

BIOTIME INC
Form DEFA14A
September 17, 2009

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement Soliciting Material Under Rule 14a-12
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials

BIOTIME, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which

the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or

schedule and the date of its filing.

1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Dear Shareholder:

We are pleased to report that during the past 18 months BioTime has made significant progress in expanding our business into the emerging field of regenerative medicine, by raising new equity, and by strengthening our management and research team.

By way of background, the term "regenerative medicine" was coined a decade ago to refer to the potential use of human embryonic stem (hES) cells-derived products to treat disease. Because medicine has had limited ability to replace lost tissues or restore tissue and organ function, doctors have not been able to effectively treat and cure many degenerative diseases such as those that accompany normal aging, and diseases like Parkinson's caused by the loss of dopaminergic neurons of the brain, arthritis caused by the loss of cartilage cells in our joints, and heart failure caused by the loss of heart muscle. But now regenerative medicine offers the hope that we might find a way to use hES-derived progenitor cells to replace damaged or diseased tissues and restore organ function by unlocking the potential of hES cells to transform into specific, healthy and functional bodily tissues.

The use of hES cells derived from human embryos has been the subject of moral and ethical concern. However a recent breakthrough following on the heels of the discovery of hES cells may allow scientists to create cells having the characteristics of hES cells without the destruction of human embryos. This new technology, called induced pluripotent stem (iPS) cell technology, may permit ordinary bodily cells, such as those from the skin, to be transformed back into the same primitive state as the hES cells from which we developed. The use of iPS technology may one day permit biotechnology companies like BioTime to manufacture healthy, functional cells that can be used to replace the damaged or diseased cells of a patient's bodily organs. For example, iPS technology might be used to treat arthritis by enabling a patient to grow new cartilage in an affected joint. Since these cells could be produced from the patient's own skin cells they would not be expected to be rejected by the immune system as foreign.

Despite these advances, the manufacture of human therapeutic products suitable for clinical trials has been slowed by a relative paucity of technologies to yield highly purified and fully characterized cell types from hES cells that are capable of producing specific bodily organ or tissue cells in the laboratory dish. Our scientists have provided leadership in tackling this problem by generating more than 140 diverse highly purified and scalable primitive human embryonic progenitor cell (hEPC) lines using a technology called ACTCellerate[®] licensed from Advanced Cell Technology, Inc. ACTCellerate[®] may also be used to generate hEPC lines from patient-specific iPS cells. hEPCs are intermediate in the developmental process between hES cells and fully differentiated cells. The potential for hEPCs to become a wide array of cell types makes them an

attractive tool for use in stem cell research, drug discovery, and potentially in the development of products for use in human regenerative stem cell therapy.

We are pleased to report that we were successful in acquiring these above-mentioned technologies on favorable terms. We are now using these technologies along with technologies developed by BioTime itself to produce hEPC lines that we are marketing as research products for use in drug discovery, stem cell biology, and the development of therapeutic products. We are developing and marketing these hEPC lines and other products for the research market through our wholly owned subsidiary, Embryome Sciences, Inc. In July 2009, Embryome Sciences entered into a co-marketing agreement with Millipore Corporation through which Millipore became our worldwide distributor of designated Embryome Sciences hEPC lines as well as the growth media used by researchers to grow these cells in the laboratory.

In recognition of BioTime's technology in regenerative medicine, in April 2009 we were awarded a \$4.7 million grant from the California Institute for Regenerative Medicine (CIRM) to fund research related to our ACTCellerate technology and hEPC lines. The overall objective of the research to be funded by this grant is to generate tools useful in applying ACTCellerate technology to the manufacture of patient-specific therapeutic products. We believe that there is a significant business opportunity in both the research and therapeutic sector for marketing the hundreds of human cell types that come from stem cells. However, one of the greatest challenges for stem cell researchers is to identify methods to isolate the many hundreds of human cell types in a purified state. The new grant funds awarded by CIRM will be used by BioTime to industrialize the manufacture of the purified cell types for therapeutic applications. Together with collaborators at the Burnham Institute for Medical Research, we will be building technologies to generate numerous cell types with higher levels of purity and identity. Both BioTime and CIRM anticipate that the funded research may accelerate the translation of bench top science to bedside treatments for presently incurable diseases.

While revenues from our stem cell research products are still in the early stage, BioTime's revenues in 2008 continued to increase primarily from royalties and licensing fees related to the sale of Hextend®, our plasma volume expander product. Total revenue for the year ended December 31, 2008 was \$1.5 million, which included \$1.2 million in royalties from the sale of Hextend. Hextend is a physiologically balanced blood plasma volume expander indicated for the treatment of hypovolemia or low blood volume caused by blood loss during surgery or injury. Hextend continues to be marketed successfully to leading hospitals, teaching universities, HMO's, and the United States Armed Forces where it is part of the Tactical Combat Casualty Care Protocol.

We have been able to substantially strengthen our financial position during 2009 by raising \$8 million through the sale of common shares and share purchase warrants, and by eliminating all but \$150,000 of our line of credit debt by completing an exchange offer with our revolving line of credit lenders who exchanged their line of credit notes for our common shares. In addition, we have the potential of raising an additional \$25 million if all of our outstanding stock purchase warrants are exercised at \$2.00 per share. These

warrants expire October 31, 2010. An additional goal of the Company is to become listed on a national securities exchange.

In addition to expanding our business and strengthening our balance sheet, we have been fortunate to add Neal C. Bradsher, Arnold I. Burns, Abraham E. Barry Cohen, Alfred D. Kingsley, and Pedro Lichtinger to our Board of Directors. Dr. Robert Butler was also appointed to the Board on July 31, 2008. These executives bring to BioTime a wealth of experience in corporate finance, corporate governance, and the pharmaceutical industry. At the Annual Meeting of Shareholders, two of our founders, Dr. Hal Sternberg and Dr. Harold Waitz, will retire from the Board after nearly 19 years of service. Their retirement as directors will provide our Board with a majority of independent directors consistent with our goal of listing our shares on a national securities exchange. Dr. Sternberg and Dr. Waitz will continue to work for us in their current roles as Vice President Research and Vice President Regulatory/Quality Control, respectively.

A recent addition to our management team, Dr. Walter Funk, joined us as Vice President Stem Cell Research. Dr. Funk will participate in the management of our team of scientists developing new stem cell products for use in research and in therapies for human diseases. Dr. Funk has over 15 years experience in the biotechnology industry and was one of the first scientists to join Geron Corporation, where he participated in the isolation of the telomerase gene which allows certain cells, such as embryonic stem cells, to proliferate without aging. We are excited to have Dr. Funk as part of the BioTime team and believe his expertise will help us reach our goal of leading the emerging industry of regenerative medicine.

In summary, our goal at BioTime is to become a leader in the emerging field of regenerative medicine. Our late founder, Dr. Paul Segall, had this vision for BioTime to address the most pressing health issues of our time, now based on the promise of regenerative medicine. We welcome you to join us at our first Annual Meeting of Shareholders at our new headquarters in Alameda, California. We are looking forward to meeting all that are able to attend.

Sincerely,

Michael D. West, Ph.D.
Chief Executive Officer

Alfred D. Kingsley
Chairman of the Board

September 15, 2009

Other Assets

Security Deposits

\$20,684 \$20,684

Intangibles

1,965,596 1,100,140

Goodwill

7,110,415 10,047,065

Total Other Assets

\$9,096,695 \$11,167,889

Total Assets

\$21,105,058 \$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.)
Consolidated Balance Sheets - Continued

	Successor September 27, 2009	Predecessor September 28, 2008
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 2,497,322	\$ 1,821,534
Accrued Expenses	671,045	798,974
Accrued Warranties	81,530	227,000
Accrued Contract Losses	1,348,060	821,885
Loans Payable	—	373,974
Income Tax Payable	—	4,425
Total Current Liabilities	\$ 4,597,957	\$ 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	\$ 4,597,957	\$ 10,684,091
Stockholders' Equity		
Optex Systems Holdings, Inc. – (par \$0.001, 200,000,000 authorized, 139,444,940 shares issued and outstanding as of September 27, 2009)	\$ 139,445	
Optex Systems Holdings, Inc. Preferred Stock (\$0.001 par 5,000 authorized, 1027 series A preferred issued and outstanding)		1
Optex Systems, Inc. – Texas Common Stock (no par 100,000 authorized, 18,870 shares issued and 10,000 shares outstanding)		164,834
Optex Systems, Inc. – Texas Treasury Stock (8,870 shares at cost)		— (1,217,400)
Additional Paid-in-capital	16,643,388	15,246,282
Retained Earnings (Deficit)	(275,733)	(5,910,700)
Total Stockholders' Equity	\$ 16,507,101	\$ 8,283,016
Total Liabilities and Stockholders' Equity	\$ 21,105,058	\$ 18,967,107

The accompanying notes are an integral part of these financial statements

Optex Systems Holdings, Inc.
(formerly known as Sustut Exploration, Inc.)
Consolidated Statements of Operations

	Successor For the period October 15, 2008 through September 27, 2009	Predecessor For the period September 29, 2008 through October 14, 2008	Predecessor Twelve Months ended September 28, 2008
Revenues	\$ 26,708,799	\$ 871,938	\$ 20,017,209
Total Cost of Sales	24,073,449	739,868	18,164,019
Gross Margin	\$ 2,635,350	\$ 132,070	\$ 1,853,190
General and Administrative			
Salaries and Wages	\$ 644,861	\$ 22,028	\$ 910,854
Employee Benefits & Taxes	227,315	495	190,489
Employee Stock/Option Bonus Plan	39,528	(4,812)	378,716
Amortization of Intangible	404,634	—	223,491
Rent, Utilities and Building Maintenance	210,258	12,493	228,694
Investor Relations	203,696	—	—
Legal and Accounting Fees	434,309	360	223,715
Consulting and Contract Service Fees	220,090	10,527	325,723
Travel Expenses	47,595	—	135,821
Corporate Allocations	—	—	2,076,184
Board of Director Fees	125,000	—	—
Asset Impairment of Goodwill	—	—	1,586,416
Other Expenses	282,136	16,155	227,336
Total General and Administrative	\$ 2,839,422	\$ 57,246	\$ 6,507,440
Operating Income (Loss)	\$ (204,072)	\$ 74,824	\$ (4,654,251)
Other Expenses			
Other Income and Expense	\$ —	\$ —	\$ (507)
Interest (Income) Expense - Net	170,078	9,492	199,753
Total Other	\$ 170,078	\$ 9,492	\$ 199,246
Income (Loss) Before Taxes	\$ (374,150)	\$ 65,332	\$ (4,853,496)
Income Taxes (Benefit)	(284,663)	—	(21,544)
Net Income (Loss) After Taxes	\$ (89,487)	\$ 65,332	\$ (4,831,952)
Less preferred stock dividend	\$ (186,246)	\$ —	\$ —
Net income (loss) applicable to common shareholders	\$ (275,733)	\$ 65,332	\$ (4,831,952)
Basic and diluted earnings (loss) per share	\$ (0.00)	\$ 6.53	\$ (483.20)

Weighted Average Common Shares Outstanding	126,290,753	10,000	10,000
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The accompanying notes are an integral part of these financial statements

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

	Successor For the period October 15, 2008 through September 27, 2009	Predecessor For the period September 29, 2008 through October 14, 2008	Predecessor Year ended September 28, 2008
Cash flows from operating activities:			
Net Income (Loss)	\$ (89,487)	\$ 65,332	\$ (4,831,952)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	2,161,486	9,691	760,801
Provision for (use of) allowance for inventory valuation	(146,266)	27,363	(102,579)
Noncash interest expense	159,780	9,500	200,000
(Gain) loss on disposal and impairment of assets	—	—	1,586,416
Stock Option Compensation Expense	39,528	—	—
(Increase) decrease in accounts receivable	(397,996)	1,049,802	(410,602)
(Increase) decrease in inventory (net of progress billed)	(2,483,686)	(863,566)	1,667,418
(Increase) decrease in other current assets	196,633	18,541	(290,435)
(Increase) decrease in deferred tax asset	(711,177)	—	—
Increase (decrease) in accounts payable and accrued expenses	733,453	(186,051)	(1,132,319)
Increase (decrease) in accrued warranty costs	(145,470)	—	227,000
Increase (decrease) in due to parent	—	1,428	2,312,280
Increase (decrease) in accrued estimated loss on contracts	541,479	(15,304)	(555,462)
Increase (decrease) in income taxes payable	—	—	(21,544)
Total adjustments	\$ (52,236)	\$ 51,404	\$ 4,240,974
Net cash (used in) provided by operating activities	\$ (141,723)	\$ 116,736	\$ (590,978)
Cash flows from investing activities:			
Cash Received through Optex Systems, Inc. (Texas) acquisition	\$ 253,581	\$ —	\$ —
Purchased of property and equipment	(13,824)	(13,338)	(117,566)
Net cash (used in) provided by investing activities	\$ 239,757	\$ (13,338)	\$ (117,566)
Cash flows from financing activities:			
Issuance of common stock for cash	\$ 1,024,529	\$ —	\$ —
Proceeds (to) from loans payable	(207,265)	(20,000)	373,974
Net cash (used in) provided by financing activities	\$ 817,264	\$ (20,000)	\$ 373,974
Net increase (decrease) in cash and cash equivalents	\$ 915,298	\$ 83,398	\$ (334,570)
Cash and cash equivalents at beginning of period	—	170,183	504,753
Cash and cash equivalents at end of period	\$ 915,298	\$ 253,581	\$ 170,183

The accompanying notes are an integral part of these financial statements

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

	Successor	Predecessor	Predecessor
	For the period	For the period	For the period
	October 15, 2008	September 29,	September 28,
	through	October 14,	September 28,
	September 27, 2009	2008	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

Additional Paid in Capital (6,000,000 Debt Retirement plus accrued interest of \$159,780)	\$ 6,159,780	—	—
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Issuance of Common shares in exchange for Investor Relations Services

Prepaid Expenses (1,030,000 shares issued at .001 par)	\$ 226,500	—	—
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Supplemental cash flow information:

Cash paid for interest	\$ 10,290	—	—
Cash paid for taxes	\$ 488,799	—	—

The accompanying notes are an integral part of these financial statements

Optex Systems Holdings, Inc.
(formerly known as Sustut Exploration, Inc.)
Consolidated Statement of Stockholders' Equity

	Common Shares Outstanding	Series A Preferred Shares	Common Stock	Preferred Series A Stock	Treasury Stock Optex 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
Cancellation of Investor Relations Stock	(700,000)		(700)			(104,300)		(105,000)
Investor Relations Common Stock Issued	480,000		480			143,520		144,000
Issuance of Common Stock	750,000		750			149,250		150,000
Conversion of 6,000,000 Debt and Interest to Series A preferred shares		1,027		1		6,159,780		6,159,781
Sustut Exploration	17,449,991		17,450			170,050		187,500

Reorganization									
Stock Option Compensation Expense									
		—	—	—	—	39,528		—	39,528
Private Placement Sale of Stock	8,131,667	—	8,132	—	—	1,012,647		—	1,020,779
Accumulated Dividends on Preferred Stock						186,246	(186,246)		—
Net Earnings (Loss) from continuing operations		—	—	—	—	—	(89,487)		(89,487)
Balance at September 27, 2009	139,444,940	1,027	\$ 139,445	\$ 1	\$	—\$ 16,643,388	\$ (275,733)	\$	16,507,101

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.

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 a wholly-owned subsidiary of Optex Systems Holdings', 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 Corporation, 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 FASB ASC 805 (Prior authoritative literature: SFAS No. 141(R), "Business Combinations" and EITF 98-3 "Determining Whether a Non-monetary Transaction Involves Receipt of Productive Assets or of a Business") Optex Systems, Inc. (Delaware)'s purchase of substantially all of the assets and assumption of certain liabilities represented the acquisition of a business. FASB ASC 805 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 Corporation., a newly-formed Delaware corporation, owned by present members of Optex Systems Holdings' 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. 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 73.52% 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 its wholly-owned subsidiary, 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.

Optex Systems Holdings' operations are based in Richardson, Texas in a leased facility comprising 49,100 square feet. As of September 27, 2009, Optex Systems Holdings operated with 107 full-time equivalent employees.

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 September 27, 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.

The accompanying financial statements for the balance sheet as of September 28, 2008 and the results of operations and cash flows for the period ending September 28, 2008 include the historical accounts of Optex Systems, Inc. (Texas). These financial statements have been presented as subsidiary-only financial statements, reflecting the balance sheets, results of operations and cash flows of the subsidiary as a stand-alone entity.

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 FASB ASC 805-50-S99 (Prior authoritative literature: Staff Accounting Bulletin No. 54 Application of "Push Down" Basis of Accounting in Financial Statements of Subsidiaries Acquired by Purchase). FASB ASC 805-50-S99 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.

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.

Segment Reporting: Management has determined that Optex Systems Holdings, Inc. is organized, managed and internally reported as one business segment. Segments are determined based on differences in products, internal reporting and how operational decisions are made.

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Fiscal Year: Optex's fiscal year ends on the Sunday nearest September 30. Fiscal year 2009 ended on September 27, 2009 and included 52 weeks. Fiscal year 2008 ended on September 28, 2008 and included 52 weeks.

Fair Value of Financial Instruments: FASB ASC 825-10 (Prior authoritative literature: FASB No. 107, "Disclosures about Fair Value of Financial Instruments"), requires disclosure of fair value information about certain financial instruments, including, but not limited to, cash and cash equivalents, accounts receivable, refundable tax credits, prepaid expenses, accounts payable, accrued expenses, notes payable to related parties and convertible debt-related securities. Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of fiscal years ended September 27, 2009 and September 28, 2008. The carrying value of the balance sheet financial instruments included in Optex Systems, Inc. (Texas)'s consolidated financial statements approximated their fair values.

Cash and Cash Equivalents: For financial statement presentation purposes, Optex considers those short-term, highly liquid investments with original maturities of three months or less to be cash or cash equivalents.

Concentration of Credit Risk: Optex's cash and cash equivalents are on deposit with banks. Only a portion of the cash and cash equivalents would be covered by deposit insurance and the uninsured balances are substantially greater than the insured amounts. Although cash and cash equivalent balances exceed insured deposit amounts, management does not anticipate non-performance by the banks.

Optex revenues and accounts receivables are derived from sales to U.S. government agencies (51%), General Dynamics (46%) or other prime government contractors (3%). Optex does not believe that this concentration results in undue credit risk because of the financial strength of the payees.

Accounts Receivable: Optex records its accounts receivable at the original sales invoice amount less shipment liquidations for previously collected advance/progress bills and an allowance for doubtful accounts. An account receivable is considered to be past due if any portion of the receivable balance is outstanding beyond its scheduled due date. On a quarterly basis, Optex evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on its history of past write-offs and collections, and current credit conditions. No interest is accrued on past due accounts receivable. As the customer base is primarily U.S. government and government prime contractors, Optex has concluded that there is no need for an allowance for doubtful accounts for the years ended September 27, 2009 and September 28, 2008. Optex charges uncollectible accounts to bad debt expense in the period as they are first deemed uncollectible. In 2009, Optex Systems Holdings recorded \$35,297 in bad debt expense attributable to one customer that went out of business.

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. As of September 27, 2009, and September 28, 2008 inventory included:

	Successor As of September 27, 2009	Predecessor As of September 28, 2008
Raw Materials	\$ 7,161,241	\$ 5,575,520

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Work in Process	4,043,308		4,199,657
Finished Goods	245,056		28,014
Gross Inventory	\$ 11,449,605	\$	9,803,191
Less:			
Unliquidated Progress Payments	(2,880,898)		(4,581,736)
Inventory Reserves	(554,826)		(673,729)
Net Inventory	\$ 8,013,881	\$	4,547,726

Warranty Costs: Some of Optex Systems Holdings' customers require that the company warrant the quality of its products to meet customer requirements and be free of defects for up to fifteen months subsequent to delivery.. In the year ended September 27, 2009, Optex Systems Holdings, Inc. recognized income of \$145,470 for unrecognized warranty costs due to an improvement in the warranty experience rate related to warranties expiring in fiscal 2009. In the year ended September 28, 2008, Optex Systems, Inc. (Texas) incurred \$227,000 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 repair or replacement, in addition to estimated future warranty costs for covered shipments occurring during the fifteen months proceeding September 28, 2008. Future warranty costs are based on the estimated cost of replacement for expected returns based upon our most recent experience rate of defects as a percentage of warranty covered sales.

Property and Equipment: Property and equipment are recorded at cost. Depreciation is computed using the straight line method over the estimated useful lives of the assets, ranging from three to seven years. Expenditures for renewals and betterments are capitalized. Expenditures for minor items, repairs and maintenance are charged to operations as incurred. Gain or loss upon sale or retirement due to obsolescence is reflected in the operating results in the period the event takes place.

Goodwill and Other Intangible Assets: Goodwill represents the cost of acquired businesses in excess of fair value of the related net assets at acquisition. (See also notes 4 and 11). Optex Systems Holdings does not amortize goodwill, but tests it annually for impairment using a fair value approach during the fiscal fourth quarter and between annual testing periods, if circumstances warrant. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. We generally determine the fair value of our reporting units using the income approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies, which requires significant judgment by management. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill. These impairment tests may result in impairment charges that could have a material adverse impact on our results of operations. The goodwill of Optex Systems Holdings, Inc. was reviewed as of September 27, 2009 and based on the assessment, it was determined that no impairment was required.

Optex amortizes the cost of other intangibles over their estimated useful lives, unless such lives are deemed indefinite. Amortizable intangible assets are tested for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values. The identified amortizable intangible assets at September 27, 2009 derived from the acquisition of Optex Systems, Inc. (Delaware) from Irvine Sensors as of October 14, 2008 and consisted of customer backlog, with initial useful lives ranging from one to five years. (See note 4 and 11). The identified amortizable intangible assets at September 28, 2008 derived from the acquisition of Optex Systems, Inc. (Texas) by Irvine Sensors and consisted of non-competition agreements and customer backlog, with initial useful lives ranging from two to eight years. (See note 4 and 11).

Intangible assets with indefinite lives are tested annually for impairment, during the fiscal fourth quarter and between annual periods, if impairment indicators exist, and are written down to fair value as required.

Impairment or Disposal of Long-Lived Assets: Optex Systems Holdings adopted the provisions of FASB ASC 360-10 (Prior authoritative literature FASB No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets.") This standard requires, among other things, that long-lived assets be reviewed for potential impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pre-tax

cash flows (undiscounted and without interest charges) of the related operations. If these expected cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The primary measure of fair value is based on discounted cash flows. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

Revenue Recognition:

Optex Systems Holdings recognizes revenue based on the modified percentage of completion method utilizing the units-of-delivery method, in accordance with FASB ASC 605-35 (Prior authoritative literature: SOP 81-1 "Accounting for Performance of Construction-Type and certain Production-Type Contracts"):

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.

Optex Systems Holdings contracts are fixed price production type contracts whereby a defined order quantity is delivered to the customer during a continuous or sequential production process tailored to the buyer's specifications (build to print). Optex Systems Holdings' deliveries against these contracts generally occur in monthly increments across fixed delivery periods spanning from 3 to 36 months.

Estimated Costs at Completion and Accrued Loss on Contracts: Optex Systems Holdings 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 at completion. Estimates at completion include Optex Systems Holdings' 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 estimates at completion of the particular contract or product order.

For the fiscal years ended September 27, 2009 and September 28, 2008, estimated loss reserves were \$1,348,060 and \$821,885, respectively. Increases in estimated loss reserves from fiscal 2008 to fiscal 2009 of \$526,175 were primarily attributable to unanticipated increases in material and production costs encountered in 2009 due to manufacturing issues on our U.S. government Howitzer programs.

Government Contracts: Virtually all of Optex Systems Holdings' contracts are prime or subcontracted directly with the Federal government and as such, are subject to Federal Acquisition Regulation (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 prime military contracts and are generally, "flowed down" to Optex Systems Holdings as subcontractors on other military business. It has been Optex Systems Holdings' experience that the termination for convenience is rarely invoked, except where it has been mutually beneficial for both parties. Optex Systems Holdings is not currently aware of any pending terminations for convenience or default on its existing contracts.

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, Optex Systems Holdings could be liable for any excess cost incurred by the government to acquire supplies from another supplier similar to those terminated from Optex Systems Holdings. Optex Systems Holdings 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 Optex Systems Holdings 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 Optex Systems Holdings has specifically produced or acquired for the terminated portion of this contract. The government shall pay contract price for completed supplies delivered and accepted, and Optex Systems Holdings 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, Optex Systems Holdings may receive orders subject to subsequent price negotiation on contracts exceeding the \$650,000 federal government simplified acquisition threshold. These “undefinitized” contracts are considered firm contracts but as Cost Accounting Standards Board covered contracts, they are subject to the Truth in Negotiations Act disclosure requirements and downward only price negotiation. As of September 27, 2009 and September 28, 2008 zero and approximately \$4.0 million of booked orders fell under this criteria. Optex Systems Holdings’ experience has been that the historically negotiated price differentials have been immaterial and accordingly, it does not anticipate any significant downward adjustments on these booked orders.

Shipping and Handling Costs: All shipping and handling costs are included as a component of Cost of Goods sold.

Stock-Based Compensation: In December 2004, FASB issued FASB ASC 718 (Prior authoritative literature: SFAS No. 123R, “Share-Based Payment”). FASB ASC 718 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. FASB ASC 718 focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. FASB ASC 718 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.

Optex Systems Holdings’ accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of FASB ASC 505-50 (Prior authoritative literature: 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 FASB ASC 718

Income Tax/Deferred Tax: FASB ASC 740 (Prior Authoritative Literature: SFAS No. 109, “Accounting for Income Taxes”), requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities

are determined based on differing treatment of items for financial reporting and income tax reporting purposes. The deferred tax balances are adjusted to reflect tax rates by tax jurisdiction, based on currently enacted tax laws, which will be in effect in the years in which the temporary differences are expected to reverse. Optex Systems Holdings has recognized deferred income tax benefits on net operating loss carry-forwards to the extent Optex Systems Holdings believes it will be able to utilize them in future tax filings.

Earnings per Share: 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 common share gives effect to the assumed exercise of stock options when dilutive. 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. It is also assumed that outstanding common shares were increased by shares issuable upon exercise of those stock options for which market price exceeds the exercise price, less shares which could have been purchased by us with the related proceeds. In period of losses, diluted loss per share is computed on the same basis as basic loss per share as the inclusion of any other potential shares outstanding would be anti-dilutive.

If Optex Systems Holdings had recorded income applicable to common shareholders for the period October 15, 2008 through September 27, 2009, weighted average number of common shares outstanding would have increased by 42,570,745 shares, reflecting the addition of dilutive securities in the calculation of diluted earnings per share. There were no dilutive convertible securities for the 2008 fiscal year.

Note 3 - Recent Accounting Pronouncements

In June 2008, FASB issued FASB ASC 260-10-55 (Prior authoritative literature: FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities"). FASB ASC 260-10-55 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. FASB ASC 260-10-55 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 FASB ASC 260-10-55 to have a material effect on Optex Systems Holdings' financial statements.

In May 2009, FASB issued FASB ASC 855-10 (Prior authoritative literature: SFAS No. 165, "Subsequent Events"). FASB ASC 855-10 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. FASB ASC 855-10 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 FASB ASC 855-10 did not have a material effect on Optex Systems Holdings' financial statements.

In June 2009, FASB issued ASC 105-10 (Prior authoritative literature: SFAS No. 168, "The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162"). FASB ASC 105-10 establishes the FASB Accounting Standards Codification TM (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. FASB ASC 105-10 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. Adoption of FASB ASC 105-10 did not have a material effect on Optex Systems Holding's financial statements.

In June 2006, FASB issued FASB ASC 740-10 (Prior authoritative literature: FASB 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 " . FASB ASC 740-10 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. FASB ASC 740-10 is effective for fiscal years beginning after December 15, 2006. The adoption of FASB ASC 740-10 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 ASC 820-10 (Prior authoritative literature: FASB Statement 157, “Fair Value Measurements”). FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. FASB ASC 820-10 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, FASB ASC 820-10 does not require any new fair value measurements. However, for some entities, the application of FASB ASC 820-10 will change current practice. The changes to current practice resulting from the application of FASB ASC 820-10 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 ASC 820-10 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 ASC 820-10 did not have a material impact on Optex Systems Holdings’ financial position, results of operations, or cash flows.

In February 2007, FASB ASC 825-10 (Prior authoritative literature: 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 were effective as of the beginning of fiscal year 2008, with early adoption permitted. The adoption of FASB ASC 825-10 did not have a material impact on Optex Systems Holdings’ financial position, results of operations, or cash flows.

In March 2007, FASB ASC 715-60 (Prior authoritative literature: EITF Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements"). FASB ASC 715-60 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. FASB ASC 715-60 is effective for fiscal years beginning after December 15, 2007. The adoption of FASB ASC 715-60 did not have a material impact on Optex Systems Holdings’ financial position, results of operations, or cash flows.

In December 2007, FASB issued FASB ASC 805 (Prior authoritative literature: SFAS No. 141(R), “Business Combinations”) and FASB ASC 810-10-65 (Prior authoritative literature: 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. FASB ASC 805 and FASB ASC 810-10-65 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 FASB ASC 805 and FASB ASC 810-10-65 on its financial statements.

In December 2007, the SEC issued FASB ASC 718-10-S99-1 (Prior authoritative literature: Staff Accounting Bulletin No. 110). FASB ASC 718-10-S99-1 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. FASB ASC 718-10-S99-1 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 FASB ASC 815-10 (Prior authoritative literature: SFAS No. 161, " Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133”). FASB ASC 815-10 requires enhanced disclosures about an entity’s derivative and hedging activities. FASB ASC 815-10 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 27, 2009. The adoption of FASB ASC 815-10 did not have a material impact Optex Systems Holdings' financial position, results of operations, or cash flows.

In May 2008, FASB issued FASB ASC 944 (Prior authoritative literature: SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60"). FASB ASC 944 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. FASB ASC 944 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 FASB ASC 944 on its financial statements but does not expect it to have a material effect.

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), 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) together 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.

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 of \$159,780 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). Currently, 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 such a major transaction occurs prior to the maturity date resulting in the Sileas receiving net consideration with a fair market value in excess of the principal and interest due under the terms of the 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 the 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 Optex Systems Holdings 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 Optex Systems Holdings 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 Optex Systems Holdings 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 closing of the reorganization consisted of 17,449,991 shares which included 1,250,000 shares issued on March 27, 2009 as payment for Investor Relations Services. On June 29, 2009, 700,000 of the issued investor relations shares were surrendered to Optex Systems Holdings and cancelled upon termination of one of the Investor Relations contracts.

Private Placement

Prior to the closing of the reorganization agreement, as of March 30, 2009, Optex Systems, Inc. (Delaware) 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, Inc. (Delaware) 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, 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, 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	16,229,143
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 issuance of 1,250,000 Sustut shares by Sustut prior to March 30, 2009. The original prepaid expense covered April 2009 through April 2010. On June 29, 2009 700,000 of these shares were returned to Optex Systems Holdings due to the cancellation of one of the investor relations agreements. The amortized expense related to the remaining 550,000 shares has been reflected on the Consolidated Statement of Operations for Optex Systems Holdings as expensed.

The expenses reflected by Optex Systems Holdings on its Statement of Operations were increased by \$63,750 for fiscal year 2009 and are expected to increase for 2010 by \$18,750 (as a non-cash expense) as a result of the issuance of the 1,250,000 shares for Investor Relations Services by Sustut and subsequent return of 700,000 shares to Optex Systems Holdings and are carried on the Optex Systems Holdings' Balance Sheet as a prepaid expense. The same Investor Relations agreements also called for an aggregate cash payment \$36,000 for 2009. Therefore, the total pre-tax impact of the agreements for Investor Relations Services was \$99,750 for fiscal 2009 including both the cash expense

and the amortization of the prepaid expense which is carried on the Condensed Consolidated Balance Sheet of Optex Systems Holdings.

The accompanying unaudited pro forma financial information for the consolidated successor and predecessor year ended September 27, 2009 and successor year ended September 28, 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 fiscal years ended September 27, 2009 and September 28, 2008 as if the acquisition of Optex Systems, Inc. (Texas) and the reorganization had occurred on the first day of each of the fiscal years.

	Unaudited, Pro forma Years Ended	
	September 27, 2009	September 28, 2008
Revenues	\$ 27,580,737	\$ 20,017,209
Net Income (Loss) applicable to common shareholders	\$ (\$362,149)	\$ (4,461,601)
Diluted earnings per share	\$ (0.00)	\$ (0.03)
Weighted Average Shares Outstanding	139,045,625	138,914,940

The unaudited, 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 - Property and Equipment

A summary of property and equipment at September 27, 2009 and September 28, 2008 is as follows:

	Estimated Useful Life	Successor	Predecessor
		Year Ended September 27, 2009	Year Ended September 28, 2008
Property and Equipment			
Furniture and Equipment	3-5yrs	\$ 159,724	\$ 145,071
Machinery and Equipment	5 yrs	1,034,440	1,026,250
Leasehold Improvements	7 yrs	147,107	142,788
Less: Accumulated Depreciation		(1,094,526)	(994,542)
Net Property & Equipment		\$ 246,745	\$ 319,567
Depreciation Expense		\$ 99,984	\$ 164,434

Depreciation expense included in cost of goods sold and general and administrative expense for fiscal 2009 is \$61,628 and \$38,356 respectively. Depreciation expense included in cost of goods sold and general and administrative expense for fiscal 2008 is \$104,837 and 59,597, respectively.

Note 7 – Accrued Liabilities

The components of accrued liabilities for years ended September 27, 2009 and September 28, 2008 are summarized below:

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	Successor Year Ended September 27, 2009	Predecessor Year Ended September 28, 2008
Customer Advance Payments	\$ 80,753	\$ -
Deferred Rent Expense	27,860	84,435
Accrued Vacation	153,291	94,311
Property Taxes	17,532	17,557
Contract Settlement	-	351,217
Franchise Taxes	5,100	-
Operating Expenses	244,884	128,717
Payroll & Payroll Related	141,625	122,737
Total Accrued Expenses	\$ 671,045	\$ 798,974

Contract Settlement Costs represent amounts due to the U.S. government in relation to a progress billed contract that was cancelled prior to completion. The remaining government-owned (progress billed) materials on the contract were subsequently used to satisfy other existing and new contracts at full value, although the unliquidated progress payments for the original contract have yet to be refunded. Optex Systems, Inc. (Texas) settled the contract overpayment with the customer in fiscal year 2009. Accrued operating expenses include additional operating costs for estimated costs not yet invoiced or invoices not vouched into accounts payable as of year-end period close.

Note 8 - Commitments and Contingencies

Leases

As of September 27, 2009 Optex Systems Holdings leased 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 concluded negotiations on a new lease on the existing facilities effective as of January 4, 2010 (see subsequent events). Total expenses under the existing facility lease agreements as of the fiscal year ended September 27, 2009 was \$309,693. Total expenses for manufacturing and office equipment for fiscal year ended 2009 was \$2,726. Total expenses under these facility lease agreements for the fiscal year ended September 28, 2008 was \$313,032 and total expenses for manufacturing and office equipment was \$21,830.

At September 27, 2009, the remaining minimum lease payments under the non-cancelable operating leases for equipment, office and facility space were as follows:

Fiscal year	Operating Leases
2010	\$ 79,867
2011	16,753
2012	—
2013	—
Thereafter	—
Total minimum lease payments	\$ 96,620

Note 9 - Transactions with a Related Party

Corporate Cost Allocations: In accordance with government contracting regulations, Irvine Sensors Corporation was required to allocate some portion of its corporate general and administrative expense to its operating subsidiaries, such as Optex Systems Holdings. Irvine Sensors Corporation elected to use Cost Accounting Standards 403.40, a recognized government contract allocation methodology, to satisfy this requirement in which the proportional contribution of Optex to Irvine Sensors' total revenues, payroll expense and net book value of tangible assets determined a percentage of corporate general and administrative expense for allocation to Optex Systems Holdings. The Cost Accounting Standards Board allocation methodology was chosen as the most reasonable method because adequate historical information was not available at the time to allow for the use of alternative allocation methodologies.

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 were incurred and paid directly by Optex Systems, Inc. (Delaware) for the 2009 fiscal year, and have been reflected in the financial statements.

Due to Parent (Irvine Sensors Corporation): Due to Parent relates to expenses of Optex Systems, Inc. (Texas) incurred by or shared with Irvine Sensors and pushed down to Optex Systems, Inc. (Texas) through an intercompany payable account, "Due to Parent," during the fiscal year ended September 28, 2008. The ending balance as of September 28, 2008 represents the cumulative expenses incurred, net of any cash transfers made to/from Irvine Sensors since inception in January 2006. Significant amounts charged through this account include Irvine Sensors corporate cost allocations, legal expenses, accounting and audit fees, travel expenses, consulting fees, and insurance costs. As a result of the asset purchase on October 14, 2008 the balance was eliminated and no longer applicable to Optex Systems, Inc. (Texas) during the 2009 fiscal year.

Note 10 - Debt Financing

Related Parties

Note Payable/Timothy Looney - In January 2007, Irvine Sensors Corporation amended its earn-out agreement with Timothy Looney in consideration for Mr. Looney providing Optex Systems, Inc. (Texas) with a secured subordinated term note providing for advances of up to \$2 million, bearing interest at 10% per annum and maturing on the earlier of February 27, 2009 or sixty days after retirement of Irvine Sensors Corporation's senior debt. Aggregate advances of \$2 million were provided to Optex Systems, Inc. (Texas) in January 2007 pursuant to the secured subordinated term note, and the advances and accrued interest were outstanding at September 28, 2008. This Note was secured by the assets of Optex Systems, Inc. (Texas), but was subordinated to the liens of Alpha and Longview that were secured by the assets of Irvine Sensors Corporation, including Optex Systems, Inc. (Texas), its wholly-owned subsidiary. Following the public sale of the assets of Optex Systems, Inc. (Texas) to Optex Systems, Inc. (Delaware) on October 14, 2008, the entire \$2,000,000 Note Payable with accrued interest of \$345,648 remained a liability of Optex Systems, Inc. (Texas) and as such is not included in the Optex Systems Holdings, Inc. fiscal 2009 financial statements.

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 the 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). In the year ended 2009, Optex Systems paid \$459 against the principle balance recorded interest expenses and paid \$7,557 as a result of the interest accrued on the note prior to its

conversion to common stock.

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Short term note payable (Qioptic) - On November 20, 2008, Optex Systems, Inc. (Delaware) issued a promissory note to Qioptiq 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 including accrued interest expense of \$2,733, as of March 29, 2009.

Note 11 – Intangible Assets and Goodwill

Fiscal year ended September 27, 2009

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 (see Note 4). 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

Goodwill was tested for impairment as of September 27, 2009 using a fair value approach and based on the review no impairment was required.

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

The amortization of identifiable intangible assets associated with the Optex Systems Inc. (Texas) acquisition on October 14, 2008 expensed for fiscal year 2009 was \$2,071,194. The expenses split between manufacturing cost of sales and general and administrative cost were \$1,666,558 and \$404,635, respectively. The identifiable intangible assets and recorded goodwill are amortized over five years for book purposes and is deductible over 15 years for income tax purposes.. As of the year ended September 27, 2009, the total unamortized balance of intangible assets was \$1,965,596. The amortizable intangible assets were tested for impairment as of September 27, 2009 based on undiscounted cash flows and no impairment was required.

Identifiable intangible assets primarily consist of customer and program backlog. The remaining unamortized balance of intangible assets will be amortized between general and administrative expenses and costs of sales over their remaining respective estimated useful lives as follows:

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		2010	2011	2012	2013
Contracted backlog amortized by delivery schedule	COS	\$ 718,290	\$ 126,158	\$ 19,614	\$ 4,762
Contracted backlog amortized by delivery schedule	G&A	64,646	11,354	1,765	427
Program backlog amortized straight line across 5 years	G&A	254,645	254,645	254,645	254,645
Total Amortization by Year		\$ 1,037,581	\$ 392,157	\$ 276,024	\$ 259,834

Fiscal year ended September 28, 2008

On December 30, 2005, Irvine Sensors Corporation entered into an agreement with Optex Systems, Inc. (Texas) pursuant to which Irvine Sensors Corporation purchased 70% of the issued and outstanding common stock of Optex Systems, Inc. (Texas), thereby becoming its majority shareholder. On December 29, 2006, Irvine Sensors Corporation exercised a buyer option to acquire the remaining 30% ownership interest in Optex Systems, Inc. (Texas).

Optex Systems, Inc. (Texas) allocated the purchase consideration for the purchase to tangible and intangible assets acquired and liabilities assumed based on the valuation determinations made in connection with the initial acquisition of Optex Systems, Inc. (Texas) in December 2005 and the purchase of the remaining minority in December 2006 as shown in the following table, which sets forth the estimated amounts related to the acquisition of all of the issued and outstanding stock of Optex Systems, Inc. (Texas) by Irvine Sensors Corporation. The excess of the purchase price over such values is presented as goodwill in the accompanying balance sheet for the fiscal year ended September 28, 2008.

Assets:	
Current assets, consisting primarily of inventory of \$5,734,500 and accounts receivable of \$2,191,800	\$ 8,070,300
Identifiable intangible assets	3,180,000
Other non-current assets, principally property and equipment	455,100
Total assets	11,705,400

Liabilities:	
Current liabilities, consisting of accounts payable of \$1,638,600, tax liabilities of \$112,800 and accrued liabilities of \$682,100	2,433,481
Acquired net assets	9,271,919
Purchase price	
Total consideration to seller	\$ 19,865,400
Direct acquisition costs	1,040,000
	20,905,400
Excess purchase price reported as goodwill	\$ 11,633,481

Goodwill related to the Irvine Sensors Corporation acquisition of Optex Systems, Inc. (Texas) was reviewed as of September 28, 2008 and it was determined that an impairment charge of \$1,586,416 was required. The fair values assigned to the assets of Optex Systems, Inc. (Texas) and the goodwill was based upon the most recent value of Optex Systems, Inc. (Texas) as determined by the asset sale via public auction to third party purchasers on October 14, 2008.

Identifiable intangible assets as of September 28, 2008 included non-competition agreements and customer backlog, and were amortized over their respective estimated useful lives as follows:

	Useful Life in Years	Acquired Fair Value
Non-competition agreement	2	\$ 80,000
Contractual backlog	2	\$ 1,570,000
Program backlog	8	\$ 1,530,000

The amortization of identifiable intangible assets associated with the Optex Systems, Inc. (Texas) acquisition in fiscal 2008 was \$596,367. The identifiable intangible assets and recorded goodwill are deductible over 15 years for income tax purposes. As of the year ended September 28, 2008, the total unamortized balance of intangible assets was \$1,100,140.

The September 28, 2008 unamortized balance of intangible assets was estimated to be amortized as follows:

Year	Annual Amortization
2009	266,365
2010	204,490
2011	204,490
2012	204,490
2013	186,837
2014	33,468
Total	\$ 1,100,140

Note 12-Stock Based Compensation

On March 26, 2009, the Board of Directors adopted the 2009 Stock Option Plan providing for the issuance of up to 6,000,000 shares to Optex Systems Holdings officers, directors, employees and to independent contractors who provide services to Optex Systems Holdings.

Options granted under the 2009 Stock Option Plan vest as determined by the Board of Directors of Optex Systems Holdings or committee set up to act as a compensation committee of the Board of Directors and terminate after the earliest of the following events: (i) expiration of the option as provided in the option agreement, (ii) 90 days following the date of termination of the employee, or (iii) ten years from the date of grant (five years from the date of grant for incentive options granted to an employee who owns more than 10% of the total combined voting power of all classes of Optex Systems Holdings stock at the date of grant). In some instances, granted stock options are immediately exercisable into restricted shares of common stock, which vest in accordance with the original terms of the related options. Optex Systems Holdings recognizes compensation expense ratably over the requisite service period.

The option price of each share of common stock is determined by the Board of Directors or compensation committee (when one is established), provided that with respect to incentive stock options, the option price per share will in all cases be equal to or greater than 100% of the fair value of a share of common stock on the date of the grant, except an incentive option granted under the 2009 Stock Option Plan to a shareholder that owns more than 10% of the total combined voting power of all classes of Optex Systems Holdings' stock, will have an exercise price of not less than 110% of the fair value of a share of common stock on the date of grant. No participant may be granted incentive stock options, which would result in shares with an aggregate fair value of more than \$100,000 first becoming exercisable in one calendar year.

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 Optex Systems Holdings employees, including 250,000 shares to one 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 anticipates that only 1,174,786 of the 1,267,000 shares will vest as of the end of the contract term. As of September 27, 2009 none of the stock options had vested and 14,000 shares had been forfeited due to employee turnover.

Optex Systems Holdings recorded compensation costs for options and shares granted under the plan amounting to \$39,528 for the fiscal year ended September 27, 2009. There were no stock options or shares granted or outstanding prior to September 28, 2008, therefore no compensation expense was recorded in fiscal 2008. The impact of this expense was immaterial to the basic and diluted net loss per share for the fiscal year ended September 27, 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 year ended September 27, 2009 estimated deferred tax assets related to option compensation costs were \$13,440 and have been recorded for the tax effect of the financial statement expense. There was no tax effect of the income tax deduction in excess of the financial statement expense for 2009 related to these stock options. 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 - Merton option pricing model. The fair value of the underlying shares was determined based on the opening price of Optex Systems Holdings' publicly-traded shares as of September 28, 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 FASB ASC 718-10-S99-1 (Prior authoritative literature: Question 6 of SAB Topic 14.D.1). In making this determination and trying to find another comparable 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 sufficient 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 grant. 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 and the assumption that Optex Systems Holdings does not presently have any intention of paying cash dividends on its common stock. The following weighted-average assumptions were utilized in the fair value calculations for options granted:

Year ended
September 27, 2009

Expected dividend yield	0%
Expected stock price volatility	23.6%
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 09/27/09	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

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03/30/09	466,834	0.15	466,834	03/29/2016	03/30/2012
05/14/09	316,750	0.15	313,250	05/13/2016	05/14/2010
05/14/09	316,750	0.15	313,250	05/13/2016	05/14/2011
05/14/09	316,750	0.15	313,250	05/13/2016	05/14/2012
05/14/09	316,750	0.15	313,250	05/13/2016	05/14/2013
Total	2,681,649		2,667,649		

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 September 28, 2008	—	\$ —	—	—
Granted – 2009	2,681,649	\$ 0.21	5.14	\$ 563,146
Forfeited – 2009	(14,000)	\$ 0.21	5.14	(2,940)
Exercised – 2009	—	\$ —	—	—
Outstanding as of September 27, 2009	2,667,649	\$ 0.21	5.14	\$ 560,206
Exercisable as of September 27, 2009	0	\$ —	—	\$ —

The weighted-average grant date fair value of options granted during the year ended September 27, 2009 was \$0.14. The total intrinsic value of options exercised during the year ended September 27, 2009 was \$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 September 27, 2009	—	\$ —
Non-vested granted — year ended September 27, 2009	2,681,649	\$ 0.14
Vested — year ended September 27, 2009	—	\$ 0.00
Forfeited — year ended September 27, 2009	(14,000)	\$ —
Non-vested as of September 29, 2009	2,667,649	\$ 0.14

As of September 27, 2009, the unrecognized compensation cost related to non-vested share based compensation arrangements granted under the plan that was approximately \$320,973. 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 ended September 27, 2009 was \$0.0.

Total stock-based compensation expense of Optex Systems, Inc. (Texas) (Predecessor) associated with Irvine Sensors Corporation stock grants during fiscal years 2009 and 2008 was (\$4,812) and \$378,716, respectively. These amounts were pushed down by Irvine Sensors Corporation and charged to general and administrative expense for 2009 and 2008.

For the fiscal year ended September 27, 2009, Optex Systems issued 480,000 shares of common stock at a market value of \$0.30 per share for a total \$144,000 and paid \$150,000 cash to a vendor in support of an investor relations agreement executed on June 29, 2009. Pursuant to the agreement, the shares are earned over the life of the contract at the rate of 40,000 shares per month through June 2010. During 2009, Optex Systems expensed \$36,000 for shares earned and the unamortized balance of shares issued against the contract is \$108,000 to be expensed in fiscal year 2010.

There were no stock options issued to Optex Systems, Inc. (Texas) employees or equity instruments issued to consultants and vendors in fiscal 2008.

Note 13 – Stockholders Equity

Common stock:

Optex Systems, Inc. (Texas) was authorized to issue 100,000 shares of no par common stock. At September 28, 2008 there were 18,870 shares issued and 10,000 shares outstanding.

The common stock, treasury stock and additional paid in capital accounts have been presented to reflect the ownership structure of Optex Systems, Inc. (Texas) as it existed prior to the acquisition by Irvine Sensors Corporation, since Optex Systems, Inc. (Texas) is presenting its financial statements as a separate, stand-alone entity.

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), 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. both owned Optex Systems, Inc. (Delaware) until February 20, 2009, when Longview sold 100% of its equity interests in Optex Systems, Inc. (Delaware) to Sileas Corp., as discussed below.

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

Stock Split

On March 26, 2009, Optex Systems, Inc. (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 were split into 76,638,295 shares, and the 4,918,650 shares of common stock held by Arland Holdings, Ltd. were 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
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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 in connection with the private placement closed prior to the reorganization.

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

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

Optex Systems Holdings granted an officer at the consummation of the reorganization, options to purchase 1,414,649 shares with an 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 12 - 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. As of the year ended September 27, 2009 Optex Systems has recorded \$186,246 of dividends payable on Series A preferred shares.

Cancellation of Common Stock

On June 29, 2009 Optex cancelled an investor relations agreement resulting in the return of 700,000 shares of common stock previously issued by Sustut prior to the reverse Merger on March 30, 2009. The shares were valued at \$105,000, returned to Optex System Holdings, Inc., and then cancelled. (see also Note 12 on new investor relations shares issued).

Note 14 - Income Taxes

The income tax provision as of September 27, 2009 includes the following:

	2009	
Current income tax expense:		
Federal	\$	426,514
State		—
		426,514
Deferred income tax provision (benefit):		
Federal		(711,177)
State		—
Change in valuation allowance		—
		(711,177)
Provision for (Benefit from) income taxes, net	\$	(284,663)

The income tax provision for Optex Systems as of September 27, 2009 differs from those computed using the statutory federal tax rate of 34%, due to the following permanent differences:

	2009	%
Tax benefit at statutory federal rate	\$ (127,211)	34%
Nondeductible expenses	(157,452)	42%
	\$ (284,663)	76%

Deferred income taxes recorded in the balance sheets results from differences between financial statement and tax reporting of income and deductions. A summary of the composition of the deferred income tax assets (liabilities) follows:

	2009	
Stock Options	\$	13,440
Inventory Reserve		(40,427)
Unicap		54,494
Contract Loss Reserve		178,900
Fixed assets		(58,476)
Intangible Asset Amortization		612,707
Other		(49,461)
Subtotal	\$	711,177
Valuation allowance		—
Net deferred asset (liability)	\$	711,177

Optex Systems Holdings has no loss carryforwards available as of October 15, 2008.

As the result of the assessment of the FASB ASC 740-10 (Prior Authoritative Literature: FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109”), Optex Systems Holdings has no unrecognized tax benefits. By statute, the tax year ending in September 27, 2009 is open to

examination by the major taxing jurisdictions to which the Optex Systems Holdings is subject.

Cash paid for income taxes for the fiscal years ended September 27, 2009 and September 28, 2008 were \$488,799, and \$0, respectively.

As of September 28, 2008 Optex Systems, Inc. (Texas) had generated net losses for financial accounting purposes in the amount of approximately \$4,831,952. During this period Optex Systems, Inc. (Texas) was a member of a consolidated entity for tax reporting purposes. As such, any losses that would have qualified as net operating losses for federal income tax purposes as potential deductions were available to the consolidated entity. Such losses may have been utilized by the consolidated entity and are not available to Optex Systems, Inc. (Delaware) to offset its future taxable income. Additionally, since Optex Systems, Inc. (Texas) was acquired in a transaction effected as an asset purchase, Optex Systems, Inc. (Delaware) would only be entitled to tax deductions generated after the date of the acquisition. Accordingly, no deferred tax assets have been recorded in the accompanying financial statements for net operating losses generated by Optex Systems, Inc. (Texas). There was no provision for income taxes in fiscal 2008.

Note 15 — Subsequent Events

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.

Optex Systems Holdings has evaluated subsequent events for the period September 28, 2009 through January 11, 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.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.
None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of September 27, 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 on the evaluation and the identification of the material weaknesses in our internal control over financial reporting described below, our Principal Executive Officer and our Principal Financial Officer concluded that, as of September 27, 2009, our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Because of its inherent limitations, internal control over financial

reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has conducted, with the participation of our Principal Executive Officer and our Principal Financial Officer, an assessment, including testing of the effectiveness, of our internal control over financial reporting as of September 27, 2009. Management's assessment of internal control over financial reporting was conducted using the criteria in Internal Control over Financial Reporting - Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In connection with our management's assessment of our internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002, we have not identified any material weaknesses in our internal control over financial reporting as of September 27, 2009.

This annual report does not include an attestation report of Optex Systems Holdings' registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by Optex Systems Holdings' registered public accounting firm pursuant to temporary rules of the Commission that permit Optex Systems Holdings to provide only management's report in this quarterly report.

PART III

Item 10 Directors, Executive Officers and Corporate Governance

Directors and Executive Officers

The following table sets forth information regarding the members of our board of directors and our executive officers and other significant employees. All of our officers and directors were appointed on March 30, 2009, the closing date of the reorganization.

The following table sets forth certain information with respect to the directors and executive officers of Optex Systems Holdings:

Name	Age	Position
Stanley A. Hirschman	63	President, Secretary, Treasurer & Director
Merrick D. Okamoto	49	Director
Ronald F. Richards	43	Chairman of the Board
Danny Schoening	45	Chief Operating Officer
Karen L. Hawkins	44	Vice President of Finance and Controller

Stanley A. Hirschman. Mr. Hirschman served as a Director and President of Optex Systems, Inc. (Delaware) since September 28, 2008 and assumed the same roles on behalf of Optex Systems Holdings on March 30, 2009, in which roles he is committed to providing Optex his management experience and provides direction and oversight of other executive officers and management.

From 1997 to 2009, he was president of CPointe Associates, Inc., a Plano, Texas consulting group, and provided consulting services to small and medium sized companies. From March 2009 to October 2009, in order to meet his

responsibilities at Optex, he concluded his active role at CPointe. Additionally, since February 2009 he has been the majority beneficial owner of Sileas Corp (which has no active business), the majority shareholder of Optex Systems Holdings.

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Mr. Hirschman is a director of Datasension and Axion Power International where he serves on the Audit Committee. Prior to establishing CPointe Associates, he was Vice President Operations, Software Etc., Inc., a 396 retail store software chain, from 1989 until 1996. He has also held executive positions with T.J. Maxx, Gap Stores and Banana Republic. Mr. Hirschman is a member of the National Association of Corporate Directors, regularly participates in the KMPG Audit Committee Institute and is a graduate of the Harvard Business School Audit Committees in the New Era of Governance symposium. He is active in community affairs and serves on the Advisory Board of the Salvation Army Adult Rehabilitation Centers.

Merrick D. Okamoto. Mr. Okamoto has served Optex Systems Holdings as a Director since October 2008. In 2001, Mr. Okamoto co-founded Viking Asset Management, LLC and is the President and a Managing Member. Viking Asset manages the Longview Fund, LP and Longview Fund International, Ltd. Limited, partners in Viking's family of funds are comprised of institutions, private banks, family offices and high net worth individuals from around the world. Mr. Okamoto has completed financings for hundreds of public and private companies across a broad array of industries and sectors. In 1998, Mr. Okamoto co-founded and was the President of TradePortal.com, Inc. TradePortal.com, Inc. is a software development company and it's wholly owned subsidiary, TradePortal Securities, Inc., a direct access execution brokerage firm. Mr. Okamoto was instrumental in developing the proprietary Trade Matrix™ software platform. In 2000, TradePortal.com, Inc. sold a minority stake to Thomson Reuters (TRI:NYSE), a US \$12 billion revenue company. In 1995, he founded First Stage Capital, Inc. which specializes in investment banking and consulting to public and private companies. From 1983 to 1994, he was employed in the securities industry with Shearson Lehman Brothers, Prudential Securities and Paine Webber. Mr. Okamoto is widely recognized as an advanced trader specializing in short-term trading and has more than 25 years of extensive experience in technical market analysis techniques and has been a frequent speaker at national trading venues. From 1987 to 1990, he created and hosted the television program, The Income Report in Los Angeles . He has also appeared on CNN and The MacNeil-Lehrer Report.

Ronald F. Richards. Mr. Richards has been a director of Optex Systems Holdings since October 2008. Since January 2009, Mr. Richards has served Optex Systems Holdings as its Chairman of the Board. Mr. Richards is the founder and Managing Director of Gray Wolf Partners, LLC, a strategic and financial advisory firm. From February 2007 to October 2008, he served as a Managing Director of Viking Asset Management, LLC where his responsibilities included: (i) sourcing, conducting due diligence, and structuring potential investment opportunities and (ii) working with portfolio companies to enhance shareholder value. He previously served as Chief Financial Officer and Senior Vice President, Business Development of Biopure Corporation, a publicly traded biotechnology company developing oxygen therapeutics and as a Managing Director, Corporate Finance of Wells Fargo Van Kasper. Mr. Richards has over 21 years of experience working with public and private companies in the areas of investment banking, corporate finance, law and accounting. He has structured and executed numerous public offerings and private placements raising a total of more than \$660 million. He also co-authored PIPES: A CEO's Guide to Successful Private Placements in Public Equities. Mr. Richards holds JD, MBA and BA degrees from UCLA. He is a member of the State Bar of California and a retired Certified Public Accountant.

Danny Schoening. Mr. Schoening joined Optex Systems, Inc. (Texas) in January 2008. Upon the acquisition of the assets of Optex Systems, Inc. (Texas) by Optex Systems, Inc. (Delaware), Mr. Schoening became the COO of Optex Systems, Inc. (Delaware) (as of September 28, 2008) and he commenced service with Optex Systems Holdings as its Chief Operating Officer as of the date of the reorganization, March 30, 2009. He has been instrumental in establishing the systems and infrastructure required to continue Optex System's rapid growth. This activity was rewarded with Optex System's recent ISO9001:2000 Certification. From February 2004 to January 2008, Danny was the Vice President of Operations for The Finisar Corporation AOC Division for 4 years where he led a team of up to 200 employees to produce vertical cavity lasers for the data communications industry at production rates of hundreds of thousands of units per week. Prior to Finisar, Danny was the Director of Operations for multiple divisions of Honeywell International. Serving the Automotive, Medical, Aerospace, and Consumer Commercial Markets. During

this 17 year period, Danny was recognized with Honeywell's Lund Award, their highest award for developing employee resources. Danny has a broad experience level in the following technologies: Mechanical Assembly Processes, Micro-Electronic Assembly Processes, Laser Manufacturing, Plastic Molding, Metal Machining, Plating, Thick Film Printing, Surface Mount Technology, Hall Effect Technology and MEMS based Pressure Devices. Danny received a Bachelors of Science in Manufacturing Engineering Technology from the University of Nebraska, an MBA from Southern Methodist University, and holds three united States Patents.

Karen L. Hawkins. Ms. Hawkins has served Optex Systems Holdings as its Vice President, Finance and Controller, since the date of the reorganization, March 30, 2009 and was the controller of Optex Systems, Inc. (Delaware), effective September 28, 2009. She began her employment with Optex Systems, Inc. (Texas) in April 2007. Ms. Hawkins is a Certified Public Accountant since 1992 with over 22 years experience in Financial Accounting and Management, primarily focused in the Defense and Transportation Industries. She has a strong background in both Financial & Cost Accounting, with extensive Government Pricing, Financial Analysis, and Internal Auditing experience. Her past history also includes Program Management, Materials Management and Business Development. She brings over 14 years direct experience in Government Contracting with a strong knowledge of Cost Accounting Standards Board and Federal Acquisition Regulation. Her previous employment includes General Dynamics – Ordinance and Tactical Division, Garland (formerly known as Intercontinental Manufacturing) for over 13 years from November, 1994 through March, 2007. During her tenure there she served in the roles of Controller (Accounting & IT), Program Manager over a \$250M 3 year Army Indefinite Delivery/Indefinite Quantity (Indefinite Delivery/Indefinite Quantity) type contract, as well as Materials Manager with oversight of Purchasing, Production Control & Warehousing functions. Prior to her employment at General Dynamics, Ms. Hawkins served in various finance and accounting positions at Luminator, a Mark IV Industries Co, and Johnson Controls, Battery Division - Garland. Karen received her Bachelors of Business Administration in Accounting from Stephen F. Austin State University in Texas in 1986.

Family Relationships

There are no family relationships among the officers and directors.

Code of Business Conduct and Ethics

Our board of directors has adopted a Financial Code of Ethics which has been distributed to all directors, and executive officers, and will be distributed to employees and will be given to new employees at the time of hire. The Financial Code of Ethics contains a number of provisions that apply principally to our CEO, Chief Financial Officer and other key accounting and financial personnel. A copy of our Code of Business Conduct and Ethics can be found under the “Investor Relations” section of our website (www.optexsys.com) under the section for Governance Docs. We also intend to disclose any amendments or waivers of our Code on our website.

Board and Committee Meetings

We are incorporated under the laws of the State of Delaware. The interests of our stockholders are represented by the board of directors, which oversees our business and management. This solicitation of proxies is intended to give all stockholders the opportunity to vote for the persons who are to be their representatives, as directors, in our governance.

The board of directors meets regularly during the year and holds special meetings and acts by unanimous written consent whenever circumstances require. The board held 4 meetings (including special meetings) and took action by unanimous written consent 3 times during our fiscal year ended September 27, 2009.

If the board of directors convenes a special meeting, the non-management directors meet in executive session if circumstances warrant.

Board Committees

At this time, the board of directors currently does not have any active committees.

Board nominations

Stockholders wishing to bring a nomination for a director candidate before a stockholders meeting must give written notice to our Corporate Secretary, either by personal delivery or by United States mail, postage prepaid. The stockholder's notice must be received by the Corporate Secretary not later than (a) with respect to an Annual Meeting of Stockholders, 90 days prior to the anniversary date of the immediately preceding annual meeting, and (b) with respect to a special meeting of stockholders for the election of directors, the close of business on the tenth day following the date on which notice of the meeting is first given to stockholders. The stockholder's notice must set forth all information relating to each person whom the stockholder proposes to nominate that is required to be disclosed under applicable rules and regulations of the SEC, including the written consent of the person proposed to be nominated to being named in the proxy statement as a nominee and to serving as a director if elected. The stockholder's notice must also set forth as to the stockholder making the nomination (i) the name and address of the stockholder, (ii) the number of shares held by the stockholder, (iii) a representation that the stockholder is a holder of record of stock of the Optex Systems Holdings, entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to nominate the person named in the notice, and (iv) a description of all arrangements or understandings between the stockholder and each nominee.

Stockholder Communications with the Board of Directors

Stockholders may communicate directly with the board of directors or any board member by writing to them at Optex Systems Holdings, Inc., 1420 Presidential Drive, Richardson, TX 75081. The outside of the envelope should prominently indicate that the correspondence is intended for the board of directors or for a specific director. The secretary will forward all such written communications to the director to whom it is addressed or, if no director is specified, to the entire board of directors.

Director Attendance at Annual Meetings of Stockholders

We encourage our directors to attend annual meetings, although such attendance is not required.

Director Compensation

See table below under "Executive Compensation – Director Compensation."

Item 11 Executive Compensation

Executive Compensation

Summary Compensation Table

The following table sets forth, for the years indicated, all compensation paid, distributed or accrued for services, including salary and bonus amounts, rendered in all capacities by Optex Systems Holdings' principal executive officer, principal financial officer and all other executive officers who received or are entitled to receive remuneration in excess of \$100,000 during the stated periods. These officers are referred to herein as the "named executive officers." Except as provided below, none of our executive officers received annual compensation in excess of \$100,000 during the last two fiscal years.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$) (6)	All Other Compensation (\$)	Total (\$)
Stan Hirschman, President (7)	2009(5)	—	—	—	—	25,000	25,000
Danny Schoening, Chief Operating Officer (7)	2009	\$ 182,932	\$ 11,000	\$ —	\$ 10,588	\$ —	\$ 204,520
	2008(1,2)	122,646	10,300	7,500	—	—	140,446
Karen Hawkins, VP Finance / Controller (7)	2009	133,647	7,271	—	5,516	—	146,434
	2008	132,473	300	—	—	—	132,773
	2007(1)	56,900	300	—	—	—	57,200
Andrey Oks, CEO, CFO, Secretary, Treasurer and Director	2008(3)	—	—	10,000	—	—	10,000
Terry Hughes, CEO	2007(4)	—	—	—	—	42,000	42,000

1 The compensation depicted is not reflective of a full year's compensation as Danny Schoening did not begin employment until the second quarter of fiscal year 2008 and Karen Hawkins did not begin employment until the third quarter of fiscal year 2007. For Mr. Schoening and Ms. Hawkins, information is for service as an officer of Optex Texas and Optex Delaware. Given the fact that there has not been a change in fiscal year but rather adoption of the fiscal year of the accounting acquirer, there has been no adjustment made to treat the period since the change in fiscal year as a stub period, and all numbers presented are for complete fiscal years.

2 Stock awards include issues of 10,000 common shares of Irvine Sensors Common Stock on January 16, 2008 at the then current market share price of \$0.75 per share.

3 Mr. Oks was appointed as an officer of Sustut as of September 15, 2008 and resigned as of March 29, 2009. Mr. Oks was given 10,000,000 shares of restricted stock as compensation for services which was forfeited to Sustut on the date of his resignation.

4 Mr. Hughes served as an officer of Sustut and resigned on September 12, 2008 and forfeited the 9,902,624 shares of Common Stock in Optex Systems Holdings he owned at that time. He received no other compensation during 2008. In 2007 Mr Hughes received \$42,500 in compensation, the nature of which is unspecified.

5 Stanley Hirschman includes Director's Fees paid in 2009. He received no other compensation.

6 The amounts in the "Option awards" column reflect the dollar amounts recognized as the executive portion of compensation expense for financial statement reporting purposes for each named executive officer during fiscal 2009, as required by FASB ASC 718 (prior authoritative literature SFAS 123(R), disregarding any estimates for forfeitures relating to service-based vesting conditions. For the assumptions relating to these valuations, see note 12 to our fiscal 2009 audited financial statements. Andrey Oks & Terry Hughes were executives of Sustut Exploration, Inc. during the years 2007 and 2008, prior to the reverse merger on March 30, 2009. Concurrent with the reverse merger and name change to Optex Systems Holdings, Inc on March 30, 2009 Optex Systems Holdings adopted the fiscal year end of the accounting acquirer and changed the period end from December 31 to a fiscal year end of September. There were no earnings of either of these individuals subsequent to the reverse merger and adoption of the accounting acquirers fiscal period. All compensation expense shown for these individuals prior to the March 30, 2009 reorganization are depicted in calendar years ending December 31, 2008 and December 31, 2007.

7 Danny Schoening, Karen Hawkins and Stanley Hirschman were all executives of Optex Systems Holdings subsequent to the March 30, reorganization. Prior to the reorganization Danny Schoening and Karen Hawkins were executives of Optex Systems, Inc (Texas) and Optex Systems, Inc (Delaware) and Stanley Hirschman became an executive of Optex Systems, Inc (Delaware) in September 2008. Both Optex Systems, Inc. (Texas) and Optex Systems, Inc (Delaware) had previously been operating under an October through September fiscal year end and as such, compensation for these individuals is depicted in fiscal years beginning in October and ending in September

for each of the years 2007 through 2009.

Option Grants in Last Fiscal Year

The following table sets forth information with respect to each grant of a plan based award made to our named executive officers during the fiscal year ended September 27, 2009. There were no options granted to any of the named executive officers during the fiscal year ended September 28, 2008.

Fiscal Year 2009 Grants of Plan-Based Awards

Name	Grant Date	All Other Option Awards: No Underlying Options	Equity Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)(3)
Danny Schoening (1)	3/30/2009	1,414,649	\$ 0.15	\$ 63,705
Karen Hawkins (2)	5/14/2009	250,000	\$ 0.15	\$ 63,910

- (1) On March 29, 2009 Danny Schoening was awarded 1,414,649 options pursuant to his employment agreement with vesting rights over three years on the anniversary date of the grant at 34%, 33% and 33% for each respective year. The options expire on March 28, 2016
- (2) On May 14, 2009 Karen Hawkins was awarded 250,000 options pursuant to the equity compensation plan detailed below. The options vest over four years on the anniversary date at 25% per year respectively and expire on May 13, 2016.
- (3) Amounts represent the total grant date fair value of stock options granted in fiscal year 2009 under FASB ASC 718 (Prior authoritative literature: SFAS No. 123R). The assumptions used by us with respect to the valuation of options are set forth in Note 12 to our fiscal 2009 audited financial statements.

Employment Agreement

Optex Systems Holdings entered into an employment agreement with Danny Schoening dated December 1, 2008. The term of the agreement commenced as of December 1, 2008 and shall continue through June 1, 2010. Thereafter, the term of the agreement shall be automatically extended for successive 18 month periods, unless Optex Systems Holdings shall provide a written notice of termination at least ninety (90) days, or the Mr. Schoening shall provide a written notice of termination at least 90 days, prior to the end of the initial term or any extended term, as applicable. During the first eighteen months of the term of the agreement, Optex Systems Holdings shall pay to Schoening a base salary at the annual rate of \$190,000. Schoening was paid a one time bonus of \$10,000 at the commencement of the employment agreement in December 2008 and was granted 1,414,649 options to purchase common stock of Optex Systems Holdings at an exercise price of \$0.15 per share at the time of the closing of the reorganization.

On each renewal date of the commencement of employment, Schoening's base salary shall be reviewed by the Board and may be increased to such rate as the Board, in its sole discretion, may hereafter from time to time determine. During the term of the agreement, Schoening shall be entitled to receive bonuses of up to 30% of his base salary per year at the discretion of Optex Systems Holdings' Board of Directors pursuant to performance objectives to be determined by the Board of Directors. Any bonuses shall be payable in cash and shall be paid within ninety (90) days of any year anniversary of the date of the agreement. Upon closing of the reorganization, Optex Systems Holdings granted Schoening stock options equal to 1% of the issued and outstanding shares of Optex Systems Holdings immediately after giving effect to the reorganization, with 34% of the options vesting on March 30, 2010, and 33% of

the options vesting on each of March 31, 2011 and March 31, 2012.

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The employment agreement events of termination thereof: (i) death of Mr. Schoening; (ii) termination by Optex Systems Holdings for cause (including conviction of a felony, commission of fraudulent acts, willful misconduct by Mr. Schoening, continued failure to perform duties after written notice, violation of securities laws and breach of the employment agreement), (iii) termination without cause by Optex Systems Holdings and (iv) termination by Mr. Schoening for good reason (including breach by Optex Systems Holdings of its obligations under the agreement, the requirement for Mr. Schoening to move more than 100 miles away for his employment without consent, and merger or consolidation that results in more than 66% of the combined voting power of the then outstanding securities of Optex Systems Holdings or its successor changing ownership or a sale of all or substantially all of Optex Systems Holdings' assets, without the surviving entity assuming the obligations under the agreement). For a termination by Optex Systems Holdings for cause or upon death of Mr. Schoening, then Mr. Schoening shall be paid salary and bonus earned through the date of termination. For a termination by Optex Systems Holdings without cause or by Mr. Schoening with good reason, then Mr. Schoening shall also be paid six months base salary in effect and all granted stock options shall remain exercisable for a period of two years after such termination, with all unvested stock options immediately vesting. The agreement contains a standard non-solicitation and non-compete agreement that extends for one year subsequent to termination thereof, and contains standard clauses for termination and the like.

Optex Systems Holdings does not have any other employment agreements with its executive officers and directors.

Equity Compensation Plan Information

Optex Systems Holdings currently has an option compensation plan covering the issuance of options for the purchase of up to 6,000,000 shares. The purpose of the Plan is to assist Optex Systems Holdings in attracting and retaining highly competent employees and to act as an incentive in motivating selected officers and other employees of Optex Systems Holdings and its subsidiaries, and directors and consultants of Optex Systems Holdings and its subsidiaries, to achieve long-term corporate objectives. There are 6,000,000 shares of common stock reserved for issuance under this Plan. As of September 27, 2009, Optex Systems Holdings had issued 2,681,649 share options under this Plan of which zero shares had vested as of September 27, 2009.

Outstanding Equity Awards as of September 27, 2009

Name	Option Awards						Footnotes
	Non-Plan		Equity Incentive Plan			Expiration Date	
	Number of shares underlying	Number of shares underlying	Unearned	Exercise Price	Expiration Date		
# Exercisable	# Unexercisable						
Danny Schoening	—	1,414,649	1,414,649	0.15	3/29/2016	(1)	
Karen Hawkins	—	250,000	250,000	0.15	5/13/2016	(2)	

(1) Options granted on March 30, 2009 pursuant to employment agreement and reverse Merger. Shares vest over 3 years at a rate of 34%, 33% and 33% for each respective anniversary date subsequent to 2009 and expire after seven years. As of September 27, 2009 non of the options had vested.

(2) Options granted on May 14, 2009 pursuant to employee stock option compensation plan. Shares vest over 4 years at a rate of 25% per year each respective anniversary date subsequent to 2009 and expire after seven years. As of September 27, 2009 non of the options had vested.

Nonqualified deferred compensation

We had no non-qualified deferred compensation plans during year ended September 27, 2009.

Post-Termination Compensation

We have not entered into change in control agreements with any of our named executive officers or other members of the executive management team, although our employment agreements with certain members of management do call for immediate vesting of options upon a 50% change in control.

Director Compensation

The following table provides information regarding compensation paid to directors for services rendered during the year ended September 27, 2009.

Name		Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Ronald Richards	(1)	\$ 100,000	—	—	—	—	—	\$ 100,000
Stanley Hirschman	(2)	25,000	—	—	—	—	—	25,000
Merrick Okamoto	(3)	—	—	—	—	—	—	—

(1) Director Fees paid monthly from December 2008 through September 2009. Ronald Richards is paid \$2,500 monthly as an Independent Director, \$2,500 monthly for serving as Chairman of the Audit Committee, and \$5,000 monthly for serving as Chairman of the Board of Directors.

(2) Director Fees paid monthly from December 2008 through September 2009. Stanley Hirschman is paid \$2,500 monthly as a Director.

(3) Merrick Okamoto serves as a non-independent director and does not earn directors fees.

The members of our board of directors are actively involved in various aspects of our business ranging from relatively narrow board oversight functions to providing hands-on guidance to our executives and scientific staff with respect to matters within their personal experience and expertise. We believe that the active involvement of all directors in our principal business and policy decisions increases our board of directors' understanding of our needs and improves the overall quality of our management decisions. In recognition of the substantial time and personal effort that we require from our directors, we have adopted director compensation policies that provide for higher director compensation than is typically found in companies at our early stage of development.

All of our directors are compensated separately for service as members of our board of directors. Each of our nonmanagement directors received the following components of compensation for the period September 28, 2008 through September 27, 2009:

Nonqualified deferred compensation

We had no non-qualified deferred compensation plans during year ended September 27, 2009.

Post-Termination Compensation

We have not entered into change in control agreements with any of our named executive officers or other members of the executive management team other than the provision with respect to Mr. Schoening described above. No awards of equity incentives under our 2009 Stock Option Plan provide for immediate vesting upon a change in control. However, our Board of Directors has the full and exclusive power to interpret the plans, including the power to accelerate the vesting of outstanding, unvested awards. A “change in control” is generally defined as (1) the acquisition by any person of 30% or more of the combined voting power of our outstanding securities or (2) the occurrence of a transaction requiring stockholder approval and involving the sale of all or substantially all of our assets or the merger of us with or into another corporation.

Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

On January 4, 2010, we had 139,444,940 shares of common stock, and 1,027 shares of Series A preferred stock issued and outstanding. The following table sets forth certain information with respect to the beneficial ownership of our securities as of January 4, 2010, for (i) each of our directors and executive officers; (ii) all of our directors and executive officers as a group; and (iii) each person who we know beneficially owns more than 5% of our common stock.

Beneficial ownership data in the table has been calculated based on Commission rules that require us to identify all securities that are exercisable for or convertible into shares of our common stock within 60 days of January 4, 2010 and treat the underlying stock as outstanding for the purpose of computing the percentage of ownership of the holder.

Except as indicated by the footnotes following the table, and subject to applicable community property laws, each person identified in the table possesses sole voting and investment power with respect to all capital stock held by that person. The address of each named executive officer and director, unless indicated otherwise by footnote, is c/o Optex Systems Holdings' corporate headquarters.

Except as otherwise set forth below, the address of each of the persons listed below is Optex Systems Holdings' address.

Title of Class	Name of Beneficial Owner	Number of Shares	Preferred Conversion (4)	Combined Ownership	Percentage of Outstanding Shares
5% Holders	Arland Holdings, Ltd. (1)	11,148,935		11,148,935	5.89%
	Sileas Corporation (2,3)	102,184,347	37,040,000	139,224,347	73.52%
Directors and Officers:	Stanley Hirschman (2)	102,184,347	37,040,000	139,224,347	73.52%
	Danny Schoening (5)	102,184,347	37,040,000	139,224,347	73.52%
	Karen Hawkins	—	—	—	—%
	Ronald Richards	—	—	—	—
	Merrick Okamoto	—	—	—	—
	Andrey Oks (6)	—	—	—	—
	Terry Hughes (7)	—	—	—	—
Directors and officers as a group (3 Individuals)		102,184,347	37,040,000	139,224,347	73.52%

1 Represents shares held by Arland Holdings, Ltd., which is located at 551 5th Avenue, Suite 1601, New York, NY 10176. Arie Rabinowitz has voting control over the shares held by Arland Holdings, Ltd.

²Represents shares held by Sileas of which Stanley Hirschman, a Director/Officer Optex Systems Holdings, has a controlling interest (80%); therefore, under Rule 13d-3 of the Exchange Act, Mr. Hirschman is deemed to be the beneficial owner, along with Mr. Schoening of those shares.

- 3 Sileas' ownership interest in Optex Systems Holdings has been pledged to Longview as security for a loan in connection with the acquisition of Longview's interests in Optex Delaware by Sileas. Investment decisions for Longview are made by its investment advisor, Viking Asset Management, LLC. Mr. Peter Benz is the Chairman, Chief Executive Officer and a Managing Member of Viking Asset Management and may be deemed to control its business activities, including the investment activities of Longview. Mr. Merrick Okamoto who is a director of Optex Systems Holdings is the President and a Managing Member of Viking Asset Management and may be deemed to control its business activities, including the investment activities of Longview. In the event of a default by Sileas on its debt obligation to Longview, the shares held by Sileas may be returned to Longview. Viking and Longview each may be deemed to have shared voting and dispositive authority over the shares of Optex Systems Holdings' common stock if they are returned to Longview. Mr. Benz and Mr. Okamoto, as control persons of Viking and/or Longview, may be deemed to beneficially own all such shares; however, they disclaim such beneficial ownership.
- 4 Represents shares of common stock issuable upon conversion of preferred stock held by the stockholder. Sileas Corporation holds 90% or 926 of the preferred shares which are convertible into 37,040,000 common shares. Alpha Capital owns the remaining 10% or 101 preferred shares convertible into 4,040,000 common shares, representing less than 2.13% total beneficially ownership.
- 5 Represents shares held by Sileas of which Mr. Schoening, an Officer of Optex Systems Holdings, has a controlling interest (15%); therefore, under Rule 13d-3 of the Exchange Act, Mr. Hirschman is deemed to be the beneficial owner, along with Mr. Hirschman, of those shares.
- 6 Andrey Oks did not own any shares subsequent to the reverse merger. Andrey Oks was given 10,000,000 shares of restricted stock as compensation for services in 2008 as an executive officer, which he forfeited on the date of his resignation on March 29, 2009.
- 7 Terry Hughes served as an officer of Sustut and resigned on September 12, 2008 at which time he forfeited 9,902,624 shares of common shares he owned at the time.

Item 13 Certain Relationships and Related Transactions, and Director Independence

Relationship between Optex Systems, Inc. (Texas), Irvine Sensors Corporation and Longview and Alpha

Longview and Alpha were owed certain debt by Irvine Sensors Corporation including debt evidenced by (i) a December 29, 2006 Term Loan and Security Agreement executed by Irvine Sensors Corporation and Longview and Alpha, and (ii) a series of secured promissory notes purchased by them and issued to them on December 29, 2006, July 19, 2007 and November 28, 2007. As of August 24, 2008, the total amount due under all of the described notes was approximately \$18.4 million. Optex Systems, Inc. (Texas), which was and is a wholly owned subsidiary of Irvine Sensors Corporation, was a guarantor of all of those notes, and pursuant to related security agreements Longview and Alpha had a validly perfected, fully enforceable security interest in all personal property of Optex Systems, Inc. (Texas). On September 19, 2008, pursuant to an Assignment and Stock/Note Issuance Agreement, Alpha and Longview transferred and assigned to Optex Systems, Inc. (Delaware) \$15 million of their respective interests and rights in the aforesaid notes and obligations to Optex Systems, Inc. (Delaware) in exchange for 100% of the issued and outstanding stock of Optex Systems, Inc. (Delaware).

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) purchased all of the assets of Optex Systems, Inc. (Texas) 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) in exchange for a \$6 million note payable from Optex Systems, Inc. (Delaware) and a \$9 million equity interest in Optex Systems, Inc. (Delaware). Longview and Alpha owned Optex Systems, Inc.

(Delaware) until February 20, 2009, when Longview sold 100% of its interests in Optex Systems, Inc. (Delaware) to Sileas, as discussed below. In referring to these transactions, Optex Systems, Inc. (Delaware) is considered to be the successor entity to Optex Systems, Inc. (Texas), the predecessor entity.

Secured Promissory Notes and Common Shares Issued in connection with Purchase by Optex Systems, Inc. (Delaware)

In connection with the public sale of the Optex Systems, Inc. (Texas) assets to Optex Systems, Inc. (Delaware), Optex Systems, Inc. (Delaware) delivered to each of Longview and Alpha a Secured Promissory Note due September 19, 2011 in the principal amounts of \$5,409,762 and \$540,976, respectively. Each Note bears simple interest at the rate of 6% per annum, and the interest rate upon an event of default increases to 8% per annum. After 180 days from the Issue Date, the principal amount of the Notes and accrued and unpaid interest thereon may be converted into Optex Systems, Inc. (Delaware) common stock at a conversion price of \$1.80 per share (pre-split and pre-reorganization price). The Notes may be redeemed prior to maturity at a price of 120% of the then outstanding principal amount plus all accrued and unpaid interest thereon. The obligations of Optex Systems, Inc. (Delaware) under the Notes are secured by a lien of all of the assets of Optex Systems, Inc. (Delaware) in favor of Longview and Alpha. In addition, Optex Systems, Inc. (Delaware) issued common stock to each of Longview and Alpha in the quantities of 45,081,350 and 4,918,650, respectively. On October 30, 2008, Alpha sold its Optex Systems, Inc. (Delaware) common stock to Arland Holding, Ltd. On February 20, 2009, Longview sold its Note to Sileas (see below).

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 a private transaction (the "Acquisition"). The primary reason for the Acquisition was to eliminate shareholder control of Optex Systems Holdings by Longview and to limit any perception of control over the day-to-day operations of Optex Systems Holdings, whether or not such control actually existed. While Longview makes investments in a variety of companies, it strives to invest passively and leave the day-to-day operations of the companies in its investment portfolio to the management teams of those companies. In addition, the Acquisition allowed Optex Systems Holdings to avoid potential conflicts of interest or other related business issues that might have adversely affected Optex Systems Holdings' operations as a result of Longview's investments in other companies.

The purchase price for the Acquisition was \$13,524,405. Sileas issued a purchase money note to Longview for the full amount of the purchase price in exchange for 45,081,350 shares of common stock issued by Optex Systems Holdings (representing 90% of the outstanding shares) and transfer of a note dated December 2, 2008, issued by Optex Systems Holdings to Longview in the principal amount of \$5,409,762. No contingent consideration is due the seller in the transaction. 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. On March 27, 2009, Sileas and Alpha exchanged the \$6,000,000 aggregate principal amount of notes, plus accrued and unpaid interest thereon, for 1,027 shares of Optex Systems, Inc. (Delaware) Series A preferred stock.

Sileas has no operations or business activities other than holding the Purchased Assets and has no revenues. The management of Sileas believes that the value of its common stock and preferred stock holdings in Optex Systems Holdings will increase over time. Sileas plans to repay Longview, no later than the maturity date, through some combination of a recapitalization of Sileas equity and debt and partial or full liquidation of its interests in 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, the new majority owner of Optex Systems, Inc. (Delaware), 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 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, then in addition to paying the principal and interest due, Sileas shall also pay an amount equal to 90% of the consideration. “Major Transaction” refers to a transaction whereby Optex Systems, Inc. (Delaware) would consolidate or merge into or sell or convey all or substantially all of its assets to a third party entity for more than nominal consideration, and “Net Consideration” refers to the fair market value of the consideration received in connection with a Major Transaction less all outstanding liabilities of Optex Systems, Inc. (Delaware).

Reorganization/Share Exchange

On March 30, 2009, a 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 Optex Systems Holdings 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 Optex Systems Holdings Series A preferred stock and (iii) the 8,131,667 shares of Optex Systems, Inc. (Delaware) common stock purchased in the private placement, which also occurred on March 30, 2009, were exchanged by Optex Systems Holdings for 8,131,667 shares of Optex Systems Holdings common stock. The per share price in the private placement was \$0.15 per share of common stock, and the closing date was March 30, 2009. Optex Systems, Inc. (Delaware) remains a wholly-owned subsidiary of Optex Systems Holdings.

At the time of the reorganization, 25,000,000 shares owned by Andrey Oks, the former CEO of Optex Systems Holdings, were cancelled. Immediately prior to the closing, 17,449,991 shares of Optex Systems Holdings common stock were outstanding. The 17,449,991 shares derives from the 17,999,995 shares outstanding as of December 31, 2008 plus the 26,999,996 shares issued in conjunct with the 2.5:1 forward stock split authorized by the Sustut Board and shareholders and effected on February 27, 2009 less retirement of Andrey Oks' 25,000,000 shares and cancellation of 3,800,000 shares previously issued to Newbridge Securities Corporation, shares plus issuance of 1,250,000 shares in payment for two investor relations agreements. The total outstanding common shares of Optex Systems Holdings subsequent to the closing of the reorganization is as follows:

Existing Sustut Shareholders	17,449,991
Optex Systems, Inc. (Delaware) shares exchanged	113,333,282
Optex Systems, Inc. (Delaware) Private Placement shares exchanged	8,131,667
Total Shares after reorganization	138,914,940
Cancellation of shares - American Capital Ventures	(700,000)
Private placement - June 29, 2009	750,000
Issuance of shares as consideration - ZA Consulting	480,000
Shares Outstanding on September 27, 2009	139,444,940

Short Term Note Payable/Longview Fund - On September 23, 2008 Optex Systems, Inc. (Texas) borrowed \$146,709 from Longview and issued a promissory note dated September 23, 2008, to Longview in connection therewith. The September 23, 2008 Note bears interest at the rate of 10% per annum with interest accruing until the maturity date of the September 23, 2008 Note, which was originally set as November 7, 2008. On March 30, 2009 in conjunction with the reorganization and Private Placement, Longview purchased 3.25 units of the Private Placement using \$146,250 of the amount due under the Note as consideration for the purchase. The outstanding balance related to the original note issue of \$459 plus \$11,101 of accrued interest was paid in September 2009.

Transactions with Executive Management

See the "Executive Compensation" section for a discussion of the material elements of compensation awarded to, earned by or paid to our named executive officers. Other than as stated in the "Executive Compensation" section, we have not entered into any transactions with executive management.

Item 14 Principal Accounting Fees and Services

The following table sets forth the fees paid to date for services rendered by EFP Rotenberg as successor by merger, effective October 1, 2009, of the registered public accounting firm Rotenberg & Co., LLP during fiscal years ended September 27, 2009 and September 28, 2008, respectively.

Fee Category	EFP Rotenberg 2009 Fees	
Audit Fees (1)	\$	189,000
Audit-Related Fees-registration statement consents (2)	\$	31,260
Tax Fees	\$	—
All Other Fees	\$	0

(1) Audit Fees are fees for professional services performed by EFP Rotenberg LLP for the audit of our annual consolidated financial statements and review of consolidated financial statements included in our 10-Q filings for the fiscal years ended September 27, 2009 and September 28, 2008, respectively.

(2) Fees paid in related to consent for S-1 registration statement and procedures associated with SEC comment letter for S-1 registration statement.

(3) There were no audit fees paid to EFP Rotenberg, LLP during the year ended September 28, 2008. Audit fees for 2008 were paid by Irvine Sensors Corporation prior to the asset acquisition and apportioned to Optex Systems, Inc. (Delaware) through the intercompany "Due to Parent" account. Subsequent to the asset acquisition from Irvine Sensors Corporation on October 14, 2008 EFP Rotenberg, LLP was engaged to perform audit procedures on Optex Systems, Inc. (Texas) as a stand-alone entity, and Optex Systems Inc. (Delaware) for 2007, 2008 and 2009 per note 1.

PART IV

Item 15 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
- 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 (1)
- 21.1 List of Subsidiaries – Optex Systems, Inc. (1)
- 23.1 Consent of Rotenberg, LLP (2)

*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

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OPTEX SYSTEMS HOLDINGS, INC.

By: /s/ Stanley Hirschman
Stanley Hirschman,
Principal Executive Officer
and

Director

Date: January 11, 2010

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

Date: January 11, 2010

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Merrick Okamoto Merrick Okamoto	Director	January 11, 2010
/s/ Ronald Richards Ronald Richards	Director	January 11, 2010