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Optex Systems Reports Improved Fiscal Third Quarter Financial Results

RICHARDSON, Texas, Aug. 13, 2009 (GLOBE NEWSWIRE) -- Optex Systems Holdings, Inc. (OTCBB:OPXS), a leading manufacturer of optical sighting systems and assemblies primarily for Department of Defense applications, today announced strong financial results for the Company's fiscal third quarter ended June 28, 2009.

For this period, the Company recorded increased revenues of \$6.9 million as compared to revenues during the same period one year ago of \$3.9 million, representing an increase of approximately 77%. During the nine months ended June 28, 2009, we recorded revenues of \$21.0 million, as compared to revenue for the nine months ended June 28, 2008 of \$13.9 million, an increase of \$7.1 million or 51%. Revenues were up significantly across all product lines in the three months ended June 2009 as compared to the comparable period in 2008. Sales of the Company's periscope product lines increased significantly due to higher demand from General Dynamics.

During the quarter ended June 28, 2009, the Company recorded cost of goods sold of \$6.4 million as opposed to \$2.9 million during the quarter ended June 29, 2008, an increase of \$3.5 million or 82.6%. This increase in cost of goods sold was primarily associated with increased revenue on certain of Company's lines in support of higher backlog and accelerated delivery schedules, in addition to increased non-cash intangible amortization charges resulting from the acquisition of Optex - Texas assets from Irvine Sensors Corporation on October 14, 2008.

The gross margin during the quarter ended June 28, 2009 was 8.6% of revenues as compared to a gross margin of 25.6% for the quarter ended June 29, 2008. Product margins decreased substantially to 15.7% for the quarter ended June 28, 2009 versus 25.6% for the quarter ended June 29, 2008 due to a shift in third quarter revenue mix toward less profitable contracts combined with increased labor costs related to the reallocation of labor from general and administrative expenses to manufacturing overhead in 2009. Margins were further impacted by higher non-cash intangible amortization charges allocable to cost of goods sold of \$0.4 million, and increased reserves for valuations and warranties of \$0.1 million, for a total of 7.1% of revenues in the quarter ended June 28, 2009, resulting in an overall increase in cost of goods sold of 7.1% in the quarter ended June 28, 2009.

During the three months ended June 28, 2009, the Company recorded a loss of \$0.3 million, versus a \$0.2 million loss during the three months ended June 29, 2008. The loss from operations includes a \$0.4 million increase in non-cash amortization of intangible assets as a result of the October 14, 2008 acquisition of the Company from Irvine Sensors Corporation.

Danny Schoening, COO of the Company, commented, "We have experienced substantial improvement in our EBITDA over our prior year performance. Compared to 2008, Optex has

increased its EBITDA by \$0.9 million in the nine months ended June 28, 2009. This increase in EBITDA is primarily due to increased revenue and lower general and administrative costs. It is our goal and expectation that this trend will continue over the next 12 months as our product mix shifts towards more profitable programs, our non-cash amortization of intangible expenses decreases and we continue to pursue cost reductions."

During the three and nine months ended June 28, 2009, Optex revenues on legacy periscope programs increased significantly over the prior year while margins decreased. The legacy periscope contracts were awarded January 2003, and due to significant material price increases subsequent to the contract award date, the company is experiencing a loss on these contracts. It is expected that product margins on the Company's periscopes will increase over the next 12 months as some of the unprofitable legacy programs are completed and are replaced with potentially profitable new awards. Optex expects that the revenue on the legacy periscope programs will decrease in the last quarter of 2009, at which point it is anticipated that operating margins will increase significantly.

Optex is aggressively pursuing additional, potentially higher margin periscope business, including the May 2009 award of a multi-year Indefinite Delivery/Indefinite Quantity (IDIQ) type contract followed by the first delivery order from the U.S. Army's Tank-Automotive and Armaments Command (TACOM) division. If all government forecasted delivery orders against this IDIQ contract are awarded and if the Company were to share equally with the other supplier in the awarded releases, the total value of the contract to Optex could be valued at approximately \$7.5 million over the next three years.

The complete third quarter report, including management's discussion and analysis, financial statements, and notes can be found on the Securities Exchange Commission's website at <http://www.sec.gov>.

ABOUT OPTEX SYSTEMS

Optex, founded in 1987, is a Richardson, Texas-based ISO 9001:2008 certified concern, which manufactures optical sighting systems and assemblies primarily for Department of Defense (DOD) applications. Optex Systems was previously a wholly-owned subsidiary of Irvine Sensors Corporation. On October 14, 2008, Optex Systems, Inc. (Delaware) acquired the assets of Optex Systems, Inc. (Texas) from Irvine Sensors Corporation, and subsequently became a wholly-owned subsidiary of Optex Systems Holdings, Inc. Its products are installed on a majority of types of U.S. military land vehicles, such as the Abrams and Bradley fighting vehicles, Light Armored and Advanced Security Vehicles and have been selected for installation on the Stryker family of vehicles. Optex also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Optex delivers its products both directly to the military services and to prime contractors. For additional information, please visit the Company's website at www.optexsys.com.

Safe Harbor Statement

This press release and other written reports and oral statements made from time to time by the Company may contain so-called "forward-looking statements," all of which are subject to risks and uncertainties. You can identify these forward-looking statements by their use of words such as "expects," "plans," "will," "estimates," "forecasts," "projects" and other words

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

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