

May 14, 2014



Optex Systems Holdings, Inc. Releases Quarterly Results

RICHARDSON, TX -- (Marketwired) -- 05/14/14 -- 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 ended March 30, 2014.

In the three months ended March 30, 2014, revenues decreased by (\$1.6) million or (42.1%) from the respective prior period in 2013. The decreased revenue is primarily due to lower revenue in plastic and glass periscopes due to reduced spending by the U.S. Government compared to prior year levels. The gross margin during the three months ended March 30, 2014 was \$0.36 million or 16.4% of revenues as compared to a gross margin of \$0.66 million or 17.4% for the three months ended March 31, 2013. The slight 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 March 30, 2014, we recorded a net loss applicable to common shareholders of (\$0.14) million as compared to net loss applicable to common shareholders of (\$0.11) million during the three months ended March 31, 2013. The increased loss of (\$0.03) million is primarily due to the lower revenue and the associated gross margin offset with reduced general and administrative spending of \$0.23 million and favorable changes in deferred income taxes of \$0.02 million and interest expense of \$0.01 million in the current year period as compared to the prior year.

In the six months ended March 30, 2014, revenues decreased by (\$2.1) million or (27.6%) from the respective prior period in 2013. There continues to be uncertainty in future U.S. military spending over the next 10 years pending Congressional resolution of the sequestration cuts to defense spending which began in fiscal year 2013. The ramifications of the 2012 Congressional budget sequestration have resulted in yet more uncertainty and potential cuts in spending by the U.S. military, and we have had to explore other avenues of revenue. We continue to explore other opportunities for manufacturing outside of our traditional product lines for products which could be manufactured using our existing capabilities in order to fully utilize our existing capacity. Given the reduction in backlog in early fiscal year 2014, we do not anticipate being able to fully offset the reduced government spending with alternative business in the next six months. The gross margin during the six months ended March 30, 2014 was \$0.98 million or 17.8% of revenues as compared to a gross margin of \$1.35 million or 17.8% for the six months ended March 31, 2013. The total gross margin is down for the six months due to lower revenue, however the gross margin as a percentage of revenue is in line with the prior year period gross margin. During the six months ended March 30, 2014, we recorded a net loss applicable to common shareholders of (\$0.16) million as compared to a net loss applicable to common shareholders of (\$0.7) million during the six months ended March 31, 2013. The increase in net loss of (\$0.09) million is primarily attributable to lower revenue and the associated gross margin offset with

the reduced general and administrative spending of \$0.2 million and favorable changes in deferred income taxes of \$0.04 million in the current year period as compared to the prior year.

Backlog, as of March 30, 2014, was \$11.1 million as compared to a backlog of \$16.5 million as of March 31, 2013, representing a decrease of \$5.4 million or 32.7%. In the six months ending March 30, 2014, Optex Systems Holdings received \$4.4 million in new orders consisting of \$2.3 million in plastic periscopes, \$1.7 million in M36/DDAN sighting systems and \$0.4 million in other product lines.

As of March 30, 2014, we had cash and cash equivalents of \$1.2 million. During the period from September 29, 2013 through March 30, 2014, we increased cash and cash equivalents by \$0.03 million primarily attributable to decreased purchases and inventory and collections on open accounts receivable, which was partially offset by payments against the credit facility. We believe our resources and liquidity are sufficient for the next twelve months of operations.

"Second Quarter results were disappointing and below expectation," stated Danny Schoening, Optex CEO. "The volume of new solicitations and product orders from U.S. Government Defense agencies continue to slow as the results of defense spending cutbacks are realized. In addition, the shift in purchasing responsibility for many of our products has been transferred to the Defense Logistics Agency (DLA) where there's been a noticeable shift from reliability to lower price. We are transitioning several of our volume periscopes to lower cost models with streamlined production overhead to meet this new criteria."

In this quarter our sales to foreign entities continues to expand and we delivered the first order of Optex's electronically enhanced M17 Day/Thermal periscope to a South American country's department of defense. Additionally, we are presenting our entire product line of modernized periscopes and sighting systems at the Armored Vehicles Latin America in Rio de Janeiro, Brazil on May 27-29, 2014.

Merrick Okamoto, Optex's Chairman, also commented, "Our corporate focus continues to be on merger and acquisition opportunities because we're confident that a strong partnership can benefit Optex and other companies during this cycle of lower defense spending. Our commitment continues to be providing high-quality, value and durable products to defense organizations worldwide."

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)

	<u>March 30, 2014</u> <u>(Unaudited)</u>	<u>September 30, 2013</u>
ASSETS		
Current Assets		
Cash	\$ 1,157	\$ 882
Accounts Receivable	1,270	3,118
Net Inventory	6,923	7,579
Prepaid Expenses	29	36
Total Current Assets	9,379	11,615
Property and Equipment		
Property Plant and Equipment	1,704	1,704
Accumulated Depreciation	(1,498)	(1,460)
Total Property and Equipment	206	244
Other Assets		
Deferred Tax Asset - Long Term	1,154	1,077
Prepaid Royalties - Long Term	165	180
Security Deposits	27	21
Total Other Assets	1,346	1,278
Total Assets	\$ 10,931	\$ 13,137
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 352	\$ 989
Accrued Expenses	435	706
Accrued Warranties	25	25
Customer Advance Deposits - Short Term	825	769
Credit Facility	-	858
Total Current Liabilities	1,637	3,347
Other Liabilities		
Customer Advance Deposits - Long Term	1,547	1,935
Total Other Liabilities	1,547	1,935
Total Liabilities	3,184	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	17,955	17,922
Retained Earnings (Deficit)	(10,379)	(10,224)
Total Stockholders' Equity	7,747	7,855
Total Liabilities and Stockholders' Equity	\$ 10,931	\$ 13,137

The accompanying notes are an integral part of these financial statements

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

	<i>(Thousands, except common share data)</i>			
	<i>Three months ended</i>		<i>Six months ended</i>	
	<u>March 30, 2014</u>	<u>March 31, 2013</u>	<u>March 30, 2014</u>	<u>March 31, 2013</u>
Revenues	\$ 2,182	\$ 3,770	\$ 5,536	\$ 7,620
Total Cost of Sales	<u>1,818</u>	<u>3,115</u>	<u>4,555</u>	<u>6,268</u>
Gross Margin	\$ 364	\$ 655	\$ 981	\$ 1,352
General and Administrative	<u>577</u>	<u>807</u>	<u>1,205</u>	<u>1,441</u>
Operating Loss	\$ (213)	\$ (152)	\$ (224)	\$ (89)
Other Expenses				
Interest Expense - Net	<u>1</u>	<u>6</u>	<u>8</u>	<u>6</u>
Total Other	\$ <u>1</u>	\$ <u>6</u>	\$ <u>8</u>	\$ <u>6</u>
Loss Before Taxes	\$ (214)	\$ (158)	\$ (232)	\$ (95)
Deferred Income Taxes (Benefit)	<u>(72)</u>	<u>(52)</u>	<u>(77)</u>	<u>(29)</u>
Net Loss After Taxes	<u>\$ (142)</u>	<u>\$ (106)</u>	<u>\$ (155)</u>	<u>\$ (66)</u>
Net Loss Applicable to Common Shareholders	\$ (142)	\$ (106)	\$ (155)	\$ (66)
Basic and Diluted Loss per Share	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.0010)</u>	<u>\$ (0.0004)</u>
Weighted Average Common Shares Outstanding	160,588,050	152,957,718	158,967,329	152,652,163

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CONTACT:
Optex Systems Holdings, Inc.
Stanley A. Hirschman
President
(972) 764-5700
ir@optexsys.com
1420 Presidential Drive
Richardson, TX 75081

Source: Optex Systems Holdings, Inc.