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Optex Systems Holdings, Inc. Releases Third Quarter 2013 Results

RICHARDSON, TX -- (Marketwired) -- 08/08/14 -- Optex Systems Holdings, Inc.(OTCQB: OPXS), a leading manufacturer of optical sighting systems and assemblies primarily for Department of Defense applications, reported operating results for the three months and nine months ended June 29, 2014.

In the three months ended June 29, 2014, revenues decreased by (\$2.5) million or (56.8%) from the respective prior period in 2013. The decrease in revenue is due to lower spending by the U.S. Government across all product lines as compared to prior year levels. The gross margin during the three months ended June 29, 2014 was \$0.24 million or 12.6% of revenues as compared to a gross margin of \$0.67 million or 15.2% for the three months ended June 30, 2013. The decrease in gross margin percentage for the period, as compared to the prior year period, is primarily due to reserves booked for excess slow moving inventory in the current quarter. During the three months ended June 29, 2014, we recorded a net loss applicable to common shareholders of (\$0.41) million as compared to net loss applicable to common shareholders of (\$0.08) million during the three months ended June 30, 2013. The increased loss of (\$0.33) million is primarily to lower revenue and the associated gross margin of (\$0.43) million offset with reduced general and administrative spending of \$0.12 in the current year period as compared to the prior year.

In the nine months ended June 29, 2014, revenues decreased by (\$4.6) million or (38.3%) from the respective prior period in 2013. The decrease is primarily attributable to lower revenue in plastic and glass periscopes due to reduced spending by the U.S. Government below prior year levels. The gross margin during the nine months ended June 29, 2014 was \$1.2 million or 16.2% of revenues as compared to a gross margin of \$2.0 million or 16.7% for the nine months ended June 30, 2013. The total gross margin declined due to decreased revenue and the gross margin percentage is slightly lower by 0.05% resulting from additional reserves booked for excess slow moving inventory in the current year. During the nine months ended June 29, 2014, we recorded a net loss applicable to common shareholders of (\$0.55) million as compared to a net loss applicable to common shareholders of (\$0.15) million during the nine months ended June 30, 2013. The increase in net loss of (\$0.40) million is primarily attributable to lower revenue and the associated gross margin of (\$0.8) million offset with the reduced general and administrative spending of \$0.3 million and favorable changes in deferred income taxes and interest expenses of \$0.1 million in the current year period as compared to the prior year.

Backlog, as of June 29, 2014, was \$9.9 million as compared to a backlog of \$15.0 million as of June 30, 2013, representing a decrease of \$5.1 million or 34.0%. In the nine months ending June 29, 2014, Optex Systems Holdings received \$5.1 million in new orders consisting of \$2.8 million in plastic periscopes, \$1.6 million in M36/DDAN sighting systems and \$0.7 million in other product lines.

During the nine months ended June 29, 2014, the Company has experienced a net loss and a 38% decrease in revenues as compared to the nine months ended June 30, 2013. U.S. military spending has been significantly reduced as a result of the Congressional sequestration cuts to defense spending, which began in fiscal year 2013. As a result of lower U.S. government spending, we continue to explore other opportunities for manufacturing outside of our traditional product lines for products which could be manufactured using our existing lines in order to fully utilize our existing capacity. Given the sizable reduction in backlog from 2013 levels, we do not anticipate being able to fully offset the reduced government spending with alternative business in the current fiscal year or in the next twelve months.

The Company has historically funded its operations through operations, preferred stock offerings and bank debt. The Company's ability to generate positive cash flows depends on a variety of factors, including the continued development and successful marketing of the Company's products. At December 31, 2013, the Company had approximately \$909 thousand in cash and access to a \$1.0 million working line of credit. The Company expects to continue to incur net losses for at least the next year. Successful transition to attaining profitable operations is dependent upon achieving a level of revenue adequate to support the Company's cost structure.

As of June 29, 2014, we had cash and cash equivalents of \$0.9 million which is consistent with the period ended September 29, 2013. Net cash provided by operating activities during the period from September 30, 2013 to June 29, 2014 totaled \$0.9 million. The outstanding line of credit balance as of September 29, 2013 was \$0.9 million. In the first nine months of fiscal year 2014, Optex used the cash provided by operating activities to bring the ending outstanding line of credit balance to zero as of June 29, 2014.

Management of the Company expects to be successful in maintaining sufficient working capital and will manage operations commensurate with its level of working capital through June 30, 2015. In the event the Company does not successfully implement its ultimate business plan, certain assets may not be recoverable.

"Optex is now experiencing the full force of reduced U.S. defense spending," said Danny Schoening, Optex CEO. "During the last quarter, while the number of requests for quotes continued to grow, the size of and number of actual solicitation awards substantially declined," he commented. "We continue to reduce expenses, adjust staffing, purchasing and all controllable expenses as we remain steadfast in our commitment to responding rapidly and providing periscopes and sighting systems that represent quality and value at a fair price."

Merrick Okamoto, Chairman of Optex, added, "During this downtrend in U.S. defense purchasing, I am proud of our efforts to expand our international business. The Company completed delivery and installation of our M17 Day / Thermal Driving Periscope to a South American country that has spurred additional interest from other foreign defense departments."

ABOUT OPTEX SYSTEMS

Optex, which was 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. Its products are installed on various types of U.S. military land vehicles, such as the Abrams and Bradley fighting vehicles, Light Armored and Armored Security Vehicles, and have been selected for installation on the Stryker family of vehicles. Optex also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Optex delivers its products both directly to the military services and to prime contractors. For additional information, please visit the Company's website at www.optexsys.com.

Safe Harbor Statement

This press release 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.

Optex Systems Holdings, Inc.
Condensed Consolidated Balance Sheets

	(Thousands, except share data)	
	June 29, 2014 (Unaudited)	September 30, 2013
ASSETS		
Current Assets		
Cash	\$ 909	\$ 882
Accounts Receivable	948	3,118
Net Inventory	6,939	7,579
Prepaid Expenses	42	36
Total Current Assets	8,838	11,615
Property and Equipment		
Property Plant and Equipment	1,738	1,704
Accumulated Depreciation	(1,518)	(1,460)
Total Property and Equipment	220	244
Other Assets		
Deferred Tax Asset - Long Term	1,154	1,077
Prepaid Royalties - Long Term	158	180
Security Deposits	27	21
Total Other Assets	1,339	1,278
Total Assets	\$ 10,397	\$ 13,137
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 282	\$ 989
Accrued Expenses	488	706
Accrued Warranties	25	25
Customer Advance Deposits - Short Term	991	769
Credit Facility	-	858
Total Current Liabilities	1,786	3,347
Other Liabilities		
Customer Advance Deposits - Long Term	1,234	1,935
Total Other Liabilities	1,234	1,935
Total Liabilities	3,020	5,282
Stockholders' Equity		
Optex Systems Holdings, Inc. Preferred Stock (\$0.001 par 5,000 authorized, 1,001 and 1,016 series A preferred shares issued and outstanding, respectively)	-	-
Optex Systems Holdings, Inc. - (par \$0.001, 2,000,000,000 authorized, 170,913,943 and 157,346,607 shares issued and outstanding, respectively)	171	157
Additional Paid-in-capital	17,984	17,922
Retained Earnings (Deficit)	(10,778)	(10,224)
Total Stockholders' Equity	7,377	7,855
Total Liabilities and Stockholders' Equity	\$ 10,397	\$ 13,137

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

(Thousands, except common share data)

	Three months ended		Nine months ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
Revenues	\$ 1,858	\$ 4,358	\$ 7,394	\$ 11,978
Total Cost of Sales	1,615	3,688	6,170	9,955
Gross Margin	\$ 243	\$ 670	\$ 1,224	\$ 2,023
General and Administrative	648	766	1,853	2,208
Operating Loss	\$ (405)	\$ (96)	\$ (629)	\$ (185)
Other Expenses				
Interest Expense - Net	(6)	22	2	28
Total Other	\$ (6)	\$ 22	\$ 2	\$ 28
Loss Before Taxes	\$ (399)	\$ (118)	\$ (631)	\$ (213)
Deferred Income Taxes (Benefit)	-	(39)	(77)	(68)
Net Loss After Taxes	<u>\$ (399)</u>	<u>\$ (79)</u>	<u>\$ (554)</u>	<u>\$ (145)</u>
Net Loss Applicable to Common Shareholders	\$ (399)	\$ (79)	\$ (554)	\$ (145)
Basic and Diluted Loss per Share	<u>\$ (0.002)</u>	<u>\$ (0.001)</u>	<u>\$ (0.003)</u>	<u>\$ (0.001)</u>
Weighted Average Common Shares Outstanding	170,913,943	157,346,607	162,949,533	154,216,977

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