Optex Systems Holdings Inc
Form 10-Q
August 12, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 28, 2009

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______to______.

OPTEX SYSTEMS HOLDINGS, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware	333-143215	33-143215
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1420 Presidential Drive, Richardson, TX	75081-2439
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: 972-238-1403

(Former Name or Former Address if Changed Since Last Report)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2)has been subject to such filing requirements for the past 90 days. Yes No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company filer. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o Not applicable.

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act.
Yes x No o

State the number of shares outstanding of each of the issuer's classes of common equity, as of August 4, 2009:
141,464,940 shares of common stock.

OPTEX SYSTEMS HOLDINGS, INC.
FORM 10-Q
June 28, 2009

INDEX

Item 1. Financial Information

OPTEX SYSTEMS HOLDINGS, INC.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 28, 2009

OPTEX SYSTEMS HOLDINGS, INC.

Optex Systems Holdings, Inc.
(formerly known as Sustut Exploration, Inc.
Condensed Consolidated Balance Sheets

	June 28, 2009 (unaudited)		September 28, 2008 (restated)	
ASSETS				
Current Assets				
Cash and Cash Equivalents	$	492,325	$	170,183
Accounts Receivable		3,228,098		2,454,235
Net Inventory		6,843,017		4,547,726
Prepaid Expenses		158,797		307,507
Total Current Assets	$	10,722,237	$	7,479,651
Property and Equipment				
Property, Plant and Equipment		1,341,271		1,314,109
Accumulated Depreciation		(1,073,745)		(994,542)
Total Property and Equipment	$	267,526	$	319,567
Other Assets				
Security Deposits		20,684		20,684
Intangibles, net of accumulated amortization of $1,553,394 and $370,371, respectively.		2,483,395		1,100,140
Goodwill		7,110,415		10,047,065
Total Other Assets	$	9,614,494	$	11,167,889
Total Assets	$	20,604,257	$	18,967,107

The accompanying notes are an integral part of these financial statements

F-1

Optex Systems Holdings, Inc.
(formerly known as Sustut Exploration, Inc.)
Balance Sheets – Continued

	Unaudited June 28, 2009		September 28, 2008 (Restated)	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable	$	3,223,278	$	1,821,534
Accrued Expenses		628,492		798,974
Accrued Warranties		314,446		227,000
Accrued Contract Losses		687,111		821,885
Loans Payable		-		373,974
Interest on Loans Payable		11,101		-
Income Tax Payable		85,179		4,425
Total Current Liabilities	$	4,949,607	$	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	$	4,949,607	$	10,684,091
Stockholders' Equity				
Optex Systems Holdings, Inc. – (par $0.001, 300,000,000 authorized, 141,464,940 and 113,333,282 shares issued and outstanding as of June 28, 2009 and September 28, 2008, respectively)		141,465		113,333
Optex Systems Holdings, Inc. Preferred Stock (.001 par 5,000 authorized, 1027 series A preferred issued and outstanding)		1		-
Additional Paid-in-capital		22,087,136		14,080,383
Retained Earnings (Deficit)		(6,573,952)		(5,910,700)
Total Stockholders' Equity	$	15,654,650	$	8,283,016
Total Liabilities and Stockholders' Equity	$	20,604,257	$	18,967,107

The accompanying notes are an integral part of these financial statements

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

	Unaudited Three months ended		Unaudited Nine months ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
Revenues	$ 6,983,930	$ 3,881,053	$ 20,956,300	$ 13,925,073
Total Cost of Sales	6,417,926	2,851,287	18,874,888	11,716,785
Gross Margin	$ 566,004	$ 1,029,766	$ 2,081,412	$ 2,208,288
General and Administrative				
Salaries and Wages	176,869	253,594	524,911	744,119
Employee Benefits & Taxes	29,716	76,438	229,342	246,071
Employee Stock Bonus Plan	-	100,174	-	279,034
Amortization of Intangible	101,159	54,123	303,475	169,368
Rent, Utilities and Building Maintenance	50,838	69,959	163,273	160,999
Investor Relations	88,326	-	88,326	-
Legal and Accounting Fees	128,274	20,166	296,987	117,695
Consulting and Contract Service Fees	43,210	66,678	177,788	267,222
Travel Expenses	16,294	28,376	41,317	116,338
Corporate Allocations	-	508,275	-	1,450,905
Board of Director Fees	37,500	-	87,500	-
Other Expenses	87,749	47,127	183,686	124,729
Total General and Administrative	$ 759,935	$ 1,224,910	$ 2,096,605	$ 3,676,480
Operating Income (Loss)	$ (193,931)	$ (195,144)	$ (15,193)	$ (1,468,192)
Other Expenses				
Other (Income) and Expense	(351)	3	(1,434)	(499)
Interest (Income) Expense - Net	-	46,000	184,202	145,503
Total Other	$ (351)	$ 46,003	$ 182,768	$ 145,004
Income (Loss) Before Taxes	$ (193,580)	$ (241,147)	$ (197,961)	$ (1,613,196)
Income Taxes (Benefit)	114,973	-	465,291	-
Net Income (Loss) After Taxes	$ (308,553)	$ (241,147)	$ (663,252)	$ (1,613,196)
Basic and diluted loss per share	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)
Weighted Average Common Shares Outstanding (1)	141,464,940	113,333,282	122,744,977	113,333,282

1. The three months and nine months ended June 29, 2008 are shown depicting the effects of recapitalization on the equivalent shares issued as of the dates presented as if the March 30, 2009 reverse merger had occurred during those periods.

The accompanying notes are an integral part of these financial statements

F-3

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

		Unaudited Nine months ended June 28, 2009		Unaudited Nine months ended June 29, 2008
Cash flows from operating activities:				
Net Loss	$	(663,252)	$	(1,613,196)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	$	1,632,598	$	570,566
Provision for (use of) allowance for inventory valuation		185,636		-
Noncash interest expense		180,382		145,503
Stock Option Compensation expense (1)		15,174		-
(Increase) decrease in accounts receivable		(773,863)		460,783
(Increase) decrease in inventory (net of progress billed)		(2,480,927)		321,273
(Increase) decrease in other current assets		336,210		(190,829)
Increase (decrease) in accounts payable and accrued expenses		1,230,803		(510,043)
Increase (decrease) in accrued warranty costs		87,446		-
Increase (decrease) in due to parent		1,428		1,595,954
Increase (decrease) in accrued estimated loss on contracts		(134,774)		(1,021,761)
Increase (decrease) in income taxes payable		85,179		-
Total adjustments	$	365,292	$	1,371,446
Net cash used in operating activities	$	(297,960)	$	(241,750)
Cash flows from investing activities:				
Purchases of property and equipment		(27,162)		(103,974)
Net cash used in investing activities	$	(27,162)	$	(103,974)
Cash flows from financing activities:				
Private Placement, net of issuance costs		874,529		-
Proceeds (to) from Loans Payable - Qioptic		(227,265)		-
Net cash provided by financing activities	$	647,264		-
Net increase (decrease) in cash and cash equivalents		322,142		(345,724)
Cash and cash equivalents at beginning of period		170,183		504,753
Cash and cash equivalents at end of period	$	492,325	$	159,029

Optex Systems Holdings, Inc.
Statements of Cash Flows (continued)

		Unaudited Nine months ended June 28, 2009	Unaudited Nine months ended June 29, 2008
Noncash investing and financing activities:			
Optex Delaware purchase of Optex Systems from IRSN			
Liabilities not assumed			
Loan Payable	$	2,000,000	-
Accrued Interest on Loan Payable		345,648	-
Income Taxes Payable attributable to Irvine		4,425	-
Due to Parent (IRSN)		4,301,579	-
Total liabilities not assumed	$	6,651,652	-
Debt Incurred for Purchase (converted to Series A preferred stock)		(6,000,000)	-
Additional Purchased Intangible Assets		2,936,650	
Decrease to Goodwill		(2,936,650)	-
Recapitalization of Stockholders' Equity in Connection with sale to Optex Systems Inc. – Delaware		(1,102,566)	-
Effect on additional paid in capital	$	(450,914)	-
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	-
Issuance of Common shares in exchange for Investor Relations Services			
Additional Paid in Capital (1,250,000 shares issued at $0.001 par) (1)		187,500	-
Supplemental cash flow information:			
Cash paid for interest		3,817	-
Cash paid for taxes		380,112	-

(1) See Note 11 - Subsequent Events regarding change in Investor Relations. 700,000 of these shares were returned to the Company subsequent to the quarter end.

The accompanying notes are an integral part of these financial statements

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

	Common Shares Outstanding	Series A Preferred Shares	Common Stock	Preferred Series A Stock	Additional Paid in Capital	Retained Earnings	Total Stockholders Equity
Balance at September 28, 2008	113,333,282		$ 113,333		$ 14,080,383	$ (5,910,700)	$ 8,283,016
Net Liabilities not Assumed in Optex Texas Acquisition					651,652		651,652
Conversion of $6,000,000 of Debt and Interest to Series A preferred shares		1,027		1	6,159,780		6,159,781
Sustut Exploration Reorganization	19,999,991		20,000		167,500		187,500
Stock Option Compensation Expens					15.174		15,174
Private Placement - Sale of Stock	8,131,667		8,132		1,012,647		1,020,779
Net Earnings (Loss) from continuing operations						(663,252)	(663,252)
Balance at June 28, 2009	141,464,940	1,027	$ 141,465	$ 1	$ 22,087,136	$ (6,573,952)	$ 15,654,650

The accompanying notes are an integral part of these financial statements

OPTEX SYSTEMS HOLDINGS, INC.
(formerly known as Sustut Exploration, Inc.)
Notes to Condensed Consolidated Financial Statements

Note 1 - Organization and Operations

On March 30, 2009, Optex Systems Holdings, Inc., (formerly known as Sustut Exploration, Inc.) , a Delaware corporation (the “Company”), along with Optex Systems, Inc. , a privately held Delaware corporation which is the Company’s wholly-owned subsidiary (“Optex Delaware”), entered into a Reorganization Agreement and Plan of Reorganization, pursuant to which Optex Delaware was acquired by the Company in a share exchange transaction. The Company became the surviving corporation. At the closing, the Company 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 Corp. (“IRSN”), Longview Fund, L.P. (“Longview”) and Alpha Capital Anstalt (“Alpha”) formed Optex Delaware, which acquired all of the assets and assumed certain liabilities of Optex Systems, Inc., a Texas corporation and wholly owned subsidiary of IRSN, (“Optex Texas”) in a transaction that was consummated via purchase at a public auction. After this asset purchase, Optex Texas remained a wholly-owned subsidiary of IRSN. Although Optex Delaware is the legal acquirer of Optex Texas in the transaction, Optex Texas is considered the accounting acquirer since the acquisition by Optex Delaware was deemed to be the purchase of a business in accordance with SFAS 141 “Business Combination” and EITF 98-3 “Determining Whether a Non-monetary Transaction Involves Receipt of Productive Assets or of a Business ..” Accordingly, in subsequent periods the financial statements presented will be those of the accounting acquirer.

Optex 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 IRSN, and Optex Texas was automatically converted to a Subchapter “C” Corporation. On December 29, 2006, the remaining 30% equity interest in Optex Texas was purchased by IRSN.

On February 20, 2009, Sileas Corp. (“Sileas”), a newly-formed Delaware corporation, owned by present members of the company’s management, purchased 100% of Longview's equity and debt interest in Optex Delaware, representing 90% of the aggregate equity interests in Optex Delaware, in a private transaction (the “Acquisition”). See Note 4.

Optex 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 the Company. Sileas is the majority owner of the Company owning approximately 72% of the Company. The Company plans to carry on the business of Optex Delaware as its sole line of business and all of the Company’s operations are conducted by and through Optex Delaware. Accordingly, in subsequent periods the financial statements presented will be those of the accounting acquirer. The financial statements of the Company represent subsidiary statements and do not include the accounts of its majority owner.

The Company’s operations are based in Richardson, Texas in a leased facility comprising 49,100 square feet. As of the nine months ended June 28, 2009, the Company operated with 107 full-time equivalent employees.

The Company 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. The Company also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. The Company’s 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, the Company's ISO certification status was upgraded from 9001:2000 to 9001:2008 which is significant because it brings the Company 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 the Company and its wholly-owned subsidiary, Optex Delaware. All significant inter-company balances and transactions have been eliminated in consolidation.

The accompanying financial statements include the historical accounts of Optex Delaware. As a result of the October 14, 2008 transaction described in Note 1 above, the accompanying financial statements also include the historical accounts of Optex Texas.

Although, Optex Texas 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 Texas accounts have been presented on the basis of push down accounting in accordance with Staff Accounting Bulletin No. 54 Application of "Push Down" Basis of Accounting in Financial Statements of Subsidiaries Acquired by Purchase . SAB 54 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 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 the Company.

The consolidated financial statements presented as of the period ended March 29, 2009 include the equity transactions of the Reorganization Agreement executed March 30, 2009, which precipitated the change in year end.

Upon completing the business combination with Sustut on March 30, 2009, the Company elected to change its fiscal year to match that of Optex 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 29th so as to coincide with the accounting acquirer's quarter end of March 29, 2009. See Note 5 for details of the Reorganization.

The condensed consolidated financial statements of the Company included herein have been prepared by the Company, 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 the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the annual audited financial statements and the notes thereto included in the Company's Forms 8-K 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 the Company 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 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 (FIFO) 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. At June 28, 2009, and September 28, 2008 inventory included:

	As of 6/28/2009	As of 9/28/2008
Raw Materials	$ 6,939,094	$ 4,199,657
Work in Process	3,529,351	5,575,520
Finished Goods	780,828	28,014
Gross Inventory	$ 11,249,273	$ 9,803,191
Less:		
Unliquidated Progress Payments	(3,546,890)	(4,581,736)
Inventory Reserves	(859,366)	(673,729)
Net Inventory	$ 6,843,017	$ 4,547,726

Gross inventory increased by $1,446,082 in the nine months ended June 28, 2009 in order to support increased production rates in 2009 over 2008 across all of our major product lines. Unliquidated progress payments declined by $1,034,846 as a result of increased shipments in previously progress billed programs, and inventory reserves increased by $185,637 to accrue for estimated inventory shrinkage associated with scrap, obsolescence and manufacturing overhead adjustments anticipated during physical inventory valuation at year end.

Stock-Based Compensation: In December 2004, FASB issued SFAS No. 123R, Share-Based Payment. SFAS No. 123R 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. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R 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.

The Company’s accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of 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 SFAS 123R.

Earnings per Share: Basic earnings per common share is computed by dividing net earnings by the weighted average number of common shares outstanding during each year presented. Diluted earnings per common share give the effect to the assumed exercise of stock options when dilutive. In a loss year, the calculation for basic and diluted earnings per share is considered to be to be the same, as the impact of potential common shares is anti-dilutive. At June 28, 2009 there were 2,681,649 stock options that could dilute future earnings, as compared to zero stock options at June 29, 2008.

Note 3 - Recent Accounting Pronouncements

In June 2008, FASB issued FASB Staff Position EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities”. FSP EITF 03-6-1 clarifies that share-based payment awards that entitle their holders to receive nonforfeitable dividends or dividend equivalents before vesting should be considered participating securities. We have granted and expect to continue to grant restricted stock that contain non-forfeitable rights to dividends and will be considered participating securities upon adoption of FSP EITF 03-6-1. As participating securities, we will be required to include these instruments in the calculation of our basic earnings per share ("EPS"), and we will need to calculate basic EPS using the "two-class method." Restricted stock is currently included in our dilutive EPS calculation using the treasury stock method. The two-class method of computing EPS is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending October 3, 2010. The Company does not expect adoption of FSP EITF 03-6-1 to have a material effect on the Company’s financial statements.

In May 2009, FASB issued SFAS No. 165, "Subsequent Events". SFAS 165 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. SFAS 165 is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009. As such, the Company adopted these provisions at the beginning of the interim period ended June 28, 2009. Adoption of SFAS 165 did not have a material effect on the Company’s financial statements.

In June 2009, FASB issued Statement of Financial Accounting Standard No. 168, " The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162". SFAS 168 replaces Statement 162 and establishes the FASB Accounting Standards CodificationTM (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. SFAS 168 is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As such, the Company is required to adopt these provisions at the beginning of the interim period ending September 27, 2009. The Company does not expect adoption of SFAS 168 to have a material effect its financial statements.

In June 2006, FASB issued 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 " . FIN 48 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. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on the Company's financial position, results of operations, or cash flows.

In September 2006, the FASB issued FASB Statement 157, "Fair Value Measurements" ("FASB No. 157"). FASB No. 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. FASB No. 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, FASB No. 157 does not require any new fair value measurements. However, for some entities, the application of FASB No. 157 will change current practice. The changes to current practice resulting from the application of FASB No. 157 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 No. 157 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 No. 157 did not have a material impact on the Company's financial position, results of operations, or cash flows.

In February 2007, 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 are effective as of the beginning of our fiscal year 2008, with early adoption permitted. The adoption of FASB No. 159 did not have a material impact on the Company's financial position, results of operations, or cash flows.

In March 2007, EITF Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements". EITF 06-10 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. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The adoption of EITF 06-10 did not have a material impact on the Company's financial position, results of operations, or cash flows.

In December 2007,FASB issued SFAS No. 141(R), Business Combinations and 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. Statement Nos. 141(R) and 160 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. The Company is currently evaluating the impact of adopting SFAS Nos. 141(R) and SFAS 160 on its financial statements. See Note 9 for adoption of SFAS 141R subsequent to December 28, 2008.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110. SAB 110 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. SAB 110 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. The Company does not have any outstanding stock options.

In March 2008, FASB issued SFAS No. 161, " Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133”. SFAS 161 requires enhanced disclosures about an entity’s derivative and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended September 30, 2009. The Company is currently evaluating the impact of SFAS 161 on its financial statements but does not expect it to have a material effect

In May 2008, FASB issued SFAS No. 162, " The Hierarchy of Generally Accepted Accounting Principles ”. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States. SFAS 162 is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of FASB No. 162 did not have a material impact on the Company's financial position, results of operations, or cash flows.

In May 2008, FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60 ". SFAS 163 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. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended September 30, 2011. The Company is currently evaluating the impact of SFAS 163 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 Texas

Acquisition of Assets of Optex Texas by Optex Delaware on October 14, 2008

On October 14, 2008, in a purchase transaction that was consummated via public auction, Optex Delaware exchanged $15 million of IRSN debt owned by it and assumed approximately $3.8 million of certain Optex Texas liabilities and all of the assets of Optex Texas. The $15 million of IRSN debt was contributed by Longview and Alpha to Optex Delaware, as discussed below, in exchange for a $6 million note payable from Optex Delaware and a $9 million equity interest in Optex Delaware. There was no contingent consideration associated with the purchase. Longview and Alpha, which were secured creditors of IRSN, owned Optex Delaware until February 20, 2009, when Longview sold 100% of its equity interests in Optex Delaware to Sileas, as discussed below.

Optex Delaware purchased all of the assets of Optex Texas, including: intellectual property, production processes and know-how, and outstanding contracts and customer relationships. Optex Delaware also assumed certain liabilities of Optex Texas consisting of accounts payable and accrued liabilities. The Company's 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 the Company's working capital availability as opposed to the limited working capital that was available during the time period in which the assets were owned by IRSN.

Optex 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 the Company 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

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 IDIQ awards	1,273,222
Total Intangible Asset to be amortized	$ 4,036,789

Identifiable intangible assets primarily consist of customer and program backlog and will be amortized between general and administrative expenses and costs of sales according to their respective estimated useful lives as follows:

		2009	2010	2011	2012	2013
Contracted Backlog amortized by delivery schedule	COS	$ 1,666,559	$ 718,289	$ 126,158	$ 19,614	$ 4,762
Contracted Backlog amortized by delivery schedule	G&A	149,990	64,646	11,354	1,765	429
Program Backlog amortized straight line across 5 years	G&A	254,645	254,645	254,645	254,645	254,645
Total Amortization by Year		$ 2,071,194	$ 1,037,580	$ 392,157	$ 276,024	$ 259,834

The accompanying unaudited pro forma financial information for the three and nine months ended June 28, 2009 and June 29, 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.

Pro forma revenue and earnings per share information is presented cumulatively in Note 5 regarding the subsequent acquisition of a controlling interest in Optex Delaware by Sileas Corp. and the Reorganization Agreement.

Secured Promissory Note Issued in connection with Purchase by Optex Delaware

In connection with the public sale of the Optex Texas assets to Optex Delaware, Optex 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 March 27, 2009, Sileas and Alpha exchanged their Notes plus accrued and unpaid interest for 1,027 shares of Optex 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 Delaware, in the “Acquisition”. As of the date of this transaction, Sileas is the majority owner of the Company.

The primary reasons for the Acquisition by Sileas was to effect synergies that the management and corporate structure of Sileas could produce in the contract bidding process in which the Company participates due to federal requirements for small business set-asides on certain government contracts.

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 (the “Issue Date”), Sileas, currently majority owner of the Company, 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 the Company 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 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, (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 the Company’s 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.

The Company has not guaranteed the note and Longview is not entitled to pursue the Company in the event of a default by Sileas. Therefore, there are no actual or potential cash flow commitments from the Company. In the event of default by Sileas on its obligations under the note, Longview would only be entitled to receive the Company 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 Delaware exchanged their shares of Common Stock with the shares of Common Stock of the Company as follows: (i) the outstanding 85,000,000 shares of Optex Delaware Common Stock were exchanged by the Company for 113,333,282 shares of Company Common Stock, (ii) the outstanding 1,027 shares of Optex Delaware Series A Preferred Stock be exchanged by the Company for 1,027 shares of Company Series A Preferred Stock and such additional items as more fully described in the Agreement and (iii) the 8,131,667 shares of Optex Delaware Common Stock purchased in the private placement were exchanged by the Company for 8,131,667 shares of Company Common Stock. Following the Reorganization, Optex Delaware remained a wholly-owned subsidiary of the Company.

Shares outstanding of the Company just prior to the close consisted of 19,999,991 shares of which 1,250,000 shares were issued on March 27, 2009 as payment for Investor Relations Services, of which 700,000 were surrendered to the Company upon termination of one of the Investor Relations contracts in June 2009. See Note 11 – “Subsequent Events” for a further discussion. The total outstanding common shares of the Company subsequent to the close of the reorganization is as follows:

Reconciliation of Share activity reflecting Acquisition Activities on Stockholders’ Equity at March 29, 2009

	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
Balance at September 28, 2008 as reported on historical statements of Optex – Texas	10,000		$ 164,834		$ (1,217,400)	$ 15,246,282	$ (5,910,700)	$ 8,293,016
Optex Delaware Acquisition	(10,000)		(164,834)		1,217,400	(1,052,566)		
Issuance of 50,000,000 Optex Delaware shares	50,000,000		50,000			(50,000)		
Stock split of 1.7:1 of common shares outstanding as of March 26, 2009	35,000,000		35,000			(35,000)		
Reorganization of Optex Delaware Shares Outstanding	(85,000,000)		(85,000)			85,000		
Reorganization Share Exchange (113,333,282 Sustut shares for 85,000,000 Optex System Inc. shares)	113,333,282		113,333			(113,333)		
Balance at September 28, 2008 as reported March 29, 2009 (1)	113,333,282	-	$ 113,333	-	-	$ 14,080,383	$ (5,910,700)	$ 8,283,016
Net Liabilities not Assumed in Optex Texas Acquisition						$ 651,652		$ 651,652
Conversion of 6,000,000 Debt and Interest to Series A preferred shares		1,027		$ 1		6,159,780		6,159,781

Sustut Reorganization (2)	19,999,991		20,000		167,500		187,500
Private Placement Sale of Stock (2)	8,131,667		8,132		1,012,647		1,020,779
Net Earnings (Loss) from continuing operations through March 29, 2009						(354,700)	(354,700)
Balance at March 29, 2009	141,464,940	1,027	$ 141,465	$ 1	$ 22,071,962	$ (6,265,400)	$ 15,948,028

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 reorganizations and change in the accounting acquirers' period end.on March 30, 2009.
(2)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.

Private Placement

Simultaneously with the closing of the Reorganization Agreement, as of March 30, 2009 , the Company accepted subscriptions from accredited investors for a total of 27.1 units (the "Units"), for $45,000.00 per Unit, with each Unit consisting of Three Hundred Thousand (300,000) shares of common stock, no par value (the "Common Stock") of the Company and warrants to purchase Three Hundred Thousand (300,000) shares of Common Stock for $0.45 per share for a period of five (5) years from the initial closing (the "Warrants"), which were issued by Sustut after the closing referenced above. Gross proceeds to the Company were $1,219,750, and after deducting (i) a cash finders 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:

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, 300,000,000 authorized, 141,464,940 shares issued and outstanding as of March 29, 2009)	113,333	20,000	8,132	141,465
Optex Systems Holdings, Inc. Preferred Stock (.001 par 5,000 authorized, 1027 series A preferred issued and outstanding)	1			1
Additional Paid in Capital	20,891,815	167,500	1,012,647	22,071,962
Retained Earnings	(6,265,400)			(6,265,400)
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 issue of 1,250,000 Sustut shares issued by Sustut prior to March 30, 2009. The prepaid expense covers April 2009 through April 2010 and will be reflected on the consolidate Statement of Operations for the Company as expensed. See Note 11 - Subsequent Events. 700,000 of these shares were returned to the Company subsequent to the quarter end.

The expenses reflected by the Company on its Statement of Operations for the period from April 1, 2009 through March 31, 2010 will be increased by $46,875 per calendar quarter (as a non-cash expense) as a result of the issuance of the 1,250,000 shares for Investor Relations Services by Sustut and are carried on the Sustut Balance Sheet as a prepaid expense. The same Investor Relations agreements also call for an aggregate cash payment of $8,000 per month which will increase the expense by an additional $24,000 per quarter. Therefore, the total impact of the agreements for Investor Relations Services is $70,875 per quarter (pretax) including both the current cash expense and the amortization of the prepaid expense which is carried on the Condensed Consolidated Balance Sheet of the Company. See Note 11 - Subsequent Events. 700,000 of these shares were returned to the Company subsequent to the quarter end.

The accompanying unaudited pro forma financial information for the nine months ended June 28, 2009 and June 29, 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 three and six months ended June 28, 2009 and June 29, 2008 as if the acquisition of Optex and Reorganization Plan had occurred on the first day of each of the years.

	Unaudited Three Months Ended		Unaudited Nine Months Ended	
	June 28, 2009	June 29, 2008	June 29, 2009	June 29, 2008
Revenues	6,983,930	3,881,053	20,956,300	13,925,073
Net Income (Loss)	(308,553)	145,877	(653,750)	(450,016)
Diluted earnings per share	$ (0.00)	$ 0.00	$ (0.00)	$ (0.00)
Weighted Average Shares Outstanding	141,464,940	141,464,940	141,464,940	141,464,940

The pro forma information depicted above reflect the impacts of reduced interest expense, increased intangible amortization expenses, the elimination of corporate allocation costs from IRSN and the elimination of employee stock bonus compensation previously pushed down from IRSN. 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 IRSN.

Note 6 Commitments and Contingencies

Leases

The company leases 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. Total expenses under these facility lease agreements for the three and nine months ended June 28, 2009 was $77,350 and 232,343 respectively. Total expenses for manufacturing and office equipment for the three and nine months ended June 28, 2009 was $796 and $2,464. At June 28, 2009, the remaining minimum lease payments under non-cancelable operating leases for equipment, office and facility space are as follows:

	Operating Leases
Fiscal Years ending September	
2009	$ 119,461
2010	79,867
2011	16,753
2012	-
2013	-
Thereafter	-
Total minimum lease payments	$