the reorganization agreement (and the shares included above), as of March 30, 2009, Optex Systems, Inc. (Delaware) accepted subscriptions from accredited investors for a total 27.1 units, for \$45,000 per unit, with each unit consisting of 300,000 shares of common stock, no par value, of Optex Systems, Inc. (Delaware) and warrants to purchase 300,000 shares of common stock for \$0.45 per share for a period of five (5) years from the initial closing, which were issued by Optex Systems, Inc. (Delaware) after the closing referenced above. Gross proceeds to Optex Systems, Inc. (Delaware) were \$1,219,750, and after deducting (i) a cash finder's fee of \$139,555, (ii) non-cash consideration of indebtedness owed to an investor of \$146,250, and (iii) stock issuance costs of \$59,416, the net proceeds were \$874,529. The finder also received five year warrants to purchase 2.39 units, at an exercise price of \$49,500 per unit.

Optex Systems, Inc. (Delaware) manufactures optical sighting systems and assemblies primarily for Department of Defense applications. Its products are installed on a majority of types of U.S. military land vehicles, such as the Abrams and Bradley fighting vehicles, light armored and armored security vehicles and have been selected for installation on the Stryker family of vehicles. Optex Systems, Inc. (Delaware) also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Optex Systems, Inc. (Delaware) products consist primarily of build-to-customer print products that are delivered both directly to the armed services and to other defense prime contractors. Less than 1% of today's revenue is 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).

Optex Systems, Inc. (Delaware) delivers high volume products, under multi-year contracts, to large defense contractors. It has the reputation and credibility with those customers as a strategic supplier. Irvine Sensors Corporation ("Irvine Sensors Corporation") is predominately a research and design company with capabilities enabling only prototype or low quantity volumes. Optex Systems, Inc. (Delaware) is predominately a high volume manufacturing company. Therefore the systems and processes needed to meet customer's needs are quite different. While both companies serve the military market, the customers within these markets are different. For example, two of the largest customers for Optex are GDLS and TACOM. Irvine Sensors Corporation did not have any contracts or business relations with either of these two customers. Therefore the separation has allowed Optex Systems, Inc. (Delaware) to fully focus on high volume manufacturing and the use of the six sigma manufacturing methodology. This shift in priorities has allowed Optex Systems, Inc. (Delaware) to improve delivery performance and reduce operational costs.

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

Optex Systems Holdings also anticipates the opportunity to integrate some of its night vision and optical sights products into commercial applications. Optex Systems Holdings plans to carry on the business of Optex Systems, Inc. (Delaware) as its sole line of business, and all of Optex Systems Holdings' operations are expected to be conducted by and through Optex Systems, Inc. (Delaware).

The successful completion of the separation from Irvine Sensors Corporation, which was accomplished by Optex Delaware's acquisition of all of the assets and assumption of certain liabilities of Optex Systems, Inc. (Texas), reduced the general and administrative costs allocated by Irvine Sensors Corporation. These costs represented services paid by Irvine Sensors Corporation for expenses incurred on Optex Texas' behalf such as legal, accounting and audit, consulting fees and insurance costs in addition to significant amounts of Irvine Sensors Corporation's general overhead allocated to Optex -Texas.

The estimated total General and Administrative expenses assuming Optex Systems, Inc (Texas) was operated under a stand-alone basis during the 2008 fiscal year are:

| | |
|------------------------------------|------------|
| Accounting and Auditing Fees | \$ 250,000 |
| Legal Fees | 60,000 |
| Consulting Fees | 60,000 |
| Workers Comp and General Insurance | 70,000 |
| Total | \$ 440,000 |

As a result of the purchase of Optex Systems, Inc. (Texas) on October 14, 2008, these general and administrative costs are incurred and paid directly by Optex Systems, Inc. (Delaware) for the 2009 fiscal year, and have been reflected in the financial statements to the extent incurred through June 28, 2009.

The liabilities not assumed relate to costs that would not have been incurred by Optex Systems, Inc. (Texas) if they were operated on a stand alone basis. Among those liabilities not assumed by Optex Systems, Inc. (Delaware) was a note due to Tim Looney. The 2007 promissory note had a principal amount of \$2,000,000 together with accrued interest unpaid aggregating to approximately \$2,300,000. The note was an amendment to Looney's earn-out agreement which was the consideration for Irvine Sensors Corporation's purchase of Optex Systems, Inc. (Texas).

The promissory note was not assumed by Optex Systems, Inc. (Delaware) in the October 2008 transaction. The note and accrued interest was reported on Optex Systems, Inc. (Texas) financial statements as of September 28, 2008 as a result of push down accounting for the acquisition of Optex Systems, Inc. (Texas) by Irvine Sensors Corporation. These costs would not be incurred by Optex Systems, Inc. (Texas) if operated as a stand alone entity because it relates to Irvine Sensors Corporation's consideration for their purchase of Optex Systems, Inc. (Texas). Since this was not an operating cost associated with Optex Systems, Inc. (Texas) and they would not incur these costs if operating as a stand alone entity, we expect no impact to the future operating results or liquidity of the Company.

Additionally, as of September 28, 2008, Optex Systems, Inc. (Texas) reported \$4.3 million of liabilities attributable to corporate expenses allocated to Optex Systems, Inc. (Texas) through an intercompany payable account "Due to Parent". The outstanding "Due to Parent" balance was not acquired by the company in the acquisition from Irvine Sensors Corporation.

To the extent that Optex Systems, Inc. (Delaware) has incurred these similar costs on an ongoing basis, these amounts have been funded from the Optex Delaware's own operating cash flow.

Plan of Operation

Through a private placement offering completed prior to consummation of the reorganization agreement, Optex Systems, Inc. (Delaware) raised \$1,219,750 (\$874,529, net of finders fees, issuance costs and non cash consideration resulting from satisfaction of indebtedness owed to an investor) to fund operations. The proceeds have been used as follows:

| Description | Offering |
|---------------------------|------------|
| Additional Personnel | \$ 150,000 |
| Legal and Accounting Fees | \$ 100,000 |
| Investor Relations Fees | 96,000 |
| Working Capital | \$ 528,529 |
| Totals: | \$ 874,529 |

Results of Operations

Based on the current level of deliverable backlog, we expect the next three months' revenues to be consistent with the total for the periods September 29, 2008 through October 14, 2008 (Predecessor) and October 15, 2008 through June 28, 2009 (Successor). In addition, future business includes expected awards yet to be determined. Although the current range of products being manufactured is dependent on the receipt of continued and timely funding to existing programs, the most recent proposed federal budget is not expected to impact any of our existing programs in the near term.

The Revenue, Expenses and Income for the fourteen day period of Optex Systems, Inc. (Texas) prior to the acquisition by Optex Systems, Inc. (Delaware) are summarized below (in millions).

Optex Systems, Inc. (Texas) (Predecessor)

| | |
|--------------------------|--------|
| Revenue | \$ 0.9 |
| Cost of Sales | 0.7 |
| Gross Margin | 0.2 |
| General & Administrative | 0.1 |

| | | |
|------------------|----|-----|
| Operating Income | \$ | 0.1 |
| Net Income | \$ | 0.1 |

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The table below summarizes our quarterly and year to date operating results in terms of both a GAAP net income measure and a non GAAP EBITDA measure. We use EBITDA as an additional measure for evaluating the performance of our business as “net income” includes the significant impact of noncash Intangible Amortization on our income performance. Consequently, in order to have a meaningful measure of our operating performance on a continuing basis, we need to evaluate an income measure which does not take into account this Intangible Amortization. We have summarized the quarterly revenue and margin below along with a reconciliation of the GAAP net loss to the non GAAP EBITDA calculation for comparative purposes below. We believe that including both measures allows the reader to have a “complete picture” of our overall performance.

| | September 29, 2008 through June 28, 2009 | | | | Predecessor - Fiscal Year 2008 | | | | |
|-----------------------------|---|--------|--|----------|--------------------------------|----------|------------------------------|----------|----------|
| | Predecessor - Qtr 1 (Sept 29, 2008 through Oct 14, 2008) | | Predecessor - Qtr 2 (Oct 15, 2008 through Dec 27, 2008) | | 9 months ended June 28, 2009 | | 9 months ended June 29, 2008 | | |
| | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | |
| Net Loss After Taxes - GAAP | \$ (0.1) | \$ 0.1 | \$ (0.3) | \$ (0.3) | \$ (0.6) | \$ (0.7) | \$ (0.7) | \$ (0.2) | \$ (1.6) |
| Add: | | | | | | | | | |
| Interest Expense | \$ 0.1 | \$ 0.1 | \$ - | \$ 0.2 | \$ 0.1 | \$ 0.1 | \$ - | \$ 0.2 | |
| Federal Income Taxes | 0.2 | 0.1 | 0.1 | 0.4 | - | - | - | - | |
| Depreciation & Amortization | 0.6 | 0.5 | 0.5 | 1.6 | 0.3 | 0.2 | 0.1 | 0.6 | |
| EBITDA - Non GAAP | \$ (0.1) | \$ 1.0 | \$ 0.4 | \$ 0.3 | \$ 1.6 | \$ (0.3) | \$ (0.4) | \$ (0.1) | \$ (0.8) |

We have experienced substantial improvement in our EBITDA as compared to our prior year performance. We have increased our EBITDA by \$2.4 million in the nine months ending June 28, 2009 as compared to the nine months ending 2008 (Predecessor), primarily as a result of increased revenue and lower general and administrative costs. We expect this trend to continue over the next 12 months as our product mix shifts towards more profitable programs and we continue to pursue cost reductions in our production and general and administrative areas.

Product mix is dictated by customer contracted delivery dates and volume of each product to be delivered on such delivery dates. Shifts in gross margin from quarter to quarter are primarily attributable to the differing product mix recognized as revenues during each respective period. During the three and nine months, our revenues on legacy periscope programs increased significantly over the prior year while margins significantly decreased. The legacy periscope contracts were awarded January 2003, and due to significant material price increases subsequent to the contract award date, we are experiencing a loss on these contracts. We have fully reserved for future contract losses on this program, thus deliveries against these programs yield a product margin of zero. During 2009, we recognized revenue of \$3.7 million from these legacy periscope programs, with a remaining backlog of \$1.5 million, \$0.4 million of which should be recognized in 2009 and the remaining \$1.1 million in the first three quarters of 2010. We expect our product margins on periscopes to increase over the next 12 months as the legacy programs are completed and are replaced with new awards.

We are aggressively pursuing additional, potentially higher margin periscope business, and in May 2009, Optex Systems Holdings was awarded a multi-year Indefinite Delivery/Indefinite Quantity type contract accompanied by the first delivery order from TACOM. If all government forecasted delivery orders against this Indefinite Delivery/Indefinite Quantity contract are awarded and if we were to share equally with the other supplier in the

awarded releases, the total value of the contract to us could be valued at approximately \$7.5 million over the next three years. In June 2009, we received an additional \$3.4 million dollar award from GDLS and in September 2009, an additional \$1.9 million award to provide product beginning with delivery starting in 2011 at the completion of our current production contract.

As a result of the October 14, 2008 acquisition of the assets of Optex Systems, Inc. (Texas) (Predecessor), our amortizable intangible assets increased significantly over the prior year. The non cash amortization of intangible assets has had a negative impact on our Gross Margin for 2009 as compared to 2008. In 2009, our anticipated intangible amortization expense is \$2 million and is expected to decline to \$1 million in 2010.

Backlog as of June 28, 2009 was \$31.7 million as compared to a backlog of \$45.6 million as of June 29, 2008. The following table depicts the current expected delivery by quarter of all contracts awarded as of June 28, 2009.

| Program Backlog (000's) | 2009 | | 2010 | | 2011 | | | | 2012 | | | | 2013 | |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Qtr 4 | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Qtr 1 |
| Howitzer Programs | \$ 0.8 | \$ 0.6 | \$ 1.7 | \$ 1.9 | \$ 2.6 | \$ 1.7 | \$ 0.1 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Periscope Programs | 2.2 | 2.0 | 2.1 | 2.0 | 1.3 | 1.3 | 0.6 | 0.7 | 0.5 | 0.5 | 0.9 | 0.8 | - | - |
| Sighting Systems | 1.2 | 0.4 | 0.2 | 0.1 | 0.1 | - | - | - | - | - | - | - | - | - |
| All Other | 1.6 | 1.2 | 1.1 | 0.4 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Total | \$ 5.8 | \$ 4.2 | \$ 5.1 | \$ 4.4 | \$ 4.2 | \$ 3.1 | \$ 0.8 | \$ 0.8 | \$ 0.6 | \$ 0.6 | \$ 1.0 | \$ 0.9 | \$ 0.1 | \$ 0.1 |

Virtually all 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.

By way of background, 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.

In the event a termination for convenience were to occur, these Federal Acquisition Regulation clause 52.249-2 provides for full recovery of all contractual costs and profits reasonably occurred up to and as a result of the terminated contract. In the event a termination for default were to occur, we could be liable for any excess cost incurred by the government to acquire supplies from another supplier similar to those terminated from us. We would not be liable for any excess costs if the failure to perform the contract arises from causes beyond the control and without the fault or negligence of the company as defined by Federal Acquisition Regulation clause 52.249-8. In addition, the Government may require us to transfer title and deliver to the Government any completed supplies, partially completed supplies and materials, parts, tools, dies, jigs, fixtures, plans, drawings, information, and contract rights that we have specifically produced or acquired for the terminated portion of this contract. The Government shall pay contract price for completed supplies delivered and accepted, and we and the Government would negotiate an agreed upon amount of payment for manufacturing materials delivered and accepted and for the protection and preservation of the property. Failure to agree on an amount for manufacturing materials is subject to the Federal Acquisition Regulation Disputes clause 52.233-1.

In some cases, we may receive an “undefinitized” (i.e., price, specifications and terms are not agreed upon before performance commenced) contract award for contracts that exceed the \$650,000, which is the federal government simplified acquisition threshold. These contracts are considered firm contracts at an undefinitized, but not to exceed specified limits threshold. Cost Accounting Standards Board covered contracts are subject to the Truth in Negotiations Act disclosure requirements and downward only price negotiation. As of June 28, 2009, 12.3% of our outstanding backlog, or \$3.9 million of booked orders, fell under this criterion. Our experience has been that the

historically negotiated price differentials have been minimal (5% or less) and accordingly, we do not anticipate any significant downward adjustments on these booked orders.

Three Months Ended June 28, 2009 (Successor) Compared to the Three Months Ended June 29, 2008 (Predecessor)

Revenues. In the three months ended June 28, 2009, revenues increased by 79.5% over the respective prior period:

| Product Line | 3 mos ended | 3 mos ended | Change |
|--------------------|-------------|---------------|--------|
| | 6/28/2009 | 6/29/2008 | |
| | (Successor) | (Predecessor) | |
| Howitzer Programs | 0.9 | 0.4 | 0.5 |
| Periscope Programs | 3.0 | 1.7 | 1.3 |
| Sighting Systems | 1.4 | 0.6 | 0.8 |
| All Other | 1.7 | 1.2 | 0.5 |
| Total | 7.0 | 3.9 | 3.1 |
| Percent increase | | | 79.5% |

Revenues increased significantly across all product lines during the three months ended June 2009 as compared to the same period in 2008. Significant increases in sales of periscope product lines is attributable to increased demand by GDLS and U.S. government accelerated schedules, whereby, in consideration for increased pricing of approximately \$1 million, Optex Systems, Inc. (Delaware) agreed to accelerate the contract delivery schedule and deliver at higher volumes to support increased military service needs. Of the total periscope revenue increase, approximately 82% is attributable to increased product levels, as compared to 18% due to accelerated pricing. The ramp up included the addition direct labor headcount of approximately 8 employees, combined with dual sourcing of material on several key components needed to meet the increased production requirements. Based on our current backlog demand, we expect the periscope revenues to decline in the last half of 2009 as the accelerated orders near completion; however we expect the revenue on periscopes to remain strong in 2010 as we continue to quote and receive awards for additional periscopes from multiple customers.

Revenues in the Howitzer programs increased \$0.5 million over the same quarter in the prior year. During the third quarter of 2009, we worked aggressively with the US Government to resolve technical field issues related to two of our Howitzer programs and completed the First Article Testing and Acceptance requirements on a third, for which government acceptance approval was obtained on August 25, 2009. Technical issues experienced on the Howitzer product lines relate to problems with the government technical data and drawing package affecting the manufacturability of the products and the functionality of the product during field use and testing. These issues were resolved through Optex initiated engineering change proposals and customer changes to the statement of work. As of this date, the issues have been resolve and contract schedules modified accordingly to implement the required changes. With most of the technical and start up issues behind us on these programs, we expect to increase program deliveries on these programs during the last quarter of fiscal year 2009 continuing through 2010.

Sighting Systems revenues increased \$0.8 million over the prior year due to the delivery of higher quantities of U.S. government and GDLS sighting systems in the current quarter over prior quarter deliveries, offset with the reduction in shipments to Textron related to a program that ended in 2008.

Increases in the other product line of 42% or \$0.5 million for the three months ending June 28, 2009 are a result of increased foreign military sales for azimuth mirror assemblies of \$0.4 million combined with new business of \$0.1 million in window assemblies.

Cost of Goods Sold. During the quarter ended June 28, 2009, we recorded cost of goods sold of \$6.4 million as opposed to \$2.9 million during the quarter ended June 29, 2008, an increase of \$3.5 million or 120.7%. This increase in cost of goods sold was primarily associated with increased revenue on our periscope lines in support of higher backlog and accelerated delivery schedules, in addition to increased intangible amortization resulting from the acquisition of Optex Systems, Inc. (Texas) (Predecessor) assets from Irvine Sensors Corporation on October 14, 2008. The gross margin during the quarter ended June 28, 2009 (Successor) was 8.6% of revenues as compared to a gross margin of 25.6% for the quarter ended June 29, 2008 (Predecessor). Product margins decreased substantially to 15.7% for the quarter ended June 28, 2009 (Successor) versus 25.6% for the quarter ended June 29, 2008 (Predecessor) due to a shift in third quarter revenue mix toward less profitable contracts, combined with increased labor costs related to the reallocation of labor costs associated with 10 employees from general and administrative costs to manufacturing overhead in 2009. Margins were further impacted by higher intangible amortization allocable to cost of goods sold of \$0.4 million, and increased reserves for valuations and warranties of \$0.1 million, resulting in an overall increase in cost of goods sold of 7.1% of revenues in the quarter ended June 28, 2009.

G&A Expenses. During the three months ended June 28, 2009, we recorded operating expenses of \$ 0.8 million as opposed to \$ 1.2 million during the three months ended June 29, 2008, a decrease of \$0.4 million or 33.3%. The components of the significant net decrease in general and administrative expenses as compared to quarter ended June 29, 2008 are outlined below.

- Elimination of corporate cost allocations from Irvine Sensors Corporation of \$0.5 million and the Irvine Sensors Corporation Employee Stock Bonus Plan (ESBP) of \$0.1 million as a result of the ownership change.
 - Increased costs of \$0.2 million in legal, accounting fees, board of directors fees, and investor relations.
- Lower Salaries and Wages and employee related costs of \$0.1 million primarily due to the reclassification of 10 purchasing and planning employees from general and administrative to manufacturing overhead in cost of sales. The annualized impact of the personnel move is expected to be a reduction in general and administrative expenses of approximately \$0.5 million with an offsetting increase to cost of goods sold.
- Increased Amortization of Intangible Assets of \$0.05 million as a result of the ownership change on October 14, 2008.

Loss from Operations. During the three months ended June 28, 2009, we recorded a loss from operations of \$(0.2) million, which was the same as the \$(0.2) million loss from operations during the three months ended June 29, 2008. The loss from operations includes a \$0.4 million increase in non-cash amortization of intangible assets as a result of the October 14, 2008 acquisition of the assets of Optex Systems, Inc. (Texas) (Predecessor).

Net Loss. During the three months ended June 28, 2009, we recorded a net loss of \$(0.3) million, as compared to \$(0.2) million for three months ended June 29, 2008, an increase of \$(0.1) million or 50.0%. Federal Income Taxes expense increased by \$0.5 million over the prior year as a result of increased profit before intangible amortization expense. The intangible amortization expense is amortized over 5 years for book purposes and is deductible over 15 years for income tax purposes. In 2008, there was no Federal Income Tax expense due to the loss from operations. Excluding the impact of the increased intangible expenses of \$0.5 million, we would have recorded net income of \$0.2 million for the three months ended June 28, 2009.

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Predecessor period of September 29, 2008 through October 14, 2008 and Successor period of October 15, 2008 through June 28, 2009 compared to the Predecessor nine month period ended June 29, 2008.

Revenues the For the nine months ended June 28, 2009 (Combined) revenues increased by 51.1% over the respective prior period (Predecessor) per the table below:

| | Predecessor September 29, 2008 through October 14, 2008 | Successor October 15, 2008 through June 28, 2009 | Combined 9 mos. ended June 28, 2008 | Predecessor 9 mos. ended June 29, 2009 | Change |
|------------------|---|---|---|--|--------|
| Revenue | \$ 0.9 | \$ 20.1 | \$ 21.0 | \$ 13.9 | \$ 7.1 |
| Percent increase | | | | | 51.1% |

The table below details the revenue changes by product line in the nine months ended June 28, 2009.

| Product Line | 9 mos ended 6/28/2009 (Combined) | 9 mos ended 6/29/2008 (Predecessor) | Change |
|--------------------|--|---|--------|
| Howitzer Programs | 1.6 | 1.7 | (0.1) |
| Periscope Programs | 12.1 | 6.2 | 5.9 |
| Sighting Systems | 3.6 | 3.2 | 0.4 |
| All Other | 3.7 | 2.8 | 0.9 |
| Total | 21.0 | 13.9 | 7.1 |
| Percent increase | | | 51.1% |

Revenues increased significantly across most of the product lines during the nine months ended June 2009 as compared to the same period in 2008. Significant increases in sales of periscope product lines is attributable to increased demand by GDLS and U.S. government accelerated schedules, whereby, in consideration for increased pricing of approximately \$1 million, Optex Systems, Inc. (Delaware) agreed to accelerate the contract delivery schedule and deliver at higher volumes to support increased military service needs. Of the total periscope revenue increase, approximately 82% is attributable to increased product levels, as compared to 18% due to accelerated pricing. The ramp up included the addition direct labor headcount of approximately 8 employees, combined with dual sourcing of material on several key components needed to meet the increased production requirements. During the first 9 months of 2009, Optex had delivered approximately 81% of the accelerated units, with the remaining units to be delivered through the first quarter of 2010. Based on our current backlog demand, we expect the periscope revenues to decline in the last half of 2009 as the accelerated orders near completion; however we expect the revenue on periscopes to remain strong in 2010 as we continue to quote and receive awards for additional periscopes from multiple customers.

Revenues in the Howitzer programs declined slightly by (\$0.1) million over the period in the prior year. During the third quarter of 2009, we worked aggressively with the US Government to resolved technical field issues related to two of our Howitzer programs and completed the First Article Testing and Acceptance requirements on a third, for which government acceptance approval was obtained on August 25, 2009. Technical issues experienced on the Howitzer product lines relate to problems with the government technical data and drawing package affecting the

manufacturability of the products and the functionality of the product during field use and testing. These issues were resolved through Optex initiated engineering change proposals and customer changes to the statement of work. As of this date, the issues have been resolved and contract schedules modified accordingly to implement the required changes. With most of the technical and start up issues behind us on these programs, we expect to increase program deliveries on these programs during the last quarter of fiscal year 2009 continuing through 2010.

Sighting Systems revenues increased \$0.4 million over the prior year due to the delivery of higher quantities of U.S. government and GDLS sighting systems in the current quarter over prior quarter deliveries, offset with the reduction in shipments to Textron related to a program that ended in 2008.

Increases in the other products of 32% or \$0.9 million for the nine months ending June 28, 2009 are a result of increased foreign military sales for azimuth mirror assemblies of \$0.4 million combined with new business of \$0.1 million in window assemblies and increased volume on spare award awards in the current year over prior year.

Currently we are experiencing losses on our Howitzer programs as a result of unanticipated manufacturing costs due to design and technical data package issues impacting the product manufacturability. These issues have resulted in increased labor and material costs due to higher scrap and extensive engineering costs incurred during the start up phase of the programs. In addition some of our older "legacy" periscope programs are experiencing losses due to significant material price increases since the initial 5 year contract award in 2004. As of June 28, 2009 Optex Systems Holdings has reserved \$0.6 million in contract loss reserves on Howitzer programs and \$0.1 million on periscope programs for a total of \$0.7 million in contract loss reserves. The total remaining backlog on these loss programs as of June 28, 2009 is \$10.8 million. We are expecting to ship \$4.5 of the loss contract backlog in the second half of 2009 and \$4.5 million of the existing loss contract backlog in 2010, with the remaining \$1.8 million expected to ship in the first quarter of 2011. As these losses have been previously recognized to the extent identified, future margins on these revenues are expected to be zero.

Currently we are not experiencing any negative impact due to changes in incremental funding commitments by federal agencies. There has been one delay in the award of the second delivery order for the U.S. government periscope contract subsequent to June 28, 2009, however as the contract is a dual award between Optex Systems Holdings and a competitor with no volume guaranteed to any single-source, we have not expended any resources in support of the yet to be awarded portion of the contract. We are anticipating a government award on the contract in the second quarter of 2010. However, delay of the government procurement is not expected to negatively impacted Optex Systems Holdings' revenue in 2009, and due to other increased periscope orders from non U.S. government contracts further delays in the award on the prime government contract should not materially affect Optex Systems Holdings in the next 12 months.

Cost of Goods Sold. During the Predecessor period from September 29, 2008 through October 14, 2008, we recorded cost of goods sold of \$0.8 million and during the Successor period from October 15 through June 28, 2009 we recorded cost of goods sold of \$18.0 million for a total cost of good sold during the nine month period of \$18.8 million as compared, to \$11.7 million during the nine months ended June 29, 2008, an increase of \$7.1 million or 60.7%. This increase in cost of goods sold was primarily associated with increased revenue on certain of our product lines in support of higher backlog and accelerated delivery schedules and increased intangible amortization resulting from the acquisition of the assets of Optex Systems, Inc. (Texas) (Predecessor) on October 14, 2008. The gross margin during the Predecessor period beginning September 29, 2008 through October 14, 2008 was \$0.1 million and the gross margin for the Successor period beginning October 15, 2008 through June 28, 2009 was \$1.9 million for a total of \$2.0 million or 9.5% of revenues as compared to a gross margin of 15.8% for the nine months ended June 29, 2008. Product gross margins were down 0.4% to 17.6% for the period ended June 28, 2009 versus 18.0% for the nine months ended June 29, 2008 due to a shift in revenue mix toward less profitable contracts for certain programs, combined with increased labor related to the reallocation of costs associated with 10 employees from the general and administrative costs to manufacturing overhead in 2009. Margins were further impacted by higher intangible amortization allocable to cost of goods sold of \$0.9 million, and increased reserves for valuations and warranties of \$0.3 million, resulting in an overall increase in cost of goods sold of 7.1% of revenues in the period ended June 28, 2009 as compared to the nine months ended June 29, 2008.

G&A Expenses. During the Predecessor period from September 29, 2008 through October 14, 2008 we recorded operating expense of \$0.1 million and during the period from October 15, 2008 through June 28, 2009, we recorded operating expenses of \$2.0 million for a total of \$2.1 million for the nine months ended June 28, 2009 as opposed to \$3.7 million during the nine months ended June 29, 2008, a decrease of \$1.6 million or 43.2%. The components of the significant net decrease in general and administrative expenses as compared to the nine months ended June 29, 2008 are outlined below.

- Elimination of corporate cost allocations from Irvine Sensors Corporation of \$1.5 million and the Irvine Sensors Corporation Employee Stock Bonus Plan of \$0.3 million as a result of the ownership change.
 - Increased costs of \$0.4 million in legal, accounting fees, board of director fees, and investor relations
- Lower Salaries and Wages and employee related costs of \$0.3 million primarily due to the reclassification of 10 purchasing and planning employees from general and administrative to manufacturing overhead in cost of sales. The annualized impact of the personnel move is expected to be a reduction in general and administrative expenses of approximately \$0.5 million with an offsetting increase to costs of goods sold. This decrease was partially offset by the expense associated with the implementation of a Management Incentive Bonus plan in 2009 of (\$0.1) million for a net change of \$0.2 million to general and administrative salaries, wages and related employee expenses.
- Increased Amortization of Intangible Assets of \$0.1 million as a result of the ownership change as of October 14, 2008.

Income (Loss) from Operations. During the Predecessor period from September 29, 2008 through October 14, 2008 we recorded income from operations of \$0.07 million and for the Successor period from October 15, 2008 through June 28, 2009, we recorded a loss from operations of \$(0.09) million for a total net loss of \$(0.02) million during the nine month period as opposed to a loss from operations of \$(1.5) million during the nine months ended June 29, 2008. This improvement was primarily due to increased sales revenue in the period ended June 28, 2009, combined with reduced general and administrative expenses driven by the elimination of Irvine Sensors Corporation corporate costs pushed down to us in the nine months ended June 29, 2008. The current year loss from operations also includes \$1.1 million of non cash amortization of intangible assets as a result of the October 14, 2008 acquisition transaction.

Net Income (Loss). During the Predecessor period from September 29, 2008 through October 14, 2008 we recorded net income of \$0.06 million for the period beginning October 15, 2008 through June 28, 2009, we recorded a net loss of \$(0.73) million for a total net loss of \$(0.67) million during the nine months ended June 28, 2009, as compared to \$(1.6) million for nine months ended June 29, 2008, a decrease in net loss of \$0.93 million or 58.1%. This decrease in net loss was principally the result of reduced operating expenses related to the elimination of corporate cost allocations from Irvine Sensors Corporation since the successor operating as a stand-alone entity did not incur these costs in the nine months ended June 29, 2008 combined with increased revenue in the period ending June 28, 2009. Federal Income Tax expense increased by \$0.5 million over the prior year as a result of increased profit before intangible amortization expense. The intangible amortization expense is amortized over five years for book purposes and is deductible over 15 years for income tax purposes. In 2008, there was no Federal Income Tax expense due to the loss from operations. Excluding the impact of the increased intangible expenses of \$1.5 million, we would have recorded net income of \$0.8 million for the nine month period ending June 28, 2009.

Liquidity and Capital Resources

In the year ended 2008, Optex Systems, Inc. (Texas) working capital was significantly constrained due a high level of loss programs and production increases across multiple programs which necessitated the need for investment in inventories and manpower resources required to meet the additional product demand. As Optex Systems, Inc. (Texas) was a wholly-owned subsidiary of Irvine Sensors Corporation, access to additional outside funding apart from government progress bills was severely limited. Further, Optex Systems, Inc. (Texas) had incurred significant costs on one of the Howitzer programs and was unable to recover these costs until fiscal 2009 due to progress billing limitations prior to first article inspection testing and approval which did not occur until August of 2009. During 2008, Optex Systems, Inc. (Texas) transferred \$0.7 million in cash to Irvine Sensors in support of intercompany services provided by Irvine Sensors on behalf of Optex Systems, Inc. (Texas) that were outside our control, including: legal, accounting, and consulting fees; Irvine Sensors Corporation travel expenses; and insurance costs.

The estimated total General and Administrative expenses assuming Optex Systems, Inc. (Texas) was operated on a stand-alone basis during the 2008 fiscal year are:

| | Year- Ended September 28, 2008 |
|----------------------------------|--------------------------------------|
| Accounting & Auditing Fees | \$ 250,000 |
| Legal Fees | 60,000 |
| Consulting Fees | 60,000 |
| Workers Comp & General Insurance | 70,000 |
| Total | \$ 440,000 |

As a result of the purchase of Optex Systems, Inc. (Texas) on October 14, 2008, these general and administrative costs are incurred and paid directly by Optex Systems, Inc. (Delaware) for the 2009 fiscal year and have been reflected in the financial statements to the extent incurred through June 28, 2009.

Subsequent to the asset acquisition from Irvine Sensors on October 14, 2008 and the reverse merger and reorganization on March 30, 2009, Optex Systems Holdings raised additional cash through a private equity sale that generated gross proceeds of \$1.0 million. As a result of the new capital, Optex Systems Holdings will be able acquire the necessary inventory and personnel resources required to operate at the higher revenue levels, and improve the company's working capital position.

We have historically met our liquidity requirements from a variety of sources, including government and customer funding through contract progress bills, short term loans, notes from related parties, and the sale of equity securities. Based upon our current working capital position and potential for expanded business revenues, we believe that our working capital is sufficient to fund our current operations for the next 12 months. However, based on our strategy and the anticipated growth in our business, we believe that our liquidity needs may increase in the future. The amount of such increase will depend on many factors, including the costs associated with the fulfillment of our projects, whether we upgrade our technology, and the amount of inventory required for our expanding business. If our liquidity needs do increase, we believe additional capital resources will be derived from a variety of sources including, but not limited to, cash flow from operations and further private placements of our common stock and/or debt, including receivables funding through a commercial lender.

Predecessor period of September 29, 2008 through October 14, 2008

Cash and Cash Equivalents. As of October 14, 2008, Optex Systems, Inc. (Texas) (Predecessor) had cash and cash equivalents of \$0.3 million, an increase of \$0.1 million from the year ended September 29, 2008. The slight increase in cash over September 29, 2008 balances were primarily due to the timing of cash receipts on accounts receivable collections and supplier payments made as of the October 14th Optex Systems, Inc. (Delaware) acquisition. The cash balance as of October 14, 2009 is included as the beginning cash balance for Optex Systems, Inc. (Delaware) (Successor) as of October 15, 2008.

Net Cash Provided by Operating Activities. Net cash provided by operating activities totaled \$0.1 million for the Predecessor period of September 29, 2008 through October 14, 2008. Cash provided by operating activities was primarily due to the timing of purchases and accounts receivable collections during the 15 day period prior the Delaware acquisition. During this period, our net inventory increased by \$0.9 million to support substantially increased production rates across all of our product lines and our accounts receivable decreased \$(1.0) million due to timing of collections from one of our major customers in the second week of October, 2008. Accounts payable and accrued expenses decreased by \$(0.2) million due to the timing of cash disbursements prior to the acquisition.

Net Cash Used in Investing Activities. Net cash used in investing activities totaled \$0.00 million during the Predecessor period beginning September 29, 2008 and ending October 14, 2008. Optex Systems Holdings' business is labor intensive and we purchase equipment as it becomes necessary.

Net Cash Provided By Financing Activities. Net cash provided by financing activities totaled \$0.0 million during the Predecessor period beginning September 29, 2008 and ending October 14, 2008.

Successor period of October 15, 2008 through June 28, 2009

Cash and Cash Equivalents. As of June 28, 2009, we had cash and cash equivalents of \$0.5 million. During the Successor period of October 15, 2008 through June 28, 2009 we increased cash and cash equivalents by \$0.2 million primarily due to the net proceeds received by us in the private placement. A portion of the private placement proceeds was used to acquire additional inventory in support of the higher revenue and production rates during the period and which are expected to continue through year end.

Net Cash Used in Operating Activities. Net cash used in operating activities during the Successor period beginning October 15, 2008 and ending June 28, 2009 totaled \$(0.4) million. The primary uses of cash during this period relate to the timing of purchases, accelerated collections on government contracts, and the timing of payments to vendors. Accelerated collections of government contracts was accomplished by offering nominal discounts for prompt payment. Federal Acquisition Regulation Clause 52.232-8 "Discounts for Prompt Payment" permits the offer of nominal discounts on payment terms for government contracts in order to expedite invoice payment. Because many of our programs incur significant, long lead times from material acquisition through production and shipment, it is the standard policy of Optex Systems, Inc. (Delaware) to offer a 0.5% discount for all government invoices paid in net 10 days or less. The normal payment terms on these contracts are net 30. The foregone revenues as a result of the discounted payments equate to less than 0.1% of total revenue reported during the same period. In the period beginning October 15, 2008 and ending June, 28, 2009, our net inventory increased by \$1.6 million to support substantially increased production rates across all of our product lines. A large portion of these inventories are progress billable costs and as such were billed to our customer as costs were incurred. As of June 28, 2009, our accounts receivable included approximately \$1.5 million in unpaid outstanding progress bills related to these programs, which were paid in July 2009. We expect similar cash flows from operations until at least mid 2010 when our low margin legacy periscope programs are anticipated to end and are replaced with other significant programs as they reach level production rates.

Net Cash Provided by Investing Activities. In the Successor period beginning October 15, 2008 and ending June 28, 2009, net cash provided by investing activities totaled \$0.24 million and consisted of cash acquired during the Optex Systems, Inc. (Delaware) Predecessor acquisition as of October 14, 2009 of \$0.25 million and cash used to purchase equipment of \$(0.01) million during the period.

Net Cash Provided By Financing Activities. Net cash provided by financing activities totaled \$0.7 million during the period beginning October 15, 2008 through June 28, 2009. The change of \$0.7 million is due to receipt of the private placement funds of \$0.9 million offset by funds used to repay outstanding loans of \$(0.2) million. We raised funds through a private placement for working capital needs, primarily inventory purchases, and additional personnel so support increased revenue and production rates during the period.

Critical Policies and Accounting Pronouncements

Stock-Based Compensation: In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123R, Share-Based Payment. SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued.

The Company’s accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of EITF 96-18, “Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services” and EITF 00-18, “Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees.” The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor’s performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, which ever is more readily determinable in accordance with SFAS 123R.

Revenue Recognition. The Company recognizes revenue based on the modified percentage of completion method utilizing the units-of-delivery method, in accordance with SOP 81-1:

- The units-of-delivery method recognizes as revenue the contract price of units of a basic production product delivered during a period and as the cost of earned revenue the costs allocable to the delivered units; costs allocable to undelivered units are reported in the balance sheet as inventory or work in progress. The method is used in circumstances in which an entity produces units of a basic product under production-type contracts in a continuous or sequential production process to buyers' specifications.

Our contracts are fixed price production type contracts whereas a defined order quantity is delivered to the customer in a continuous or sequential production process in accordance with buyer specifications (build to print). Our deliveries against these contracts generally occur in monthly increments across fixed delivery periods spanning from 3 to 36 months.

Warranty Costs: Some of our customers require that we warranty the quality of our products to meet customer requirements and be free of defects for up to fifteen months subsequent to delivery. In the year ended September 28, 2008 and nine months ended June 28, 2009, the company incurred \$227,000 and \$87,446, respectively of warranty expenses representing the estimated cost of repair or replacement for specific customer returned products still covered under warranty as of the return date and awaiting replacement, in addition to estimated future warranty costs for shipments occurring during the twelve months proceeding September 28, 2008. Future warranty costs were determined, based on estimated cost of replacement for expected returns based upon our most recent experience rate of defects as a percentage of sales. Prior to fiscal year 2008, all warranty expenses were incurred as product was replaced with no reserve for warranties against deliveries in the covered period.

On certain periscope product lines the warranty period has been extended from 15 to 24 months due to technical considerations incurred during the manufacture of such products. During June of 2008, Optex Systems, Inc. (Texas) experienced an internal control test failure related to the laser filters used on one of the periscope products. As a result

of the internal test failure, Optex implemented a manufacturing process change to eliminate the potential for future failures. We believe the internal control test environment to be significantly more stringent than that which would occur under field conditions, however as a result of the internal test failure and manufacturing process change, we extended our warranty for all product shipped prior to the implemented change. As of the date of this report, Optex Systems Holdings has not received any warranty claims as a result of the condition.

Estimated Costs to Complete and Accrued Loss on Contracts. The Company reviews and reports on the performance of its contracts and production orders against the respective resource plans for such contracts/orders. These reviews are summarized in the form of estimates to complete and estimates at completion. Estimates at completion include the Company's incurred costs to date against the contract/order plus management's current estimates of remaining amounts for direct labor, material, other direct costs and subcontract support and indirect overhead costs based on the completion status and future contractual requirements for each order. If an estimate at completion indicates a potential overrun (loss) against a fixed price contract/order, management generally seeks to reduce costs and /or revise the program plan in a manner consistent with customer objectives in order to eliminate or minimize any overrun and to secure necessary customer agreement to proposed revisions.

If an estimate at completion indicates a potential overrun against budgeted resources for a fixed price contract/order, management first attempts to implement lower cost solutions to still profitably meet the requirements of the fixed price contract. If such solutions do not appear practicable, management makes a determination whether to seek renegotiation of contract or order requirements from the customer. If neither cost reduction nor renegotiation appears probable, an accrual for the contract loss/overrun is recorded against earnings and the loss is recognized in the first period the loss is identified based on the most recent estimate at completion of the particular contract or product order.

Government Contracts: Virtually all 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".

Recent Accounting Pronouncements.

In June 2006, The FASB issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109". This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

In September 2006, the FASB issued FASB No. 157, "Fair Value Measurements" which establishes a framework for measuring fair value, and expands disclosures about fair value measurements. While FASB No. 157 does not apply to transactions involving share-based payment covered by FASB No. 123, it establishes a theoretical framework for analyzing fair value measurements that is absent from FASB No. 123. We have relied on the theoretical framework established by FASB No. 157 in connection with certain valuation measurements that were made in the preparation of these financial statements. FASB No. 157 is effective for years beginning after November 15, 2007. Subsequent to the Standard's issuance, the FASB issued an exposure draft that provides a one year deferral for implementation of the Standard for non-financial assets and liabilities. The Company is currently evaluating the impact FASB No. 157 will have on its financial statements.

In February 2007, Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115," was issued. This standard allows a company to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities on a contract-by-contract basis, with changes in fair value recognized in earnings. The provisions of this standard are effective as of the beginning of our fiscal year 2008, with early adoption permitted. The Company is currently evaluating what effect the adoption of FASB 159 will have on its financial statements.

In March 2007, the Financial Accounting Standards Board ratified "EITF" Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements". EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of EITF 06-10 on its financial statements, but does not expect it to have a material effect.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations and SFAS No. 160, "Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51". These new standards will significantly change the accounting for and reporting of business combinations and non-controlling (minority) interests in consolidated financial statements. Statement Nos. 141(R) and 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the impact of adopting SFAS Nos. 141(R) and SFAS 160 on its financial statements. See Note 14 to the financial statements for the year ended September 28, 2008 for adoption of SFAS 141R subsequent to September 30, 2008.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110. SAB 110 permits companies to continue to use the simplified method, under certain circumstances, in estimating the expected term of "plain vanilla" options beyond December 31, 2007. SAB 110 updates guidance provided in SAB 107 that previously stated that the Staff would not expect a company to use the simplified method for share option grants after December 31, 2007. The Company does not have any outstanding stock options.

In March 2008, FASB issued Statement of Financial Accounting Standard ("SFAS") No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133". SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended September 30, 2009. The Company is currently evaluating the impact of SFAS 161 on its financial statements but does not expect it to have a material effect.

In May 2008, FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company is currently evaluating the impact of SFAS 162 on its consolidated financial statements but does not expect it to have a material effect.

In May 2008, FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60". SFAS 163 interprets Statement 60 and amends existing accounting pronouncements to clarify their application to the financial guarantee insurance contracts included within the scope of that Statement. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all

interim periods within those fiscal years. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended September 30, 2011. The Company is currently evaluating the impact of SFAS 163 on its financial statements but does not expect it to have a material effect.

In June 2008, FASB issued FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities". FSP EITF 03-6-1 clarifies that share-based payment awards that entitle their holders to receive nonforfeitable dividends or dividend equivalents before vesting should be considered participating securities. We have granted and expect to continue to grant restricted stock that contain non-forfeitable rights to dividends and will be considered participating securities upon adoption of FSP EITF 03-6-1. As participating securities, we will be required to include these instruments in the calculation of our basic earnings per share ("EPS"), and we will need to calculate basic EPS using the "two-class method." Restricted stock is currently included in our dilutive EPS calculation using the treasury stock method. The two-class method of computing EPS is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending October 3, 2010. The Company does not expect adoption of FSP EITF 03-6-1 to have a material effect on the Company's financial statements.

In May 2009, "FASB issued SFAS No. 165, "Subsequent Events". SFAS 165 establishes principles and requirements for the reporting of events or transactions that occur after the balance sheet date, but before financial statements are issued or are available to be issued. SFAS 165 is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009. As such, the Company adopted these provisions at the beginning of the interim period ended June 28, 2009. Adoption of SFAS 165 did not have a material effect on the Company's financial statements.

In June 2009, FASB issued SFAS No. 168, "The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162". SFAS 168 replaces Statement 162 and to establish the FASB Accounting Standards CodificationTM (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. SFAS 168 is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As such, the Company is required to adopt these provisions at the beginning of the period ending September 27, 2009. The Company does not expect adoption of SFAS 168 to have a material effect its financial statements.

Cautionary Factors That May Affect Future Results

This Quarterly Report on Form 10-Q and other written reports and oral statements made from time to time by the Company may contain so-called "forward-looking statements," all of which are subject to risks and uncertainties. You can identify these forward-looking statements by their use of words such as "expects," "plans," "will," "estimates," "forecasts," "projects" and other words of similar meaning. You can identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address the Company's growth strategy, financial results and product and development programs. You must carefully consider any such statement and should understand that many factors could cause actual results to differ from 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 this Form 10-Q. 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by our Quarterly Report on Form 10-Q for the quarter ended June 28, 2009, management performed, with the participation of our Principal Executive Officer and Principal Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the report we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's forms, and that such information is accumulated and communicated to our management including our Principal Executive Officer and our Principal Financial Officer, to allow timely decisions regarding required disclosures. Based upon the evaluation described above, our Principal Executive Officer and our Principal Financial Officer concluded that, as of June 28, 2009, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the quarter ended June 28, 2009, 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.

Currently we are not aware of any litigation pending or threatened by or against the Company.

Item 1A. Risk Factors

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 Form 10-Q, 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 will face. If any of these risks actually occurs, 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, material risks related to our industry and material risks related to companies that undertake a public offering or seek to maintain a class of securities that is registered or traded on any exchange or over-the-counter market.

Risks Related to our Business

We expect that we will need to raise additional capital in the future; additional funds may not be available on terms that are acceptable to us, or at all.

We anticipate we will have to raise additional capital in the future to service our debt and 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 can 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.

Current economic conditions may adversely affect our ability to continue operations.

Current economic conditions may cause a decline in business and consumer spending and capital market performance, which could adversely affect our business and financial performance. Our ability to raise funds, upon which we are fully dependent to continue to expand 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.

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. 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. Given the current economic conditions, it is also possible that even if our estimates are reasonable at the time made, that prices of materials are subject to unanticipated adverse fluctuation. In the event our actual costs exceed fixed contractual costs of 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. As of September 27, 2009, we had approximately \$1.3 million of loss provision accrued for these fixed price contracts.

Approximately 95% of our contracts contain contract 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 cost 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.

If we fail to scale our operations appropriately in response to growth and 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.

Our past growth has placed, and any future growth in our historical business is expected to continue to place, a significant strain on our management personnel, infrastructure and resources. To implement our current business and product plans, we will need to continue to expand, train, manage and motivate our workforce, and expand our operational and financial systems, as well as our manufacturing and service capabilities. All of these endeavors will require substantial management effort and additional capital. If we are unable to effectively manage our expanding operations, 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 long-term employment agreements with our key personnel, other than our Principal Operating Officer. 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 any key employee could have a material adverse effect on our business. We currently have only one employment agreement, with our Principal Operating Officer, and do not presently maintain “key man” insurance on any key employees. We believe that as our activities increase and change in character, additional, experienced personnel will 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, we do not presently have depth of staffing in our executive, operational and financial management. Until additional key personnel can be successfully integrated into our operations, the timing or success of which we cannot currently predict, our results of operations and ultimate success will be vulnerable to challenges associated with recruiting additional key personnel and difficulties associated with the loss of any key personnel in the future.

Our intangible assets or goodwill may suffer impairment in the future.

Goodwill represents the cost of acquired businesses in excess of fair value of the related net assets at acquisition. Valuation of intangible assets, such as goodwill, requires us to make significant estimates and assumptions including, but not limited to, estimating future cash flows from product sales, developing appropriate discount rates, maintaining customer relationships and renewing customer contracts, and approximating the useful lives of the intangible assets acquired. To the extent actual results differ from these estimates, our intangible assets or goodwill may suffer impairment in the future that will impact our results of operations. We reviewed the fair market value of our goodwill and intangible assets as of September 28, 2008, based on the fair market values established in connection with the acquisition by Optex Systems, Inc. (Delaware) of the assets of Optex Systems, Inc. (Texas) as of October 14, 2008, and as a result, determined that the current carrying value of goodwill had been impaired by \$1.6 million. Goodwill was reviewed for impairment as of September 27, 2009 and based on the review, there have been no material changes to our assumptions or estimates that would suggest any further impairment is currently warranted. We intend to continue to monitor the value of our intangible assets and goodwill in order to identify any impairment that may occur in the future.

Certain of our products are dependent on specialized sources of supply that are potentially subject to disruption which could have a material, adverse impact on our business.

Optex Systems Holdings has 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 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 should have disruptions in deliveries due to production, quality, or other issues, Optex Systems Holdings 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 customer reputation, 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 finally shipped. Prior to bidding a contract, Optex Systems Holdings contacts potential sources of material and receives 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 Optex Systems Holdings would find an alternate supplier and bring this information back to the final customer. Contractual deliverables would then be re-negotiated (e.g., specifications, delivery, price). Currently, approximately 28% of our total material requirements are single-sourced across 21 suppliers representing approximately 20% of our active supplier base. Single-sourced component requirements span across all of our major product lines. The vast majority of these single-sourced components could be provided by another supplier with minimal interruption in schedule (supply delay of 3 months or less) or increased costs. We do not believe these single sourced materials to pose any significant risk to Optex Systems Holdings as other suppliers are capable of satisfying the purchase requirements in a reasonable time period with minimal increases in cost. Of these single sourced components, we have contracts (purchase orders) with firm pricing and delivery schedules in place with each of the suppliers to supply parts in satisfaction of our current contractual needs.

We consider only those specialized single source suppliers where a disruption in the supply chain would result in a period of three months or longer for Optex Systems Holdings to identify and qualify a suitable replacement to present a material financial or schedule risk. In the table below we identify only those specialized single source suppliers and the product lines supported by those materials.

| Product Line | Supplier | Supply Item | Risk | Purchase Orders |
|--------------|------------------|---|---|---|
| Periscopes | TSP Inc | Window used on all glass & plastic periscopes | Proprietary coatings would take in excess of 6 months to identify and qualify an alternative source | Current Firm Fixed Price & Quantity Purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule. |
| Periscopes | Spartec Polycast | Acrylic raw material used on plastic periscope assemblies | This material has quality characteristics which would take in excess of 6 months to identify and qualify an alternative source. | Current Firm Fixed Price & Quantity Purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule. |
| Howitzers | Danaher Controls | Counter Assembly for M137 & M187 | Critical assembly would take in excess of 6 months to identify and qualify an alternative source. | Current Firm Fixed Price & Quantity Purchase orders are in place with the supplier to meet all |

| | | |
|-------------------|--|--|
| Howitzer programs | Currently, the only US Government approved supplier. | contractual requirements. Supplier is on schedule. |
|-------------------|--|--|

| | | | | |
|-------|--------|---------------|--|---|
| | | | Subcontracted welder that is the only qualified supplier for General | Current Firm Fixed Price & Quantity Purchase orders are in place with the |
| Other | SWS | Subcontracted | Dynamics Land Systems | supplier to meet all |
| | Trimac | Electron | muzzle reference system | contractual |
| | | Beam | collimator assemblies. | requirements. Supplier is |
| | | Welding | This operation would take in excess of 6 months to identify and qualify an alternative supplier. | 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. Some of our customers require that we warrant the quality of our products to meet customer requirements and be free of defects for up to fifteen months subsequent to delivery. Approximately 50% of our current contract deliveries are covered by these warranty clauses. We establish reserves for warranty claims based on our historical rate of less than one percent 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 derive almost all of our revenue from two customers and the loss of either customer or both customers could have a material adverse effect on our revenues.

At present, we derive approximately 93% of the gross revenue from our business from two customers, with 46% from General Dynamics Land System Division and 47% from Tank-automotive and Armaments Command. Procuring new customers and contracts may partially mitigate this risk. A decision by either General Dynamics Land System Division or Tank-automotive and Armaments Command to cease issuing contracts could have a significant material impact on our business and results of operations. There can be no assurance that we could replace these customers on a timely basis or at all.

We have approximately 50 discrete contracts with General Dynamics Land System Division and Tank-automotive and Armaments Command. If they choose to terminate these contracts, Optex Systems Holdings is entitled to fully recover all contractual costs and reasonable profits incurred up to or as a result of the terminated contract.

We do not possess any patents and rely solely 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 confidentiality 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, and may have applied for or obtained, or may in the future apply for and obtain, patents that will prevent, limit or interfere with our ability to make and sell some of our products. Although based upon our general knowledge (and we have not conducted exhaustive 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.

In the future, we may look to acquire other businesses in our industry and the acquisitions will require us to use substantial resources, among other things.

At some time in the future, we may decide to pursue a consolidation strategy with other businesses in our industry. In order to successfully acquire other businesses, we would be forced to spend significant resources in 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.

Conversion of our Series A preferred stock could cause substantial dilution to our existing common stock holders, and certain other rights of the preferred stock holders present other risks to our existing common stock holders.

As of September 27, 2009, we had 139,444,940 shares of our common stock issued and outstanding, as well as 1,027 shares of our Series A preferred stock issued and outstanding. The Series A preferred stock is convertible into 41,080,000 shares of our common stock, and upon conversion, the Series A preferred stock would represent 21.7% of our outstanding common stock. This would greatly dilute the holdings of our existing common stockholders. In addition, the preferred shareholders vote on a one-to-one basis with our common shareholders on an as converted basis.

Furthermore, in the event of a liquidation, the holders of our Series A preferred stock would receive priority liquidation payments before payments to common shareholders equal to the amount of the stated value of the preferred stock before any distributions would be made to our common shareholders. The total stated value of our preferred stock is \$6,162,000, so the preferred shareholders would need to receive that amount before any distributions could be made to common shareholders. Our assets with liquidation value are exceeded by our liabilities on our balance sheet; therefore, upon a liquidation, there would be no assets remaining for distribution to common shareholders.

Lastly, the preferred shareholders have the right, by majority vote of the shares of preferred stock, to generally approve any issuances by us of equity and/or indebtedness, which is not ordinary course trade indebtedness. Therefore, the preferred shareholders can effectively bar us from entering into a transaction which they feel is not in their best interests even if the transaction would otherwise be in the best interests of Optex Systems Holdings and its common shareholders.

Risks Relating to the Reorganization

A director who is also an executive officer beneficially owns a substantial percentage of Optex Systems Holdings' outstanding common stock, which gives him control over certain major decisions on which Optex Systems Holdings' stockholders may vote, which may discourage an acquisition of Optex Systems Holdings ..

As a result of the reorganization, Sileas, which is owned by Optex Systems Holdings' three officers (one of whom is also one of Optex Systems Holdings' three directors), beneficially owns, in the aggregate, 73.52% of Optex Systems Holdings' outstanding common stock. One director who is also an executive officer, Stanley Hirschman, owns the majority equity interest in Sileas. The interests of Optex Systems Holdings' management may differ from the interests of other stockholders. As Optex Systems Holdings' executive management has the right and ability to control virtually all corporate actions requiring stockholder approval, irrespective of how Optex Systems Holdings' other stockholders may vote, including the following actions:

- Confirming or defeating the election of directors;
- amending or preventing amendment of Optex Systems Holdings' certificate of incorporation or bylaws;
- effecting or preventing a reorganization, sale of assets or other corporate transaction; and controlling the outcome of any other matter submitted to the stockholders for vote.

Optex Systems Holdings' management's beneficial stock ownership may discourage a potential acquirer from seeking to acquire shares of Optex Systems Holdings' common stock or otherwise attempting to obtain control of Optex Systems Holdings, which in turn could reduce the stock price or prevent Optex Systems Holdings' stockholders from realizing a premium over Optex Systems Holdings' stock price.

If Sileas is unable to meet its obligations under the purchase money note to the party from which it purchased its stock holdings in Optex Systems Holdings, there could be a change in control in Optex Systems Holdings.

On February 20, 2009, Sileas purchased 100% of the equity and debt interest held by Longview, representing 90% of Optex Systems, Inc. (Delaware), in a private transaction. The purchase price for the acquisition of Longview's position was \$13,524,405, and the consideration was paid in the form of a promissory note. The obligations of Sileas under the promissory note are secured by a security interest in Optex Systems Holdings' common and preferred stock owned by Sileas. As Sileas has no operations or business activities other than holding the purchased assets, Sileas is depending upon the value of its common stock and preferred stock holdings in Optex Systems Holdings to increase over time in order to pay its obligations under the promissory note. If the value of the holdings does not sufficiently increase, and Sileas is unable to meet its payment obligations, Longview could exercise its remedies with respect to its security interest and take control of the pledged stock, and thus there would be a change in control of Optex Systems Holdings, as Sileas is currently the majority owner of Optex Systems Holdings. There can be no guarantee that the investment objectives of Longview will be the same as those of Sileas or our other shareholders. In the event that control shifts to Longview from Sileas, Longview may vote its shares differently than Sileas would have voted under similar circumstances.

Public company compliance may make it more difficult to attract and retain officers and directors ..

The Sarbanes-Oxley Act of 2002 and new rules subsequently implemented by the SEC have required changes in corporate governance practices of public companies. As a public entity, Optex Systems Holdings expects these new rules and regulations to increase compliance costs in 2010 and beyond and to make certain activities more time consuming and costly. As a public entity, Optex Systems Holdings also expects that these new rules and regulations

may make it more difficult and expensive for Optex Systems Holdings to obtain director and officer liability insurance in the future and it may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for Optex Systems Holdings to attract and retain qualified persons to serve as directors or as executive officers.

We did not give separate notice by mailing to then current shareholders of Sustut of the written consent by Andrey Oks as the majority shareholder of the reorganization.

Section 228(e) of the Delaware General Corporation Law requires "[p]rompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders . . . who have not consented in writing." Prior management of Sustut did not give notice to the other then existing shareholders of Sustut of the written consent of Andrey Oks in lieu of a meeting of stockholders approving the reorganization on March 26, 2009 in compliance with Section 228(e). On April 3, 2009, current management filed a Form 8-K which detailed the transaction although it did not specifically mention approval of the transaction by Andrey Oks as the majority shareholder of Sustut. Potential ramifications of this lack of compliance with Section 228(e) could include possible inquiry or litigation from then existing shareholders of Sustut for failure of being made aware of the consent. To the knowledge of current management of Optex Systems Holdings, there have been no claims or inquiries made and/or any litigation filed by then current shareholders of Sustut for failure to receive notice under Section 228(e) of the Delaware General Corporation Law.

Risks Relating to the common stock

Optex Systems Holdings' stock price may be volatile.

The market price of Optex Systems Holdings' common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond Optex Systems Holdings' control, including the following:

- additions or departures of key personnel;
- limited "public float" following the reorganization, in the hands of a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for the common stock;
- operating results that fall below expectations;
- economic and other external factors, including but not limited to changes in federal government military spending and the federal government procurement process; and
- period-to-period fluctuations in Optex Systems Holdings' financial results.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of Optex Systems Holdings' common stock.

There is currently no liquid trading market for Optex Systems Holdings' common stock and Optex Systems Holdings cannot ensure that one will ever develop or be sustained .

Our common stock is currently approved for quotation on the OTC Bulletin Board trading under the symbol OPXS.OB. However, there is limited trading activity and not currently a liquid trading market. There is no assurance as to when or whether a liquid trading market will develop, and if such a market does develop, there is no assurance that it will be maintained. Furthermore, for companies whose securities are quoted on the Over-The-Counter Bulletin Board maintained by the National Association of Securities Dealers, Inc., it is more difficult (1) to obtain accurate quotations, (2) to obtain coverage for significant news events because major wire services generally do not publish press releases about such companies, and (3) to raise needed capital. As a result, purchasers of Optex Systems

Holdings' common stock may have difficulty selling their shares in the public market, and the market price may be subject to significant volatility.

Offers or availability for sale of a substantial number of shares of Optex Systems Holdings' common stock may cause the price of Optex Systems Holdings' common stock to decline or could affect Optex Systems Holdings' ability to raise additional working capital.

Under Rule 144(i)(2), Optex Systems Holdings' stockholders can avail themselves of Rule 144 and commence selling significant amounts of shares into the market one year after the filing of "Form 10" information with the SEC as long as the other requirements of Rule 144(i)(2) are met. While affiliates would be subject to volume limitations under Rule 144(e), which is one percent of the shares outstanding as shown by our then most recent report or statement published, nonaffiliates would then be able to sell their stock without volume limitations. If Optex Systems Holdings' current stockholders seek to sell substantial amounts of common stock in the public market either upon expiration of any required holding period under Rule 144 or pursuant to an effective registration statement, it could create a circumstance commonly referred to as "overhang," in anticipation of which the market price of Optex Systems Holdings' common stock could decrease substantially. The existence of an overhang, whether or not sales have occurred or are occurring, could also make it more difficult for Optex Systems Holdings to raise additional financing in the future through sale of securities at a time and price that Optex Systems Holdings deems acceptable.

The date on which current shareholders can sell a substantial amount of shares into the public market would be the earlier of the date on which the registration statement is effective and one year anniversary of the date on which all Form 10 information is deemed by the SEC to be filed (September 28, 2009), which would then allow sales under Rule 144. The amount of shares then available would be 11,784,177 shares (all of those being registered for resale under the prospectus) and 8,131,667 shares (under Rule 144, which are the remaining shares of common stock underlying warrants purchased in the private placement which took place just prior to the reorganization) respectively.

The elimination of monetary liability against Optex Systems Holdings' directors, officers and employees under Delaware law and the existence of indemnification rights to Optex Systems Holdings' directors, officers and employees may result in substantial expenditures by Optex Systems Holdings and may discourage lawsuits against Optex Systems Holdings' directors, officers and employees.

Optex Systems Holdings' certificate of incorporation does not contain any specific provisions that eliminate the liability of directors for monetary damages to Optex Systems Holdings and Optex Systems Holdings' stockholders; however, Optex Systems Holdings provides such indemnification to its directors and officers to the extent provided by Delaware law. Optex Systems Holdings may also have contractual indemnification obligations under its employment agreements with its executive officers. The foregoing indemnification obligations could result in Optex Systems Holdings incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which Optex Systems Holdings may be unable to recoup. These provisions and resultant costs may also discourage Optex Systems Holdings from bringing a lawsuit against directors and officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by Optex Systems Holdings' stockholders against Optex Systems Holdings' directors and officers even though such actions, if successful, might otherwise benefit Optex Systems Holdings and its stockholders.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits

(a) Exhibits

Exhibit

| No. | Description |
|------|--|
| 2.1 | Agreement and Plan of reorganization, dated as of the March 30, 2009, by and between registrant, a Delaware corporation and Optex Systems, Inc., a Delaware corporation (1). |
| 3.1 | Certificate of Incorporation, as amended, of Optex Systems Holdings, Inc. |
| 3.2 | Bylaws of Optex Systems Holdings (1). |
| 5.1 | Opinion as to Legality of the Shares (3) |
| 10.1 | Lease for 1420 Presidential Blvd., Richardson, TX (1). |
| 10.2 | Employment Agreement with Danny Schoening (1). |
| 10.3 | 2009 Stock Option Plan (1). |
| 10.4 | Form of Warrant (3) |
| 10.5 | Specimen Stock Certificate (3) |
| 10.6 | Contract W52H0905D0248 with Tank-automotive and Armaments Command, dated July 27, 2005 (2)* |
| 10.7 | Contract W52H0909D0128 with Tank-automotive and Armaments Command, dated March 24, 2009 (2)* |
| 10.8 | |

Contract W52H0905D0260 with Tank-automotive and Armaments Command,
dated August 3, 2005 (2)*

- 10.9 PO# 40050551 with General Dynamics, dated June 8, 2009 (2)*
- 10.10 Contract 9726800650 with General Dynamics, dated April 9, 2007 (2)*
- 10.11 Form of Subscription Agreement (5)
- 10.12 Single Source Supplier Purchase Orders with TSP Inc. (4)*
- 10.13 Single Source Supplier Purchase Orders with SWS Trimac (4)*
- 10.14 Single Source Supplier Purchase Orders with Danaher Controls (4)*
- 10.15 Single Source Supplier Purchase Orders with Spartech Polycast (4)*
- 14.1 Code of Ethics (1)
- 16 Letter re: Change in Certifying Accountant
- 21.1 List of Subsidiaries – Optex Systems, Inc. (1)

* Portions of this exhibit have been omitted pursuant to a confidential treatment request, and information regarding this confidential treatment request is being separately submitted to the Commission.

- (1) Incorporated by reference from our Current Report on Form 8-K dated April 3, 2009.
- (2) Incorporated by reference from our Amendment No. 1 to Registration Statement on Form S-1 filed on September 28, 2009
- (3) Incorporated by reference from our Registration Statement on Form S-1 filed on May 19, 2009
- (4) Incorporated by reference from our Amendment No. 2 to Registration Statement on Form S-1 filed on November 12, 2009
- (5) Incorporated by reference from our Form 10-K filed on January 11, 2009.

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

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: January 12, 2011

By: /s/ Stanley A. Hirschman
Stanley A. Hirschman
Principal Executive Officer

OPTEX SYSTEMS HOLDINGS, INC.

Date: January 12, 2011

By: /s/ Karen Hawkins
Karen Hawkins
Principal Financial Officer

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