

Optex Systems Holdings Inc
Form 424B3
October 10, 2012

Prospectus Supplement No. 1 **Filed Pursuant to Rule 424(b)(3)**
(To Prospectus dated July 19, 2012) **Registration No. 333-173502**

Optex Systems Holdings, Inc.

25,000,000 Shares of Common Stock

This prospectus supplement relates to the offer and sale from time to time of up to 25,000,000 shares of common stock of Optex Systems Holdings, Inc., a Delaware corporation, by the selling stockholders named in the prospectus dated July 19, 2012 (the "Prospectus"). The Prospectus relates to the offer and sale of up to 25,000,000 shares of common stock registered on Registration Statement No. 333-173502. You should read this prospectus supplement in conjunction with the Prospectus, and this prospectus supplement is qualified in its entirety by reference to the Prospectus, except to the extent that the information contained in this prospectus supplement supersedes or supplements the information contained in the Prospectus.

The information contained herein supplements the information in the Prospectus related to the Financial Statements and Supplementary Data by including our audited financial statements and related notes for the three months ended July 1, 2012. This prospectus supplement also contains certain other information included in our report on Form 10-Q for the quarter ended July 1, 2012.

Our report on Form 10-Q for the quarter ended July 1, 2012, reflects a total of 144,444,940 shares of our common stock issued and outstanding as of August 14, 2012.

Investing in our common stock is speculative and involves a high degree of risk. See "Risk Factors" beginning on page 2 of the Prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if the Prospectus or this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is October 10, 2012.

Optex Systems Holdings, Inc.**Condensed Consolidated Balance Sheets**

	(Thousands)	
	July 1, 2012 (Unaudited)	October 2, 2011
ASSETS		
Current Assets		
Cash	\$2,302	\$1,514
Accounts Receivable	2,067	2,392
Net Inventory	5,024	4,088
Prepaid Expenses	37	17
Total Current Assets	\$9,430	\$8,011
Property and Equipment		
Property Plant and Equipment	\$1,573	\$1,488
Accumulated Depreciation	(1,372)	(1,227)
Total Property and Equipment	\$201	\$261
Other Assets		
Deferred Tax Asset - Long Term	\$1,069	\$1,204
Prepaid Royalties - Long Term	208	-
Security Deposits	21	21
Total Other Assets	\$1,298	\$1,225
Total Assets	\$10,929	\$9,497
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$882	\$716
Accrued Expenses	644	547
Accrued Warranties	25	25
Customer Advance Deposits - Short Term	600	-
Credit Facility	-	507

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Total Current Liabilities	\$2,151	\$1,795
Other Liabilities		
Customer Advance Deposits - Long Term	1,172	-
Total Other Liabilities	\$1,172	\$-
Total Liabilities	\$3,323	\$1,795
Stockholders' Equity		
Optex Systems Holdings, Inc. – (par \$0.001, 2,000,000,000 authorized, 144,444,940 and 139,444,940 shares issued and outstanding, respectively)	\$144	\$139
Optex Systems Holdings, Inc. Preferred Stock (\$0.001 par 5,000 authorized, 1,027 series A preferred issued and outstanding)	-	-
Additional Paid-in-capital	17,711	17,662
Retained Earnings (Deficit)	(10,249)	(10,099)
Total Stockholders' Equity	\$7,606	\$7,702
Total Liabilities and Stockholders' Equity	\$10,929	\$9,497

The accompanying notes are an integral part of these financial statements.

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

	(Thousands)			
	Three months ended		Nine months ended	
	July 1, 2012 (Unaudited)	July 3, 2011 (Unaudited)	July 1, 2012 (Unaudited)	July 3, 2011 (Unaudited)
Revenues	\$3,476	\$3,231	\$11,608	\$11,971
Total Cost of Sales	2,807	2,681	9,602	10,166
Gross Margin	\$669	\$550	\$2,006	\$1,805
General and Administrative	787	592	2,108	1,741
Operating Income (Loss)	\$(118)	\$(42)	\$(102)	\$64
Other Expenses				
Interest (Income) Expense - Net	2	10	19	64
Total Other	\$2	\$10	\$19	\$64
Income (Loss) Before Taxes	\$(120)	\$(52)	\$(121)	\$-
Deferred Income Taxes (Benefit)	17	(17)	135	2
Net Income (Loss) After Taxes	\$(137)	\$(35)	\$(256)	\$(2)
Less preferred stock dividend (accrued) waived	\$-	\$(104)	\$106	\$(307)
Net income (loss) applicable to common shareholders	\$(137)	\$(139)	\$(150)	\$(309)
Basic and diluted income (loss) per share	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)
Weighted Average Common Shares Outstanding	144,444,939	139,444,940	141,697,686	139,444,940

The accompanying notes are an integral part of these financial statements.

Optex Systems Holdings, Inc.**Condensed Consolidated Statements of Cash Flows (Unaudited)**

	(Thousands)	
	Nine months ended July 1, 2012 (Unaudited)	Nine months ended July 3, 2011 (Unaudited)
Cash flows from operating activities:		
Net income (loss)	\$(256)	\$ (2)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	145	50
Provision for allowance for inventory valuation	73	-
Noncash interest expense (income)	(16)	22
Stock option compensation expense	111	73
(Increase) decrease in accounts receivable	325	488
(Increase) decrease in inventory (net of progress billed)	(1,008)	(253)
(Increase) decrease in prepaid expenses	(20)	183
(Increase) decrease in deferred tax asset (net of valuation allowance)	135	378
Increase (decrease) in accounts payable and accrued expenses	277	143
Increase (decrease) in customer advance deposits	1,772	-
Increase (decrease) in accrued estimated loss on contracts	-	(698)
Total adjustments	\$1,794	\$ 386
Net cash (used)/provided by operating activities	\$1,538	\$ 384
Cash flows from investing activities:		
(Increase) decrease in prepaid royalties - long term	(208)	-
Purchased of property and equipment	(85)	(25)
Net cash (used in) provided by investing activities	\$(293)	\$ (25)
Cash flows from financing activities:		
Proceeds (to) from credit facility (net)	(507)	(707)
Proceeds from issuance of common stock	50	-
Net cash (used In) provided by financing activities	\$(457)	\$ (707)
Net increase (decrease) in cash and cash equivalents	\$788	\$ (348)
Cash and cash equivalents at beginning of period	1,514	1,030
Cash and cash equivalents at end of period	\$2,302	\$ 682

Supplemental cash flow information:

Cash paid for interest	\$35	42
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The accompanying notes are an integral part of these financial statements.

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Note 1 - Organization and Operations

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

Optex Systems Holdings’ operations are based in Richardson, Texas in a leased facility comprising 49,100 square feet. As of July 1, 2012, Optex Systems Holdings operated with 64 full-time equivalent employees.

Optex Systems Holdings manufactures optical sighting systems and assemblies, primarily for Department of Defense and foreign military applications. Its products are installed on a variety of U.S. and foreign 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. All significant inter-company balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements of Optex Systems Holdings included herein have been prepared by Optex Systems Holdings, without audit, pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in conjunction with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although Optex Systems Holdings believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the annual audited financial statements and the notes thereto included in the Optex Systems Holdings' Form 10-K for the year ended October 2, 2011 and other reports filed with the SEC.

The accompanying unaudited interim financial statements reflect all adjustments of a normal and recurring nature which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows of Optex Systems Holdings for the interim periods presented. The results of operations for these periods are not necessarily comparable to, or indicative of, results of any other interim period or for the fiscal year taken as a whole. Certain information that is not required for interim financial reporting purposes has been omitted.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

Inventory: Inventory is recorded at the lower of cost or market value, and adjusted, as necessary, 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 July 1, 2012 and October 2, 2011, inventory included:

	(Thousands)	
	As of July 1, 2012 (unaudited)	As of October 2, 2011
Raw Materials	\$3,829	\$3,917
Work in Process	1,678	1,930
Finished Goods	774	176
Gross Inventory	\$6,281	\$6,023
Less:		
Unliquidated Progress Payments	(431)	(1,181)
Inventory Reserves	(826)	(754)
Net Inventory	\$5,024	\$4,088

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.

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.

Optex Systems Holdings may at times have contracts that allow for invoicing based on achievement of milestone events. In such cases, Optex Systems Inc. recognizes revenue based on the milestone method in accordance with FASB ASC 605-28, as applicable. On October 24, 2011, Optex Systems Inc. was awarded an \$8.0