

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 30, 2009

OPTEX SYSTEMS HOLDINGS, INC.

(Exact Name of Registrant as Specified in Charter)

Delaware

(State or other jurisdiction of
incorporation)

333-143215

(Commission File Number)

33-143215

(IRS Employer Identification No.)

1420 Presidential Drive, Richardson, TX

(Address of principal executive offices)

75081-2439

(Zip Code)

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

Sustut Exploration, Inc. 1420 5th Avenue #220

Seattle, Washington 98101

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 DFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4 (c) under the Exchange Act (17 CFR 240.13e-4(c))
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ITEM 1.01 Entry into Material Definitive Agreement.

On March 30, 2009, Optex Systems Holdings, Inc. (formerly known as Sustut Exploration, Inc., and the name was changed on March 26, 2009 pursuant to an amendment to the Articles of Incorporation, filed with the State of Delaware) (the “Registrant”) entered into an Agreement and Plan of Reorganization (the “Reorganization Agreement”) with Optex Systems, Inc., a privately-held Delaware corporation (“Optex”).

Closing under the Reorganization Agreement was contingent, among other things, upon receipt by the Registrant of (i) financial statements of Optex which have been audited in accordance with generally accepted accounting principles in the U.S, (ii) written approval from all shareholders of Optex of the terms of Reorganization Agreement, (iii) receipt of representations from the shareholders of Optex regarding their ownership of the shares and authority to transfer them under the terms of the Reorganization Agreement free and clear of any liens, claims or encumbrances, and (iv) delivery of the share certificates representing all of the issued and outstanding stock of Optex, duly endorsed for transfer. The parties closed the transaction on or about March 30, 2009.

Registrant, Shareholders and Optex entered into this Agreement which provides, among other things, that (i) the outstanding 85,000,000 shares of Optex Common Stock be exchanged by Registrant for 113,333,282 shares of Registrant Common Stock, (ii) the outstanding 1,027 shares of Optex Series A Preferred Stock be exchanged by Registrant for 1,027 shares of Registrant Series A Preferred Stock and such additional items as more fully described in the Agreement and (iii) the 8,131,667 shares of Optex purchased in the private placement were exchanged by Registrant for 8,131,667 shares of Registrant Common Stock, as acknowledged by Registrant. Accordingly, following closing, Optex will be a wholly-owned subsidiary of the Registrant, and the Registrant will have a total of approximately 141,464,940 million common stock shares issued and outstanding, of which 19,999,991 million will be owned by persons who were previously shareholders of the Registrant and 121,464,949 will be owned by persons who were previously shareholders of Optex, and/or their nominees. Registrant will also have 1,027 shares of its Series A Preferred Stock outstanding which will be owned by persons who were previously creditors of Optex.

In addition, pursuant to the terms and conditions of the Reorganization Agreement upon Closing:

- The Registrant’s board of directors will be reconstituted to consist initially of Stanley Hirschman, Merrick Okamoto and Ronald Richards.
 - All current officers of the Registrant shall resign and the newly constituted board of directors shall appoint Stanley Hirschman as President, and shall appoint such other officers as it deems necessary and in the best interests of the Registrant.
 - Following closing, the Registrant shall complete the sale, transfer or other disposition of its pre-closing business operations, including all assets and liabilities related to such operations.
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Item 2.01 Completion of Acquisition or Disposition of Assets .

As used in this Current Report on Form 8-K, all references to the "Company," "we," "our" and "us" for periods prior to the closing of the Reorganization refer to the Registrant, and for periods subsequent to the closing of the Reorganization refer to the Registrant and its subsidiaries.

Information regarding the Company, Optex and the principal terms of the Reorganization are set forth below.

The Reorganization

The Reorganization. On March 30, 2009, a closing occurred whereby the then existing shareholders of Optex exchanged their shares of Optex Common Stock for the shares of Common Stock of Registrant as follows: (i) the outstanding 85,000,000 shares of Optex Common Stock were exchanged by Registrant for 113,333,282 shares of Registrant Common Stock, (ii) the outstanding 1,027 shares of Optex Series A Preferred Stock were exchanged by Registrant for 1,027 shares of Registrant Series A Preferred Stock and such additional items as more fully described in the Agreement and (iii) the 8,131,667 shares of Optex Common Stock purchased in the private placement will be exchanged by Registrant for 8,131,667 shares of Registrant Common Stock, as acknowledged by Registrant. Optex shall remain a wholly owned subsidiary of Registrant, and Optex shareholders are now shareholders of Registrant.

Simultaneously with closing of the Reorganization Agreement (and the shares are included above), as of March 30, 2009, Optex accepted subscriptions ("Private Placement") from accredited investors for a total 27 units (the "Units"), for \$45,000 per Unit, with each Unit consisting of Three Hundred Thousand (300,000) shares of common stock, no par value (the "Common Stock") of Optex 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 Registrant after the closing referenced above. Gross proceeds to the Company were \$1,219,750, and after deducting a finders fee of \$139,555 which was payable in cash, and non-cash consideration which constituted satisfaction of indebtedness owed to an investor of \$146,250, net proceeds were \$933,945. The finder also received five year warrants to purchase 2.7 Units, at an exercise price of \$49,500 per unit.

Neither the Company nor Optex had any options or warrants to purchase shares of capital stock outstanding immediately prior to or following the Reorganization, except for 8,941,667 warrants issued in the Private Placement. Immediately prior the the closing, Registrant adopted the 2009 Stock Option Plan providing for the issuance of up to 6,000,000 shares for the purpose of having shares available for the granting of options to Company officers, directors, employees and to independent contractors who provide services to the Company.

The shares of the Company's common stock issued in connection with the Reorganization and the private placement offering were not registered under the Securities Act. All shares issued in connection with the Reorganization were issued in reliance upon the exemption from registration provided by Regulation D under the Securities Act, which exempts transactions to certain accredited. The shares issued in connection with the private placement offering were issued in part in reliance upon the exemption from registration provided by Regulation D under the Securities Act and in part in reliance upon the exemption from registration provided by Section 4(2) under the Securities Act for transactions not involving any public offering. All such securities constitute "restricted securities" as defined in Rule 144 under the Securities Act of 1933, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements. Certificates representing these shares contain a restrictive legend stating the same.

Changes Resulting from the Reorganization. Registrant's business is now the business of Optex. Optex, which was founded in 1987, is a Richardson, Texas – based ISO 9001:2000 certified concern, which manufactures optical sighting systems and assemblies primarily for Department of Defense (DOD) applications. 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 Future Combat Systems (FCS) Stryker vehicle. 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. Optex profitably delivers high volume products, under multi-year contracts, to large defense contractors. Optex has the reputation and credibility with those customers as a strategic supplier.

Following completion of the Reorganization, the Company intends to carry on Optex's business as its sole line of business. The Company has relocated its executive offices to Optex Systems, Inc., 1420 Presidential Drive, Richardson, TX 75081-2439, and its telephone number is (972) 238-1403.

Changes to the Board of Directors. In conjunction with closing under the terms of the Reorganization Agreement, the number of members of the Company's board of directors was increased to three and Stanley Hirschman, Ronald Richards and Merrick Okamoto were appointed to serve as Directors of the Company and Andrey Oks resigned. Ronald Richards was appointed as Chairman of the board of directors.

All of the Company's directors will hold office until the next annual meeting of the stockholders or until the election and qualification of their successors. The Company's officers are elected by the board of directors and serve at the discretion of the board of directors.

Name Change and Stock Option Plan. On or about March 26, 2009, the Registrant's board of directors and shareholders approved the change of the Registrant's name to "Optex Systems Holdings, Inc." and approved the 2009 Stock Option Plan.

2009 Stock Option Plan. The purpose of the Plan is to assist the Registrant in attracting and retaining highly competent employees and to act as an incentive in motivating selected officers and other employees of the Registrant and its subsidiaries, and directors and consultants of the Registrant and its subsidiaries, to achieve long-term corporate objectives. There are 6,000,000 shares of common stock reserved for issuance under this Plan. As of March 31, 2009, the Registrant had not issued any stock options under this Plan.

Description of the Business

Background

On March 30, 2009, a closing occurred whereby the then existing shareholders of the Company exchanged their shares of Company Common Stock with the shares of Common Stock of Sustut Exploration, Inc. ("Registrant") as follows: (i) the outstanding 85,000,000 shares of Company Common Stock were exchanged by Registrant for 113,333,282 shares of Registrant Common Stock, (ii) the outstanding 1,027 shares of Company Series A Preferred Stock were exchanged by Registrant for 1,027 shares of Registrant Series A Preferred Stock and such additional items as more fully described in the Agreement and (iii) the 8,131,667 shares of Company purchased in the private placement will be exchanged by Registrant for 8,131,667 shares of Registrant Common Stock, as acknowledged by Registrant. The Company shall remain a wholly-owned subsidiary of Registrant, and the Company's shareholders are now shareholders of Registrant.

Simultaneously with closing under the Reorganization Agreement (and the shares are included above), as of March 30, 2009, the Company accepted subscriptions ("Private Placement") from accredited investors for a total 27 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 Registrant after the closing referenced above. Gross proceeds to the Company were \$1,219,750, and after deducting a finders fee of \$139,555 which was payable in cash, and consideration which constituted of satisfaction of indebtedness owed to an investor of \$146,250, net proceeds were \$933,945. The finder also received five year warrants to purchase 2.7 Units, at an exercise price of \$49,500 per unit.

Optex, which was founded in 1987, is a Richardson, Texas – based ISO 9001:2000 certified concern, which manufactures optical sighting systems and assemblies primarily for Department of Defense (DOD) applications. 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 Armored Security Vehicles and have been selected for installation on the Future Combat Systems (FCS) Stryker vehicle. 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.

Optex profitably delivers high volume products, under multi-year contracts, to large defense contractors. Optex has the reputation and credibility with those customers as a strategic supplier. The successful completion of the separation from IRSN has enhanced the Company's ability to serve its existing customers and will set the stage for it to become a center of manufacturing excellence. The Company also anticipates the opportunity to integrate some of its night vision and optical sights products into retail applications. The Company now plans to carry on the business of Optex as its sole line of business, and all of the Company's operations are expected to be conducted by and through Optex. All references to the "Company," "we," "our" and "us" for periods prior to the closing of the Reorganization refer to the Registrant, and references to the "Company," "we," "our" and "us" for periods subsequent to the closing of the Reorganization refer to the Registrant and its subsidiaries.

Organizational History

Optex Systems, Inc., which was founded in 1987, is an ISO 9001:2000 certified concern which manufactures optical sighting systems and assemblies primarily for Department of Defense (DOD) applications. Optex was a privately-held company since inception until being acquired by publicly traded Irvine Sensors Corp. (IRSN) on December 30, 2005 and was operated as a wholly owned subsidiary of IRSN. On October 14, 2008, Optex Systems Inc. (Delaware) acquired Optex Systems in a public auction process. Optex Delaware was formed by the Longview Fund, LP and Alpha Capital Antstalt, former secured creditors of IRSN, to consummate the transaction with the Company, and subsequently, on February 20, 2009, Longview Fund conveyed its ownership interest in the Company to Sileas Corp., an entity owned by three of the Company's officers.

Products

Optex 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 Future Combat Systems (FCS) Stryker vehicle. 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.

Optex profitably delivers high volume products, under multi-year contracts, to large defense contractors. Optex has the reputation and credibility with those customers as a strategic supplier. The successful completion of the separation from IRSN has enhanced the company's ability to serve its existing customers and will set the stage for it to become a center of manufacturing excellence. The Company also anticipates the opportunity to integrate some of its night vision and optical sights products into retail applications.

Specific product lines include:

- Electronic sighting systems
 - Mechanical sighting systems
 - Laser protected glass periscopes
 - Laser protected plastic periscopes
 - Non-laser protected plastic periscopes
 - Howitzer sighting systems
 - Ship binoculars
 - Replacement optics (e.g. filters, mirrors)
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Location and Facility

Optex is located in Richardson, TX in a 49,000 square foot facility and currently has 109 employees. The Company operates with a single shift, and capacity could be expanded by adding a second shift. The Company's proprietary processes and methodologies serve to provide barriers to entry by other competing suppliers. In many cases Optex is the sole source provider or one of only two providers of a product. It has capabilities which include machining, bonding, painting, tracking, engraving and assembly and can perform both optical and environmental testing in-house.

Prior Operational/Financial Challenges; Recovery; and Future Growth Potential

During the IRSN phase of Optex's history, its parent company faced certain business challenges and utilized the cash flow from Optex to meet other non-Optex needs. This left Optex with inadequate operating resources.

Since the buyout, the Optex picture has dramatically changed. Management has made substantial progress in increasing operational efficiencies and productivity and has become profitable. Based on this progress, management estimates 2009 annual revenue of \$27.4 million to be drawn from its \$42 million backlog and ongoing contractual business.

Optex is currently bidding on several substantial government contracts to expand sales and production beyond the current production and backlog. It is also exploring possibilities to adapt some of its products for commercial use where those markets show potential for solid revenue growth.

Market Opportunity – U.S. Military

Optex products are currently marketed in the military and related government markets. Since 1998, American military spending has increased over 225% on an annual basis to over \$600 billion per year. As the American presence overseas continues, this level of spending should continue to exist. Also, the market for replacement parts for existing military equipment is significant.

Optex meets the U.S. military requirements in its product lines:

- Reliability – failure can cost lives
- Cost effectiveness
- Ability to deliver on schedule
- Armed forces need to be able to see to perform
- Mission critical products.

Therefore, Optex is well positioned to continue to service U.S. military needs.

Market Opportunity – Commercial/Retail

Optex products are currently sold exclusively to military and related government markets. We believe we have significant potential retail opportunities to commercialize various products we presently manufacture. Our initial focus will be directed in three product areas.

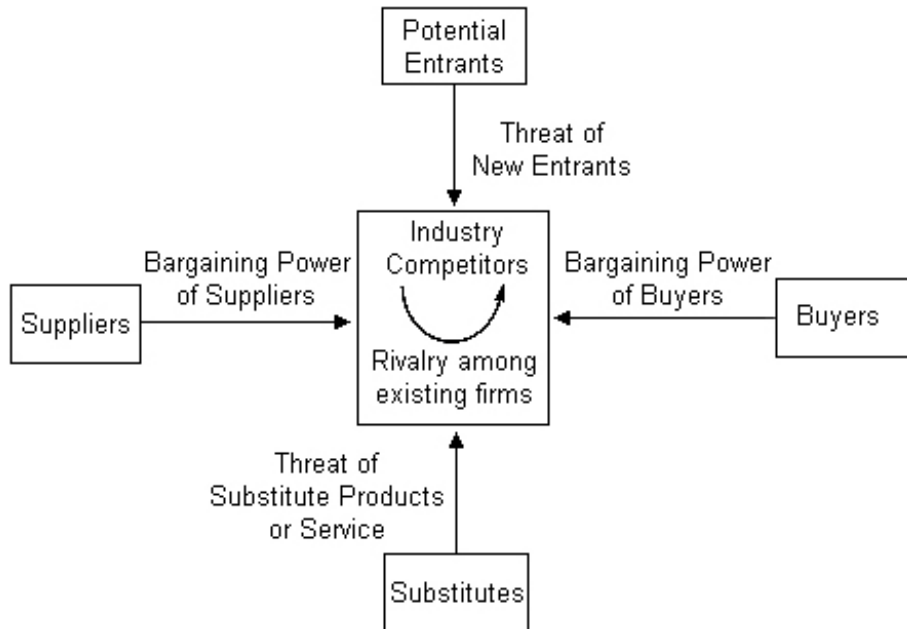
- Big Eye Binoculars – While the military application we produce is based on mature military designs, Optex owns all castings, tooling and glass technology. These large fixed mount binoculars could be sold to Cruise Ships, Personal Yachts and Cities/Municipalities.
- Night Vision Goggles – Optex presently manufactures the Optical System for the NL-61 Night Vision Goggles for the Ministry of Defense of Israel. This technology is based on the IR Squared design and could be implemented for retail commercial applications.
- Infrared Imaging Equipment – Optex manufactures and assembles Infrared Imaging Equipment for Textron and components for Raytheon’s Thermal Imaging M36 Mount product. This equipment and technology has potential to be assembled for border patrol, police and security agencies.

Customer Base

Optex serves customers in three primary categories: as prime contractor (TACOM, U.S. Army, Navy and Marine Corps), as subcontractor (General Dynamics, BAE, Raytheon and Northrop) and also as a supplier to foreign governments (Israel, Australia and NAMS). Although we do serve all three of these categories, at present, approximately 90% of the gross revenue from our business is derived from two customers, General Dynamics Land Systems (“GDLS”) and U.S. Army TACOM, with which we have approximately 50 discrete contracts which cover supply of all of vehicles, product lines and spare parts. Given the size of GDLS and TACOM as well as the fact that the contracts are not interdependent, we are of the opinion that this provides us with a well diversified customer pool. This broad base enables Optex to mitigate its risk in this economic environment by not relying on a sole or few sources of revenue as well as providing a broad base from which to build its future business.

Marketing Plan

Optex has used two models to help define its Marketing Plan. First, Michael Porter’s Five Force Model.



Potential Entrants – Low. In order to enter this market companies have a large barrier to entry. The first hurdle is that an entrant would need to prove the existence of a government approved accounting systems for larger contracts. Second, the entrant would need to develop the processes required to produce the product. Third, the entrant would need to produce product and submit successful test requirements (many of which need government consultation to complete). Finally, in many cases the customer has an immediate need, cannot wait for this qualification cycle, and must issue the contracts to existing suppliers.

Buyers – Medium. In most cases the buyers have two fairly strong suppliers. It is in their best interest to keep at least two, and therefore in some cases the contracts are split between suppliers. In the case of larger contracts, the customer can potentially request an open book policy on costs and expect a reasonable margin has been applied.

Substitutes – Low. Optex has both new vehicle contracts and replacement part contracts for the exact same product. The US Government has declared that the Abrams/Bradley base vehicles will be the ground vehicle of choice out through 2040. This allows efficiencies within the supply chain and a very long ROI on new vehicle proposals.

Suppliers – Low to Medium. The suppliers of standard processes (casting, machining, plating, etc.) have very little power. Given the current state of the economy, they need to be very competitive to gain and /or maintain contracts. Those suppliers of products which use Top Secret Clearance processes are slightly better off; however, there continues to be multiple avenues of supply and therefore moderate power.

Industry Competitors – Low. The current suppliers have been partitioned according to their processes and the products. Optex and Miller-Holzwarth tend to compete for the plastic periscope products whereas Optex and Seiler have competed on the higher level products. In the last 12-18 months, Optex has begun to challenge Seiler in areas where they have long held the dominant role. For example, while the existing Howitzer contracts are at low margins, the new bids will be at a much higher margin now that Optex has proven they can produce the product.

The second model is a two by two matrix for Products and Customers.

New Products	Tacom – M187, M137, Aiming Circle, M119 Alignment Device	Nightvision – Thermal Sights. ITT – Night Vision Products L3 – Night Vision Products
	Tacom – Periscopes, Collimators, Back Up Sights. GDLS – Periscopes, Collimators, ICWS	BAE – Periscopes, Collimators, Back Up Sights. Textron – Periscopes, Collimators, ICWS
Existing Products	Existing Customers	New Customers

This model describes three basic actions for Optex:

- 1) Take Existing Products into the applications of New Customers.
- 2) Take New Products into our Existing Customers.
- 3) Expand the Portfolio by developing New Products for New Customers.

Operations Plan

The Operations Plan for Optex can be broken down into three distinct areas: Material Management, Manufacturing Space Planning, and Efficient Economies of Scale.

Materials Management

The largest portion of costs captured in the Optex Income Statement is Materials. Optex has completed the following activities in order to demonstrate continuous improvement:

- Successful Completion of ISO9001:2000 Re-Certification
 - Weekly Cycle Counts on Inventory Items
 - Weekly Material Review Board Meeting on non-moving piece parts
 - Kanban kitting on products with consistent weekly ship quantities
 - Daily review of Yields and Product Velocity
 - Bill of Material Reviews prior to Work Order Release
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Future continuous improvement opportunities include installation and training of the Shop Floor Control module within our ERP system and organizational efficiencies of common procurement techniques among buyers.

Manufacturing Space Planning

The existing square footage occupied by Optex is 49,000. While not critical at this time, Optex needs to explore expansion opportunities to support future growth. Given the ample building opportunities along with competitive lease rates, the objective is to maintain building and building related costs consistent on a percent to sales perspective on the Income Statement. This leads to the third and final area.

Efficient Economies of Scale

Consistent with the aforementioned Space Planning, Optex will drive the economies of scale to reduce support costs on a percentage of sales basis. These cost reductions can then be either brought directly to the bottom line or used for business investment.

This process is driven by the use of Six Sigma techniques and Process Standardization. Initial activities in this area have been the success of 5S projects in several production areas which has lead to improved output and customer approval on the aesthetics of the work environment. In addition to the 5S projects, Optex has used the DMAIC (Define, Measure, Analyze, Improve, Control) Problem Solving technique to identify bottlenecks within the process flow and improve product yields. These successful techniques can then be duplicated across the production floor and drive operational improvements.

Intellectual Property

We utilize several highly specialized and unique processes in the manufacture of our products. While we believe that these trade secrets have value, it is probable that our future success will depend primarily on the innovation, technical expertise, manufacturing and marketing abilities of our personnel. We cannot assure you that we will be able to maintain the confidentiality of our trade secrets or that our non-disclosure agreements will provide meaningful protection of our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or other disclosure. The confidentiality agreements that are designed to protect our trade secrets could be breached, and we might not have adequate remedies for the breach. Additionally, our trade secrets and proprietary know-how might otherwise become known or be independently discovered by others. We do not possess any patents.

Our competitors, many of which have substantially greater resources, may have applied for or obtained, or may in the future apply for and obtain, patents that will prevent, limit or interfere with our ability to make and sell some of our products. Although we believe that our products do not infringe on the patents or other proprietary rights of third parties, we cannot assure you that third parties will not assert infringement claims against us or that such claims will not be successful.

Competition

The markets for our products are competitive. We compete primarily on the basis of our ability to design and engineer products to meet performance specifications set by our customers. Our customers include the military and government end users as well as prime contractors that purchase component parts or subassemblies, which they incorporate into their end products. Product pricing, quality, customer support, experience, reputation and financial stability are also important competitive factors.

There are a limited number of competitors in each of the markets for the various types of products that we design, manufacture and sell. At this time we consider our primary competitors to be Seiler Instruments, Miller-Holzwarth, Kent Periscopes, and EO System Co.

Our competitors are often well entrenched, particularly in the defense markets. Some of these competitors have substantially greater resources than we do. While we believe that the quality of our technologies and product offerings provides us with a competitive advantage over certain manufacturers, some of our competitors have significantly more financial and other resources than we do to spend on the research and development of their technologies and for funding the construction and operation of commercial scale plants.

We expect our competitors to continue to improve the design and performance of their products. We cannot assure investors that our competitors will not develop enhancements to, or future generations of, competitive products that will offer superior price or performance features, or that new technology or processes will not emerge that render our products less competitive or obsolete. Increased competitive pressure could lead to lower prices for our products, thereby adversely affecting our business, financial condition and results of operations. Also, competitive pressures may force us to implement new technologies at a substantial cost, and we may not be able to successfully develop or expend the financial resources necessary to acquire new technology. We cannot assure you that we will be able to compete successfully in the future.

External Growth Potential/Roll-Up Opportunities

Optex operates in a business environment which is highly fragmented with numerous private companies which were established more than 20 years ago. Some of these companies were founded by family members 2-3 generations before the present family operators. Optex believes there are opportunities to seek mergers of strategic competitors once we are a public entity. We are not aware of any previous attempts to roll-up companies with our defense manufacturing expertise.

The typical company we compete with has 50-100 employees and annual revenue of \$20-\$50 million dollars. Most of these private companies have never had the opportunity to enjoy the benefits of consolidation and the resulting economies of scale which this can provide.

We plan to engage our competition on a selective basis, and explore all opportunities to grow our operations through mergers and/or acquisitions.

We have no acquisition agreements pending at this time and are not currently in discussions or negotiations with any third parties.

Employees

The Company has 109 employees. To the best of its knowledge, the Company is compliant with local prevailing wage, contractor licensing and insurance regulations, and has good relations with its employees.

Forward-Looking Statements

This Current Report on Form 8-K contains forward-looking statements. To the extent that any statements made in this Current Report on Form 8-K contain information that is not historical, these statements are essentially forward-looking. Forward-looking statements can be identified by the use of words such as “expects,” “plans,” “will,” “may,” “anticipates,” “believes,” “should,” “intends,” “estimates,” and other words of similar meaning. These statements are subject to risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties are outlined in “Risk Factors” and include, without limitation, the Company’s ability to raise additional capital to finance the Company’s activities; the effectiveness, profitability, and the marketability of its products; legal and regulatory risks associated with the Reorganization ; the future trading of the common stock of the Company; the ability of the Company to operate as a public company; the period of time for which the proceeds of the Private Placement will enable the Company to fund its operations; the Company’s ability to protect its proprietary information; general economic and business conditions; the volatility of the Company’s operating results and financial condition; the Company’s ability to attract or retain qualified senior management personnel and research and development staff; and other risks detailed from time to time in the Company’s filings with the SEC, or otherwise.

Information regarding market and industry statistics contained in this Report is included based on information available to the Company that it believes is accurate. It is generally based on industry and other publications that are not produced for purposes of securities offerings or economic analysis. The Company has not reviewed or included data from all sources, and cannot assure investors of the accuracy or completeness of the data included in this Report. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. The Company does not undertake any obligation to publicly update any forward-looking statements. As a result, investors should not place undue reliance on these forward-looking statements.

Management's Discussion and Analysis or Plan of Operations

All references to the "Company," "we," "our" and "us" for periods prior to the closing of the Reorganization refer to Optex, and references to the "Company," "we," "our" and "us" for periods subsequent to the closing of the Reorganization refer to the Registrant and its subsidiaries.

The following discussion highlights the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described. This discussion contains forward-looking statements. Please see "Special cautionary statement concerning forward-looking statements" and "Risk factors" for a discussion of the uncertainties, risks and assumptions associated with these forward-looking statements. The operating results for the periods presented were not significantly affected by inflation.

Plan of Operation

Through a private placement offering completed in conjunction with closing under the Reorganization Agreement, the Company has raised \$1,219,750 (\$933,945, net of finders fees and satisfaction of indebtedness owed to an investor) to fund operations. The proceeds will be used as follows:

Description	Offering
Additional Personnel	\$ 150,000
Legal and Accounting Fees	\$ 100,000
Working Capital	\$ 683,945
Totals:	\$ 933,945

Results of Operations

Three Months Ended December 31, 2008 Compared to the Three Months Ended December, 2007

Revenues. During the three months ended December 28, 2008, we recorded revenues of \$7.2 million, as compared to revenue for the three months ended December 30, 2007 of \$4.4 million, an increase of \$2.9 million or 64.5%. This increase in revenues was primarily due to the ramp up of production on our U.S. government and General Dynamics periscope lines to meet new orders and accelerated delivery customer requirements..

Cost of Goods Sold. During the quarter ended December 28, 2008, we recorded cost of goods sold of \$6.3 million as opposed to \$3.8 million during the quarter ended December 30, 2007, an increase of \$2.5 million or 64.2%. This increase in cost of goods sold was primarily due to increased revenue on our periscope lines in support of higher backlog and accelerated delivery schedules.

G&A Expenses. During the three months ended December 28, 2008, we recorded operating expenses of \$ 0.6 million as opposed to \$1.2 million during the three months ended December 30, 2007, a decrease of \$0.6 million or 50%. This decrease in G&A expenses was primarily due to the elimination of Corporate Cost allocations from Irvine Sensors of \$0.4 million, the Irvine Sensors, Employee Stock Bonus Plan (ESBP) of \$0.1 million and further reductions in consulting and travel expenses previously charged to Optex by Irvine Sensors in the three months ended December 30, 2007.

Earnings Before Other Expenses and Taxes. During the three months ended December 28, 2008, we recorded earnings of \$0.3 million as opposed to \$(0.6 million) during the three months ended December 30, 2007, an increase of 0.9 million or 150%. This increase in earnings before other expenses and taxes was primarily due to increased sales revenue in the three months ended December 28, 2008 combined with reduced general and administrative expenses driven by the elimination of Irvine Sensors corporate costs pushed down to Optex in the three months ended December 30, 2007.

Net Loss. During the three months ended December 28, 2008, we recorded a net loss of \$0.03 million, as compared to \$0.69 million for three months ended December 30, 2007, a decrease of \$0.7 million or 97.1%. This decrease in net loss was principally the result of an reduction in operating expenses related to costs pushed down from Irvine Sensors in the three months ended December 30, 2007 combined with increased revenue in three months ended December 28, 2008. Additionally, in the three months ended December 28, 2008 Optex incurred \$0.5 million in intangible expenses, representing an increase of \$0.3 million over the three months ended December 30, 2007. The increased intangible expenses relate to the acquisition of Optex from Irvine Sensors.

Year Ended September 28, 2008 Compared to Year Ended September 30, 2007

Revenues. During the year ended September 28, 2008, we recorded revenues of \$20.0 million, as compared to revenue for the year ended September 30, 2007 of \$15.4 million, an increase of \$4.6 million or 29.9%. This increase in revenues was primarily due to increased shipments on the ICWS periscope, and M137 & M187 Howitzer programs.

Cost of Goods Sold. During the year ended September 28, 2008, we recorded cost of goods sold of \$18.1 million as opposed to \$17.4 million during the year ended September 30, 2007, an increase of \$0.7 million or 4.5%. This increase in cost of goods sold was primarily due to increased revenues of \$4.6 million. The margins on the increased revenue is significantly improved over the year ended September 30, 2007 due to equitable price adjustments and accelerated schedule consideration received in the year ended September 2008 on periscopes and Howitzer programs. Additionally, the gross margin for year ended September 30, 2007 included significant contract loss reserves, excess and obsolescence and other non recurring inventory adjustments related to unrecoverable costs increases on fixed price contracts ..

Loss Before Other Expenses and Taxes. During the year ended September 28, 2008, we recorded a loss of \$3.1 million as opposed to \$6.8 million during the year ended September 30, 2007, a decrease of \$3.7 million or 54.4%. This decrease in loss was primarily due to the negotiation of several equitable price adjustments and consideration on accelerated delivery schedules in the year ended September 28, 2008. Additionally, for the year ended December 30, 2007 non recoverable cost increases on fixed price contracts resulted in significant contract loss and excess and obsolete inventory reserves as discussed above in cost of goods sold. These losses were partially offset in 2008 with equitable price adjustments negotiated with the customer.

Net Loss. During the year ended September 28, 2008, we recorded a net loss of \$4.8 million, as compared to \$6.8 million for year ended September 30, 2007, a decrease of \$2.0 million or 29.4%. This decrease in net loss was principally the result of increased revenues and negotiated equitable and other price adjustments discussed above partially offset by a \$1.6 million adjustment for asset impairment of goodwill. Goodwill was reviewed as of September 28, 2008 based upon the most recent value of the company as determined by the sale to third party purchasers on October 14, 2008.

Liquidity and Capital Resources

We have historically met our liquidity requirements from a variety of sources, including government and customer funding through contract progress bills, short term loans, and notes from related parties. Based on our strategy and the anticipated growth in our business, we believe that our liquidity needs will increase. The amount of such increase will depend on many factors, including the costs associated with the fulfillment of our projects, whether we upgrade our technology, and the amount of inventory required for our expanding business.

For the 3 months ended December 28, 2008

Cash and Cash Equivalents. As of December 28, 2008, we had cash and cash equivalents of \$0.5 million, as compared to cash and cash equivalents of \$0.1 million as of December 30, 2007.

Net Cash Used in Operating Activities. Net cash provided in operating activities totaled \$0.5 million for the 3 months ended December 28, 2008, as compared to \$0.3 million used for the 3 months ended December 30, 2007.

Net Cash Used in Investing Activities. Net cash used in investing activities totaled \$0.02 million during the 3 months ended December 28, 2008, as compared to net cash used in investing activities of \$0.03 million during the 3 months ended December 30, 2007.

Net Cash Provided By Financing Activities. Net cash provided by financing activities totaled \$0.2 million during the 3 months ended December 28, 2008, as compared to zero during the 3 months ended December 30, 2007.

For the 12 months ended September 28, 2008

Cash and Cash Equivalents. As of September 28, 2008, we had cash and cash equivalents of \$0.2 million compared to \$0.5 million in 2007.

Net Cash Used in Operating Activities. For the year ended September 28, 2008 we used \$0.6 million of net cash in operating activities, as compared to using \$1.5 million of net cash in operating activities during 2007.

Net Cash Used in Investing Activities. Net cash used in investing activities totaled \$0.1 million during the 12 months ended September 28, 2008, as compared to net cash used in investing activities of \$0.06 million during the 12 months ended September 30, 2007.

Net Cash Provided By Financing Activities. Net cash provided by financing activities totaled \$0.4 million during the 12 months ended September 28, 2008, as compared to net cash provided by financing activities of \$2.0 million during the 12 months ended September 30, 2007

Critical Accounting Policies and Estimates**Basis of Presentation**

The accompanying financial statements include the historical accounts of Optex Texas (hereinafter, the “Company” or “Optex Texas”). The financial statements have been presented as subsidiary-only financial statements, reflecting the balance sheets, results of operations and cash flows of the subsidiary as a stand-alone entity.

Although, the Company has been majority-owned by various parent companies, no accounts of the parent companies or the effects of consolidation with any parent companies have been included in the accompanying financial statements.

The financial statements have been presented on the basis of push down accounting in accordance with Staff Accounting Bulletin No. 54 (SAB 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 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.

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.

Accounts Receivable: The Company records its accounts receivable at the original sales invoice amount less shipment liquidations for previously collected advance/progress bills and an allowance for doubtful accounts. An account receivable is considered to be past due if any portion of the receivable balance is outstanding beyond its scheduled due date. On a quarterly basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on its history of past write-offs and collections, and current credit conditions. No interest is accrued on past due accounts receivable. As the customer base is primarily U.S. government and government prime contractors, the Company has concluded that there is no need for an allowance for doubtful accounts for the years ended September 28, 2008 and September 30, 2007.

Warranty Costs: Optex warrants the quality of its products to meet customer requirements and be free of defects for twelve months subsequent to delivery. On certain product lines the warranty period has been extended to 24 months due to technical considerations incurred during the manufacture of such products. In the year ended September 28, 2008, the company incurred \$227,000 of warranty expenses representing the estimated cost of repair or replacement for specific customer returned products still covered under warranty as of the return date and awaiting replacement, in addition to estimated future warranty costs for shipments occurring during the twelve months proceeding September 28, 2008. Future warranty costs were determined, based on estimated cost of replacement for expected returns based upon our most recent experience rate of defects as a percentage of sales. Prior to fiscal year 2008, all warranty expenses were incurred as product was replaced with no reserve for warranties against deliveries in the covered period.

Estimated Costs to Complete and Accrued Loss on Contracts: The Company reviews and reports on the performance of its contracts and production orders against the respective resource plans for such contracts/orders. These reviews are summarized in the form of estimates to complete ("ETC"s) and estimates at completion ("EAC"s). EACs include Optex's incurred costs to date against the contract/order plus management's current estimates of remaining amounts for direct labor, material, other direct costs and subcontract support and indirect overhead costs based on the completion status and future contractual requirements for each order. If an EAC indicates a potential overrun (loss) against a fixed price contract/order, management generally seeks to reduce costs and /or revise the program plan in a manner consistent with customer objectives in order to eliminate or minimize any overrun and to secure necessary customer agreement to proposed revisions.

If an EAC indicates a potential overrun against budgeted resources for a fixed price contract/order, management first attempts to implement lower cost solutions to still profitably meet the requirements of the fixed price contract. If such solutions do not appear practicable, management makes a determination whether to seek renegotiation of contract or order requirements from the customer. If neither cost reduction nor renegotiation appears probable, an accrual for the contract loss/overrun is recorded against earnings and the loss is recognized in the first period the loss is identified based on the most recent EAC of the particular contract or product order.

Goodwill and Other Intangible Assets: Goodwill represents the cost of acquired businesses in excess of fair value of the related net assets at acquisition. The Company does not amortize goodwill, but tests it annually for impairment using a fair value approach as of the first day of its fourth fiscal quarter and between annual testing periods, if circumstances warrant. Goodwill of Optex was reviewed as of September 30, 2007 and based on the assessment, it was determined that no impairment was required. Goodwill was reviewed as of September 28, 2008, and it was determined that an impairment charge of \$1,586,416 was required. The fair values assigned to the assets of the Company and the goodwill was based upon the most recent value of the Company as determined by the sale to third party purchasers on October 14, 2008.

The Company amortizes the cost of other intangibles over their estimated useful lives, unless such lives are deemed indefinite. Amortizable intangible assets are tested for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values. The identified amortizable intangible assets at September 28, 2008 and September 30, 2007 derived from the acquisition of Optex by Irvine Sensors and consisted of non-competition agreements and customer backlog, with initial useful lives ranging from two to eight years. Intangible assets with indefinite lives are tested annually for impairment, as of the first day of the Company's fourth fiscal quarter and between annual periods, if impairment indicators exist, and are written down to fair value as required.

Revenue Recognition: The Company recognizes revenue upon transfer of title at the time of shipment (F.O.B. shipping point), when all significant contractual obligations have been satisfied, the price is fixed or determinable, and collectability is reasonably assured.

Recent Accounting Pronouncements

In June 2006, The FASB issued Interpretation No. 48 "*Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*" ("FIN 48"). 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 consolidated financial position, results of operations, or cash flows.

In September 2006, the FASB issued FASB No. 157, "*Fair Value Measurements*" which establishes a framework for measuring fair value, and expands disclosures about fair value measurements. While FASB No. 157 does not apply to transactions involving share-based payment covered by FASB No. 123, it establishes a theoretical framework for analyzing fair value measurements that is absent from FASB No. 123. We have relied on the theoretical framework established by FASB No. 157 in connection with certain valuation measurements that were made in the preparation of these financial statements. FASB No. 157 is effective for years beginning after November 15, 2007. Subsequent to the Standard's issuance, the FASB issued an exposure draft that provides a one year deferral for implementation of the Standard for non-financial assets and liabilities. The Company is currently evaluating the impact FASB No. 157 will have on its financial statements.

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,*" (FASB 159), 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 Company is currently evaluating what effect the adoption of FASB 159 will have on its financial statements.

In March 2007, the Financial Accounting Standards Board ratified Emerging Issues Task Force ("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 Company is currently evaluating the impact of EITF 06-10 on its financial statements, but does not expect it to have a material effect.

In December 2007, the 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 14 to the financial statements for the year ended September 28, 2008 for adoption of SFAS 141R subsequent to September 30, 2008.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 ("SAB 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, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“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, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (“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 generally accepted accounting principles (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 Company is currently evaluating the impact of SFAS 162 on its consolidated financial statements but does not expect it to have a material effect.

In May 2008, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 163, *Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60* (“SFAS 163”). 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.

Cautionary Factors That May Affect Future Results

This Current Report on Form 8-K 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.

Risk Factors

Investing in our common stock involves a high degree of risk. Prospective investors should carefully consider the risks described below, together with all of the other information included or referred to in this Current Report on Form 8-K, before purchasing shares of our common stock. There are numerous and varied risks, known and unknown, that may prevent us from achieving our goals. The risks described below are not the only risks we will face. If any of these risks actually occurs, our business, financial condition or results of operations may be materially adversely affected. In such case, the trading price of our common stock could decline and investors in our common stock could lose all or part of their investment. The risks and uncertainties described below are not exclusive and are intended to reflect the material risks that are specific to us, material risks related to our industry and material risks related to companies that undertake a public offering or seek to maintain a class of securities that is registered or traded on any exchange or over-the-counter market.

Risks Related to our Business

We expect that we will need to raise additional capital in the future; additional funds may not be available on terms that are acceptable to us, or at all.

We anticipate we will have to raise additional capital in the future to service our debt and to finance our future working capital needs. We cannot assure you that any additional capital will be available on a timely basis, on acceptable terms, or at all. Future equity or debt financings may be difficult to obtain. If we are not able to obtain additional capital as may be required, our business, financial condition and results of operations could be materially and adversely affected.

We anticipate that our capital requirements will depend on many factors, including:

- our ability to repay our existing debt;
 - our ability to fulfill backlog;
 - our ability to procure additional production contracts;
 - our ability to control costs;
 - the timing of payments and reimbursements from government and other contracts;
 - increased sales and marketing expenses;
 - technological advancements and competitors' response to our products;
 - capital improvements to new and existing facilities;
 - our relationships with customers and suppliers; and
 - general economic conditions including the effects of future economic slowdowns, acts of war or terrorism and the current international conflicts.
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Even if available, financings can involve significant costs and expenses, such as legal and accounting fees, diversion of management's time and efforts, and substantial transaction costs. If adequate funds are not available on acceptable terms, or at all, we may be unable to finance our operations, develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures.

Certain of our products are dependent on specialized sources of supply that are potentially subject to disruption and attendant adverse impact to our business.

Some of our products currently incorporate components purchased from single sources of supply. If supply from single supply sources is materially disrupted, requiring us to obtain and qualify alternate sources of supply for such components, our revenues could decline, our reputation with our customers could be harmed, and our business and results of operations could be adversely affected.

Current economic conditions may adversely affect our ability to continue operations.

Current economic conditions may cause a decline in business and consumer spending and capital market performance, which could adversely affect our business and financial performance. Our ability to raise funds, upon which we are fully dependent to continue operations, may be adversely affected by current and future economic conditions, such as a reduction in the availability of credit, financial market volatility and recession.

Our historical operations depend on government contracts and subcontracts. We face additional risks related to contracting with the federal government, including federal budget issues and fixed price contracts.

General political and economic conditions, which cannot be accurately predicted, may directly and indirectly affect the quantity and allocation of expenditures by federal agencies. Even the timing of incremental funding commitments to existing, but partially funded, contracts can be affected by these factors. Therefore, cutbacks or re-allocations in the federal budget could have a material adverse impact on our results of our future operations. Obtaining government contracts may also involve long purchase and payment cycles, competitive bidding, qualification requirements, delays or changes in funding, budgetary constraints, political agendas, extensive specification development, price negotiations and milestone requirements. In addition, our government contracts are primarily fixed price contracts, which may prevent us from recovering costs incurred in excess of its budgeted costs. Fixed price contracts require us to estimate the total project cost based on preliminary projections of the project's requirements. The financial viability of any given project depends in large part on our ability to estimate such costs accurately and complete the project on a timely basis. Our exposure to the risks of cost overruns exists in our products business due to the fact that our contracts are solely of a fixed-price nature. Some of those contracts are for products that are new to our business and are thus subject to more potential for unanticipated impacts to manufacturing costs. Given the current economic conditions, it is also possible that even if our estimates are reasonable at the time made, that prices of materials are subject to unanticipated adverse fluctuation. In the event our actual costs exceed the fixed contractual cost of our product contracts, we will not be able to recover the excess costs.

Some of our government contracts are also subject to termination or renegotiation at the convenience of the government, which could result in a large decline in revenue in any given quarter. Although government contracts have provisions providing for the reimbursement of costs associated with termination, the termination of a material contract at a time when our funded backlog does not permit redeployment of our staff could result in reductions of employees. Optex generally utilizes contract and temporary labor to supplement the regular workforce. This allows the company to mitigate impacts of significant fluctuations in volume through flexibility in increasing or decreasing the temporary labor workforce as customer requirements dictate. In addition, the timing of payments from government contracts is also subject to significant fluctuation and potential delay, where first article acceptance and test requirements are required or where a progress billing clause is not provided for in the contract.. Any such delay could result in a temporary shortage in our working capital.

If we fail to scale our operations appropriately in response to growth and changes in demand, we may be unable to meet competitive challenges or exploit potential market opportunities, and our business could be materially and adversely affected.

Our past growth has placed, and any future growth in our historical business is expected to continue to place, a significant strain on our management personnel, infrastructure and resources. To implement our current business and product plans, we will need to continue to expand, train, manage and motivate our workforce, and expand our operational and financial systems, as well as our manufacturing and service capabilities. All of these endeavors will require substantial management effort and additional capital. If we are unable to effectively manage our expanding operations, we may be unable to scale our business quickly enough to meet competitive challenges or exploit potential market opportunities, and our current or future business could be materially and adversely affected.

We do not have long-term employment agreements with our key personnel, other than our Chief Operating Officer. If we are not able to retain our key personnel or attract additional key personnel as required, we may not be able to implement our business plan and our results of operations could be materially and adversely affected.

We depend to a large extent on the abilities and continued participation of our executive officers and other key employees. The loss of any key employee could have a material adverse effect on our business. We do not presently maintain “key man” insurance on any key employees. We believe that, as our activities increase and change in character, additional, experienced personnel will be required to implement our business plan. Competition for such personnel is intense and we cannot assure you that they will be available when required, or that we will have the ability to attract and retain them. In addition, we do not presently have depth of staffing in our executive, operational and financial management. Until additional key personnel can be successfully integrated with its operations, the timing or success of which we cannot currently predict, our results of operations and ultimate success will be vulnerable to difficulties in recruiting a new executive management team and losses of key personnel.

Risks Relating to the Reorganization

The Company's directors and executive officers beneficially own a substantial percentage of the Company's outstanding common stock, which gives them control over certain major decisions on which the Company's stockholders may vote, which may discourage an acquisition of the Company.

As a result of the Reorganization, Sileas Corp. which is owned by one of the Company's directors, and two of the Company's officers, beneficially owns, in the aggregate, approximately 73% of the Company's outstanding common stock. The interests of the Company's management may differ from the interests of other stockholders. As a result, the Company's executive management will have the right and ability to control virtually all corporate actions requiring stockholder approval, irrespective of how the Company's other stockholders may vote, including the following actions:

- electing or defeating the election of directors;
- amending or preventing amendment of the Company's certificate of incorporation or bylaws;
- effecting or preventing a merger, sale of assets or other corporate transaction; and controlling the outcome of any other matter submitted to the stockholders for vote.

The Company's management's beneficial stock ownership may discourage a potential acquirer from seeking to acquire shares of the Company's common stock or otherwise attempting to obtain control of the Company, which in turn could reduce the Company's stock price or prevent the Company's stockholders from realizing a premium over the Company's stock price.

Public company compliance may make it more difficult to attract and retain officers and directors.

The Sarbanes-Oxley Act of 2002 and new rules subsequently implemented by the SEC have required changes in corporate governance practices of public companies. As a public entity, the Company expects these new rules and regulations to increase compliance costs in 2009 and beyond and to make certain activities more time consuming and costly. As a public entity, the Company also expects that these new rules and regulations may make it more difficult and expensive for the Company to obtain director and officer liability insurance in the future and it may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for the Company to attract and retain qualified persons to serve as directors or as executive officers.

Risks Relating to the Common Stock

The Company's stock price may be volatile.

The market price of the Company's common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond the Company's control, including the following:

- technological innovations or new products and services by the Company or its competitors;
- additions or departures of key personnel;
- limited "public float" following the Reorganization, in the hands of a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for the common stock;
- the Company's ability to execute its business plan;
- operating results that fall below expectations;
- loss of any strategic relationship;
- industry developments;
- economic and other external factors; and
- period-to-period fluctuations in the Company's financial results.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of the Company's common stock.

There is currently no liquid trading market for the Company's common stock and the Company cannot ensure that one will ever develop or be sustained.

The Company's common stock is currently approved for quotation on the OTC Bulletin Board trading under the symbol SSTX.OB. However, there is limited trading activity and not currently a liquid trading market. There is no assurance as to when or whether a liquid trading market will develop, and if such a market does develop, there is no assurance that it will be maintained. Furthermore, for companies whose securities are quoted on the Over-The-Counter Bulletin Board maintained by the National Association of Securities Dealers, Inc. (the "OTCBB"), it is more difficult (1) to obtain accurate quotations, (2) to obtain coverage for significant news events because major wire services generally do not publish press releases about such companies, and (3) to obtain needed capital. As a result, purchasers of the Company's common stock may have difficulty selling their shares in the public market, and the market price may be subject to significant volatility.

Offers or availability for sale of a substantial number of shares of the Company's common stock may cause the price of the Company's common stock to decline or could affect the Company's ability to raise additional working capital.

If the Company's current stockholders seek to sell substantial amounts of common stock in the public market either upon expiration of any required holding period under Rule 144 or pursuant to an effective registration statement, it could create a circumstance commonly referred to as "overhang," in anticipation of which the market price of the Company's common stock could fall substantially. The existence of an overhang, whether or not sales have occurred or are occurring, also could make it more difficult for the Company to raise additional financing in the future through sale of securities at a time and price that the Company deems acceptable.

The Company's common stock is currently deemed to be "penny stock", which makes it more difficult for investors to sell their shares.

The Company's common stock is currently subject to the "penny stock" rules adopted under section 15(g) of the Exchange Act. The penny stock rules apply to companies whose common stock is not listed on the NASDAQ Stock Market or other national securities exchange and trades at less than \$5.00 per share or that have tangible net worth of less than \$5,000,000 (\$2,000,000 if the company has been operating for three or more years). These rules require, among other things, that brokers who trade penny stock to persons other than "established customers" complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. If the Company remains subject to the penny stock rules for any significant period, it could have an adverse effect on the market, if any, for the Company's securities. If the Company's securities are subject to the penny stock rules, investors will find it more difficult to dispose of the Company's securities.

The elimination of monetary liability against the Company's directors, officers and employees under Delaware law and the existence of indemnification rights to the Company's directors, officers and employees may result in substantial expenditures by the Company and may discourage lawsuits against the Company's directors, officers and employees.

The Company's certificate of incorporation does not contain any specific provisions that eliminate the liability of directors for monetary damages to the Company and the Company's stockholders; however, the Company provides such indemnification to its directors and officers to the extent provided by Delaware law. The Company may also have contractual indemnification obligations under its employment agreements with its executive officers. The foregoing indemnification obligations could result in the Company incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which the Company may be unable to recoup. These provisions and resultant costs may also discourage the Company from bringing a lawsuit against directors and officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by the Company's stockholders against the Company's directors and officers even though such actions, if successful, might otherwise benefit the Company and its stockholders.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information regarding the number of shares of common stock beneficially owned on March 30, 2009, following consummation of the Reorganization and Private Placement, by:

- Each person who is known by us to beneficially own 5% or more of the Registrant's common stock;
- Each of the Registrant's directors and named executive officers; and
- All of the Registrant's directors and executive officers as a group.

Except as otherwise set forth below, the address of each of the persons listed below is the Registrant's address.

Title of Class	Name of Beneficial Owner	Number of Shares	Preferred Conversion	Combined Ownership	Percentage of Outstanding Shares
<u>Common Stock:</u>					
5% Holders	Arland Holdings, Ltd	11,148,935	4,040,000	15,188,935	7.93%
	Sileas Corp. (1)	102,184,347	37,040,000	139,224,347	72.71%
Directors and Officers:	Stanley Hirschman (2)	81,747,478	29,632,000	111,379,478	58.17%
	Danny Schoening (2)	15,327,652	5,556,000	20,883,652	10.91%
Directors and officers as a group (3 Individuals) (1) (2)		102,184,347	37,040,000	139,224,347	72.71%

1 Represents shares held by Sileas Corp. of which Stanley Hirschman a Director/Officer of Registrant has a controlling interest (80%), and both Danny Schoening and Karen Hawkins, officers of Registrant, have an interest (15% and 5% respectively).

2 Represents common shares held by Sileas Corp. See footnote 1 above for description of ownership interests of certain officers of Registrant in Sileas Corp.

MANAGEMENT

Directors and Executive Officers

The following table sets forth information regarding the members of our board of directors and our executive officers and other significant employees. All of our officers and directors were appointed on March 30, 2009, the closing date of the Reorganization.

The following table sets forth certain information with respect to the directors and executive officers of Optex Systems, Inc.:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stanley A. Hirschman	62	President, Secretary, Treasurer & Director
Merrick D. Okamoto	48	Director
Ronald F. Richards	42	Chairman of the Board
Danny Schoening	44	Chief Operating Officer
Karen Hawkins	44	Vice President of Finance and Controller

Stanley A. Hirschman. Stan Hirschman serves the Company as its President, Secretary, Treasurer, and a Director. Mr. Hirschman is the President of CPointe Associates, Inc., a Plano, Texas executive management and retail operations consulting firm. He is an investment due diligence specialist and works regularly with public companies dealing with the difficulties in the balance between increased regulatory requirements and reasonable corporate governance. He is a director of Axion Power International, South Texas Oil, Datascension, Inc. and former chairman of Mustang Software, Inc. While at Mustang Software, Mr. Hirschman took a hands-on role in the planning and execution of the strategic initiative to increase shareholder value resulting in the successful acquisition of the company by Quintus Corporation. Prior to establishing CPointe Associates, he was Vice President Operations, Software Etc., Inc., a 396 retail store software chain, from 1989 until 1996. He has also held executive positions with T.J. Maxx, Gap Stores and Banana Republic. Stan is a member of the National Association of Corporate Directors, the KMPG Audit Committee Institute and is a graduate of the Harvard Business School Audit Committees in the New Era of Governance symposium. He is active in community affairs and serves on the Advisory Board of the Salvation Army Adult Rehabilitation Centers.

Merrick D. Okamoto. Mr. Okamoto serves the Company as a Director. Mr. Okamoto is the President and Managing Member of Viking Asset Management, LLC and has been employed in the securities industry since 1983. Mr. Okamoto performs due diligence and research of potential investments for Viking and he is responsible for research, due diligence, and structuring potential investment opportunities. He is also responsible for all Viking trading operations. Mr. Okamoto is widely recognized as an advanced trader specializing in short-term trading with sector momentum and has more than 25 years of extensive experience in technical market analysis techniques. He has been a frequent speaker at national on-line trading venues. From 1987 to 1990, he hosted the television program, The Income Report. He also has appeared on CNN and The MacNeil-Lehrer Report. Before co-founding Viking in 2002, Mr. Okamoto co-founded and was the President of TradePortal.com, Inc. in 1999. TradePortal.com, Inc. is a software development company and its wholly owned subsidiary, TradePortal Securities, Inc., a direct access execution brokerage firm. Mr. Okamoto was instrumental in developing the proprietary Trade Matrix™ software platform offered by TradePortal Securities. His negotiations were key in selling a minority stake in TradePortal.com Inc. to Thomson Financial, a US \$6 billion revenue company. Prior to 1999, He held Vice President positions with Shearson Lehman Brothers, Prudential Securities and Paine Webber, and he was the founder of First Stage Capital, Inc. (1996 to 2002), which specialized in investment banking and consulting to public and private companies.

Ronald F. Richards. Mr. Richards serves the Company as its Chairman of the Board. Mr. Richards is the founder and Managing Director of Gray Wolf Partners, LLC, a strategic and financial advisory firm. He previously served as a Managing Director of Viking Asset Management, LLC where his responsibilities included: (i) sourcing, conducting due diligence, and structuring potential investment opportunities and (ii) working with portfolio companies to enhance shareholder value. He previously served as Chief Financial Officer and Senior Vice President, Business Development of Biopure Corporation, a publicly traded biotechnology company developing oxygen therapeutics and as a Managing Director, Corporate Finance of Wells Fargo Van Kasper. Mr. Richards has over 20 years of experience working with public and private companies in the areas of investment banking, corporate finance, law and accounting. He has structured and executed numerous public offerings and private placements raising a total of more than \$660 million. He also co-authored *PIPES: A CEO's Guide to Successful Private Placements in Public Equities*. Mr. Richards holds JD, MBA and BA degrees from UCLA. He is a member of the State Bar of California and a retired Certified Public Accountant.

Danny Schoening. Mr. Schoening serves the Company as its Chief Operating Officer. He has been instrumental in establishing the systems and infrastructure required to continue Optex System's rapid growth. This activity was rewarded with Optex System's recent ISO9001:2000 Certification. Prior to joining Optex Systems, Danny was the Vice President of Operations for The Finisar Corporation AOC Division for 4 years where he led a team of up to 200 employees to produce vertical cavity lasers for the data communications industry at production rates of hundreds of thousands of units per week. Prior to Finisar, Danny was the Director of Operations for multiple divisions of Honeywell International. Serving the Automotive, Medical, Aerospace, and Consumer Commercial Markets. During this 17 year period, Danny was recognized with Honeywell's Lund Award, their highest award for developing employee resources. Danny has a broad experience level in the following technologies: Mechanical Assembly Processes, Micro-Electronic Assembly Processes, Laser Manufacturing, Plastic Molding, Metal Machining, Plating, Thick Film Printing, Surface Mount Technology, Hall Effect Technology and MEMS based Pressure Devices. Danny received a Bachelors of Science in Manufacturing Engineering Technology from the University of Nebraska, an MBA from Southern Methodist University, and holds three United States Patents.

Karen Hawkins. Ms. Hawkins serves the Company as its Vice President, Finance and Controller. Ms. Hawkins is a Certified Public Accountant since 1992 with over 22 years experience in Financial Accounting and Management, primarily focused in the Defense and Transportation Industries. She has a strong background in both Financial & Cost Accounting, with extensive Government Pricing, Financial Analysis, and Internal Auditing experience. Her past history also includes Program Management, Materials Management and Business Development. She brings over 14 years direct experience in Government Contracting with a strong knowledge of CAS/FAR . Her previous employment includes General Dynamics – Ordnance and Tactical Division, Garland (formerly known as Intercontinental Manufacturing) for over 13 years. During her tenure here she served in the roles of Controller (Accounting & IT), Program Manager over a \$250M 3 year Army IDIQ contract, as well as Materials Manager with oversight of Purchasing, Production Control & Warehousing functions. Prior to her employment at General Dynamics, Ms. Hawkins served in various finance and accounting positions at Luminator, a Mark IV Industries Co, and Johnson Controls, Battery Division - Garland.

Family Relationships

There are no family relationships among the officers and directors.

Meetings of Our Board of Directors

The Registrant's board of directors did not hold any meetings during the fiscal year ended September 28, 2008. Optex's board of directors held three meetings during the 3 months ended December 31, 2008.

Board Committees

Audit Committee. The Company intends to establish an audit committee of the board of directors, which will consist of soon-to-be-nominated independent directors. The audit committee's duties would be to recommend to the Company's board of directors the engagement of an independent registered public accounting firm to audit the Company's financial statements and to review the Company's accounting and auditing principles. The audit committee would review the scope, timing and fees for the annual audit and the results of audit examinations performed by the internal auditors and independent registered public accounting firm, including their recommendations to improve the system of accounting and internal controls. The audit committee would at all times be composed exclusively of directors who are, in the opinion of the Company's board of directors, free from any relationship which would interfere with the exercise of independent judgment as a committee member and who possess an understanding of financial statements and generally accepted accounting principles.

Mr. Ronald Richards is the board of directors' financial expert to be considered upon the formation of the audit committee.

Compensation Committee. The Company intends to establish a compensation committee of the Board of Directors. The compensation committee would review and approve the Company's salary and benefits policies, including compensation of executive officers.

Director Compensation

The Company has not paid its directors any separate compensation in respect of their services on the board. However, in the future, the Company intends to implement a market-based director compensation program.

Directors' and Officers' Liability Insurance

We currently have directors' and officers' liability insurance insuring our directors and officers against liability for acts or omissions in their capacities as directors or officers, subject to certain exclusions. Such insurance also insures us against losses which we may incur in indemnifying our officers and directors. In addition, we have entered into indemnification agreements with key officers and directors and such persons shall also have indemnification rights under applicable laws, and our certificate of incorporation and bylaws.

Code of Ethics

As of the date hereof, we have not adopted a written code of ethics that applies to our principal executive officer, principal financial officer or controller, or persons performing similar functions due to our relatively small size. We intend to adopt a written code of ethics in the near future.

Executive Compensation

Summary Compensation Table

The following table sets forth, for the years indicated, all compensation paid, distributed or accrued for services, including salary and bonus amounts, rendered in all capacities by the Company's chief executive officer, chief financial officer and all other executive officers who received or are entitled to receive remuneration in excess of \$100,000 during the stated periods. These officers are referred to herein as the "named executive officers." The compensation table excludes other compensation in the form of perquisites and other personal benefits that constituted less than \$10,000 in value in 2006.

Summary Compensation Table

The table below sets forth, for our last two fiscal years, the compensation earned by Danny Schoening and Karen Hawkins, our Chief Executive Officer and Chief Financial Officer (the "Named Executive Officer"). Except as provided below, none of our executive officers received annual compensation in excess of \$100,000 during the last two fiscal years.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u> <u>(\$)</u>	<u>Bonus</u> <u>(\$)</u>	<u>Stock</u> <u>Awards (\$)</u> <u>(2)</u>	<u>All Other</u> <u>Compensation</u> <u>(\$)</u>	<u>Total</u> <u>(\$)</u>
Danny Schoening	2008(1)*	\$ 122,646	\$ 10,300	\$ 7,500	--	\$ 140,446
Chief Operating Officer	2007	N/A	N/A	N/A	N/A	N/A
Karen Hawkins	2008	132,473	- 300	-0-	-0-	132,773
VP Finance/Controller	2007(1)*	56,900	-300	-0-	-0-	57,200

- 1. The compensation depicted is not reflective of a full years compensation as Danny Schoening did not begin employment until the second quarter of fiscal year 2008 and Karen Hawkins did not begin employment until the third quarter of fiscal year 2007.*
- 2. Stock awards include issues of 10,000 common shares of Irvine Sensors Common Stock on January 16, 2008 at the then current market share price of \$0.75 per share*

Option Grants in Last Fiscal Year

There were no options granted to any of the named executive officers during the fiscal years ended September 28, 2008 and September 30, 2007.

Employment Agreement

The Company entered into an employment agreement with Danny Schoening ("Employee") dated December 1, 2008 ("Employment Agreement"). The term of the Agreement commenced as of December 1, 2008 and shall continue through June 1, 2010. Thereafter, the term of the Agreement shall be automatically extended for successive and additional 18 month periods, unless the Company shall provide a written notice of termination at least ninety (90) days, or the Employee shall provide a written notice of termination at least ninety (90) days, prior to the end of the initial term or any extended term, as applicable. During the first eighteen months of the term of the Agreement, the Company shall pay to Employee a base salary ("Base Salary") at the annual rate of One Hundred Ninety Thousand Dollars (\$190,000). On each renewal date of the commencement of employment, the Employee's base salary shall be reviewed by the Board and may be increased to such rate as the Board, in its sole discretion, may hereafter from time to time determine. During the term of the Agreement, Employee shall be entitled to receive bonuses of up to 30% of his base salary per year at the discretion of the Company's Board of Directors pursuant to performance objectives to be determined by the Board of Directors. Any bonuses shall be payable in cash and shall be paid within ninety (90) days of any year anniversary of the date of the Agreement. Upon closing of the Reorganization, the Company granted Employee stock options equal to 1% of the issued and outstanding shares of the Company immediately after giving effect to the Reorganization, with 34% of the options vesting on March 30, 2010, and 33% of the options vesting on each of March 31, 2011 and March 31, 2012. The Agreement contains a standard non solicitation and non-compete agreement that extends for one year subsequent to termination thereof, and contains standard clauses for termination and the like.

The Company does not have any other employment agreements with its executive officers and directors.

Equity Compensation Plan Information

The Company currently has an option compensation plan for up to 6,000,000 shares. The purpose of the Plan is to assist the Registrant in attracting and retaining highly competent employees and to act as an incentive in motivating selected officers and other employees of the Registrant and its subsidiaries, and directors and consultants of the Registrant and its subsidiaries, to achieve long-term corporate objectives. There are 6,000,000 shares of common stock reserved for issuance under this Plan. As of March 31, 2009, the Registrant had not issued any stock options under this Plan

Item 3.02 Unregistered Sales of Equity Securities.

On March 30, 2009, a closing occurred whereby the then existing shareholders of the Company exchanged their shares of Company Common Stock with the shares of Common Stock of Sustut Exploration, Inc. ("Registrant") as follows: (i) the outstanding 85,000,000 shares of Company Common Stock were exchanged by Registrant for 113,333,282 shares of Registrant Common Stock, (ii) the outstanding 1,027 shares of Company Series A Preferred Stock were exchanged by Registrant for 1,027 shares of Registrant Series A Preferred Stock and such additional items as more fully described in the Agreement and (iii) the 8,131,667 shares of Company purchased in the private placement will be exchanged by Registrant for 8,131,667 shares of Registrant Common Stock, as acknowledged by Registrant. The Company shall remain a wholly-owned subsidiary of Registrant, and the Company's shareholders are now shareholders of Registrant.

Simultaneously with closing under the Reorganization Agreement (and the shares are included above), as of March 30, 2009, the Company accepted subscriptions ("Private Placement") from accredited investors for a total of 27 units (the "Units"), for \$45,000 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 Registrant after the closing referenced above. Gross proceeds to the Company were \$1,219,750, and after deducting a finders fee of \$139,555 which was payable in cash, and consideration which constituted of satisfaction of indebtedness owed to an investor of \$146,250, net proceeds were \$933,945. The finder also received five year warrants to purchase 2.7 Units, at an exercise price of \$49,500 per unit.

The Company intends to use the net proceeds from the Private Placement to proceed with the items set forth above.

The issuance of the Reorganization Shares to the shareholders of Optex pursuant to the Reorganization Agreement was exempt from registration under the Securities Act pursuant to Section 4(2) thereof.

Description of Securities

The Company is authorized to issue 200,000,000 shares of common stock and 5,000 shares of Preferred Stock of which 1,027 shares are designated as Series A Preferred Stock. As of March 30, 2009, there were 141,464,940 shares of common stock issued and outstanding and 1,027 Series A Preferred Stock issued and outstanding.

Common Stock

The holders of common stock are entitled to one vote per share. The holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the board of directors out of legally available funds. However, the current policy of the board of directors is to retain earnings, if any, for operations and growth. Upon liquidation, dissolution or winding-up, the holders of common stock are entitled to share ratably in all assets that are legally available for distribution. The holders of common stock have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of any series of preferred stock, which may be designated solely by action of the board of directors and issued in the future.

Preferred Stock

Series A Preferred Stock

On March 24, 2009, the Company filed a Certificate of Designation with the Secretary of State of the State of Delaware authorizing a series of preferred stock, under its articles of incorporation, known as "Series A Preferred Stock". This Certificate of Designation was approved by the Registrant's Board of Directors and Shareholders at a Board Meeting and Shareholders Meeting held on February 25, 2009. The Certificate of Designation sets forth the following terms for the Series A Preferred Stock: (i) Number of authorized shares: 1,027; (ii) per share stated value: \$6,000; (iii) liquidation preference per share: stated value; (iv) conversion price: \$0.15 per share as adjusted from time to time; and (v) voting rights: votes along with the Common Stock on an as converted basis with one vote per share.

The Series A Preferred Shares entitle the holders to receive cumulative dividends at the rate of 6% per annum payable in cash at the discretion of Board of Directors. Each share of preferred stock is immediately convertible into common shares at the option of the holder which entitles the holder to receive the equivalent number of common shares equal to the stated value of the preferred shares divided by the conversion price initially set at \$0.15 per share.

Holders of preferred shares receive preferential rights in the event of liquidation. Additionally the preferred stock shareholders are entitled to vote together with the common stock on an "as-converted" basis.

Market Price and Dividends

Optex Delaware has been, a privately-held company and now is a wholly-owned subsidiary of the Company. There is not, and never has been, a public market for the securities of Optex. The Registrant's common stock is approved for trading on the OTCBB under the symbol "SSTX", but there is currently no liquid trading market for the Registrant's common stock. For the foreseeable future, the Company does not intend pay cash dividends to its stockholders.

Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law provides, in general, that a corporation incorporated under the laws of the State of Delaware, such as the Company, may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than a derivative action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. In the case of a derivative action, a Delaware corporation may indemnify any such person against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification will be made in respect of any claim, issue or matter as to which such person will have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery of the State of Delaware or any other court in which such action was brought determines such person is fairly and reasonably entitled to indemnity for such expenses.

Trading Information

The Company's common stock is currently approved for quotation on the OTCBB under the symbol "SSTX," but there is currently no liquid trading market for the Company's common stock. The transfer agent for our common stock is American Registrar.

Item 4.01 Changes in Registrant's Certifying Accountant.

On March 30, 2009, the Company notified Gately & Associates, LLC, the independent accountant engaged as the principal accountant to audit the financial statements of the Company, that the firm was dismissed as the Company's independent registered accountant, effective immediately.

On March 30, 2009, the Company engaged Rotenberg & Co, LLP, as its independent registered accounting firm. The decision to change accountants was recommended and approved by Company's Board of Directors.

The audit report of Gately & Associates, LLC on the Company's financial statements for the fiscal years ending December 31, 2007 and 2008; the most recent two periods for which said auditor has issued audit reports, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. The auditor was not required or engaged to audit the Company's internal control over financial reporting.

During the past two fiscal years and during the subsequent interim period preceding the date of dismissal, there were no disagreements with the auditor on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of the former accountants, would have caused it to make reference to the subject matter of the disagreements in connection with its report, and there were no reportable events as described in Item 304(a)(1)(iv) of Regulation S-B.

The Company has provided a copy of this disclosure to Gately & Associates, LLC and has requested that the firm furnish the Company with a letter addressed to the Securities and Exchange Commission stating whether it agrees with the statements made by the Company, and, if not, stating the respects in which it does not agree. A copy of the firm's letter is filed as Exhibit 16.1 hereto.

During the two most recent fiscal years prior to their engagement, or any subsequent interim period prior to engaging Rotenberg & Co. LLP, neither the Company nor anyone acting on the Company's behalf consulted with Rotenberg & Co. LLP regarding (i) the application of accounting principles to a specific completed or contemplated transaction, or (ii) the type of audit opinion that might be rendered on the Company's financial statements where either written or oral advice was provided that was an important factor considered by the Company in reaching a decision as to the accounting, auditing, or financial reporting issue, or (iii) any matter that was the subject of a disagreement with the Company's former accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of the former accountant, would have caused it to make reference to the subject matter of the disagreements in connection with its audit report.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On March 30, 2009, Andrey Oks resigned as Director and CEO of the Company, and Messrs. Stanley Hirschman, Ronald Richards and Merrick Okamoto were appointed as directors. Stanley Hirschman, Danny Schoening and Karen Hawkins were appointed as the President, COO and VP of Finance for the Registrant. Other than as set forth in this Form 8-K there are no compensatory measures to officers and there are standard fees paid to Board members.

Item 5.06 Change in Shell Company Status .

As a result of the consummation of the Reorganization described in Items 1.01 and 2.01 of this Current Report on Form 8-K, the Company believes that it is no longer a “shell corporation,” as that term is defined in Rule 405 of the Securities Act and Rule 12b-2 of the Exchange Act.

Item 9.01 Financial Statements and Exhibits .

(a) Financial statements of businesses acquired.

Optex ’s audited financial statements for the year ended September 28, 2008 and unaudited financial statements for the quarter ended December 30, 2008 are filed as Exhibit 99.1 and 99.2, respectively to this Current Report on Form 8-K and are incorporated herein by reference.

(b) Pro Forma Financial Information.

The Company’s pro forma condensed combined financial statements as of December 31, 2008 are filed as Exhibit 99.3 to this Current Report on Form 8-K and are incorporated herein by reference.

(d) Exhibits.

Exhibit No.	Description
2.1	Agreement and Plan of Reorganization (the “Agreement”), dated as of the March 30, 2009, by and between Registrant, a Delaware corporation and Optex Systems, Inc., a Delaware corporation.
3.2	Bylaws of Optex Systems Holdings Corp.
10.1	2009 Stock Option Plan
10.2	Employment Agreement with Danny Schoenig
10.3	Lease for 1420 Presidential Blvd., Richardson, TX
16.1	Communication from Gately & Associates
21.1	List of Subsidiaries – Optex Systems, Inc.
99.1	Optex Systems, Inc.’s audited financial statements as of September 28, 2008.
99.2	Optex Systems, Inc.’s quarterly financial statements as of December 30, 2008.
99.3	Pro forma condensed combined financial statements of the Registrant and Optex as of December 30, 2008.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: April 3, 2009

OPTEX SYTEMS HOLDINGS, INC.

By: /s/
Stanley A. Hirschman
President



AGREEMENT AND PLAN OF REORGANIZATION

This Agreement and Plan of Reorganization (the "Agreement"), dated as of the 27th day of March 2009, by and between Sustut Exploration, Inc., Inc., a Delaware corporation ("Sustut"), and Optex Systems, Inc., a Delaware corporation ("Optex"), and Sileas Corporation ("Sileas"), Alpha Capital Anstalt ("Alpha"), and Arland Holdings, Ltd. ("Arland") (collectively, "Shareholders") with reference to the following:

A. Sustut is a publicly held Delaware corporation. Sustut has authorized capital stock of 200,000,000 shares of Common Stock, \$.001 par value per share ("Sustut Common Stock") and 1,027 shares of Series A Preferred Stock ("Sustut Series A Preferred Stock"). Of such shares, 44,999,991 shares of Sustut Common Stock are issued and outstanding, of which 25,000,000 will be cancelled at closing, leaving 19,999,991 outstanding, and no shares of Sustut Series A Preferred Stock are issued and outstanding.

B. Optex is a privately held corporation organized under the laws of Delaware. Optex has authorized capital stock of 300,000,000 shares of Common Stock, \$.001 par value per share ("Optex Common Stock") and 1,027 shares of Series A Preferred Stock ("Optex Series A Preferred Stock"). Of such shares, 85,000,000 shares of Optex Common Stock are issued and outstanding, and 1,027 shares of Optex Series A Preferred Stock are issued and outstanding.

C. The respective Boards of Directors of Sustut and Optex have deemed it advisable and in the best interests of Sustut and Optex and their respective shareholders that, contingent upon approval by shareholders holding 100% of the outstanding stock of Optex, all currently outstanding shares of Optex be acquired by Sustut, pursuant to the terms and conditions set forth in this Agreement.

D. Certain investors in the private placement of Optex have separately agreed to a share exchange which shall occur on a one-for-one basis for shares of Sustut Common Stock in exchange for their shares of Optex.

E. Sustut, Shareholders and Optex propose to enter into this Agreement which provides, among other things, that (i) the outstanding 85,000,000 shares of Optex Common Stock be exchanged by Sustut for 113,333,282 shares of Sustut Common Stock, (ii) the outstanding 1,027 shares of Optex Series A Preferred Stock be exchanged by Sustut for 1,027 shares of Sustut Series A Preferred Stock and such additional items as more fully described in the Agreement and (iii) the 8,131,667 shares of Optex purchased in the private placement will be exchanged by Sustut for 8,131,667 shares of Sustut Common Stock, as acknowledged by Sustut.

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE 1 THE EXCHANGE

1.01 At the Effective Time (as defined in Section 2.01), subject to the terms and conditions herein, the 85,000,000 shares of Optex Common Stock issued and outstanding immediately prior to the Effective Time shall be acquired by Sustut in exchange for 113,333,282 fully paid and nonassessable shares of Sustut Common Stock and 1,027 shares of Optex Series A Preferred Stock issued and outstanding immediately prior to the Effective Time shall be acquired by Sustut in exchange for 1,027 shares of Sustut Series A Preferred Stock (the exchange of all shares of Optex Common Stock for Sustut Common Stock shall constitute the "Exchange"). The Sustut Common Stock shall be issued to the Shareholders and/or their nominees in the amounts set forth on a list provided by Optex to Sustut.

1.02 As of the Effective Time, each outstanding stock certificate that immediately prior to the Effective Time represents shares of Optex Common Stock shall be deemed for all purposes to evidence ownership and to represent the number of shares of Sustut Common Stock for which such shares of Optex Common Stock have been exchanged pursuant to Section 1.01. The record holder of each outstanding certificate representing shares of Optex Common Stock shall, after the Effective Time, be entitled to vote the Sustut Common Stock for which such shares of Optex Common Stock have been exchanged on any matters on which the holders of the Sustut Common Stock are entitled to vote. After the Effective Time, the holders of certificates evidencing outstanding shares of Optex Common Stock immediately prior to the Effective Time shall deliver such certificates of Optex Common Stock, duly endorsed so as to make Sustut the sole holder thereof, free and clear of all claims, and encumbrances and Sustut shall deliver a transmittal letter to the transfer agent of Sustut directing the issuance of the Sustut Common Stock to the shareholders of Optex and/or their nominees. Any shares of Sustut Common Stock issued pursuant to this Agreement will not be transferable except (a) pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "Act"), or (b) upon receipt by Sustut of a written opinion of counsel for the holder reasonably satisfactory to Sustut to the effect that the proposed transfer is exempt from the registration requirements of the Act, and relevant state securities laws. Restrictive legends shall be placed on all certificates representing Sustut Common Stock issued pursuant to this Agreement, and the shares of Sustut Common Stock into which they may be converted, as set forth in Section 11.02.

In the event any certificate for Optex Common Stock has been lost, stolen or destroyed, Sustut shall issue and pay in exchange for such lost, stolen or destroyed certificate, promptly following its receipt of an affidavit of that fact by the holder thereof, such shares of Sustut Common Stock as may be required pursuant to this Agreement.

1.03 Following the Effective Time, there will be a total of 141,464,940 shares of Sustut Common Stock issued and outstanding and 1,027 shares of Sustut Series A Preferred Stock outstanding.

1.04 Following the Effective Time, Optex will be a wholly-owned subsidiary of Sustut.

ARTICLE 2 THE CLOSING

2.01 Subject to the terms and conditions herein, the consummation of the transactions contemplated by this Agreement (the "Closing") shall take place on or before March 30, 2009 (the "Closing Date") or at such other place or date and time as may be agreed to in writing by the parties hereto at the earliest practicable time after satisfaction or waiver of the conditions hereof (the "Effective Time" or "Effective Date").

2.02 The following conditions are a part of this Agreement and must be completed on or as of the Closing Date, or such other date specified by the parties:

(a) At the Closing, the Board of Directors of Sustut shall appoint the following individuals as members of the Board of Directors: Stanley Hirschman, Merrick Okamoto and Ronald Richards.

(b) Immediately following the appointment of the individuals listed in Section 2.02(a) above to the Board of Directors, the Board of Directors of Sustut shall consist of the three directors set forth in (a).

(c) Immediately prior to Closing, all of the current officers of Sustut shall resign as officers of Sustut. After the Closing Date, the newly constituted Board of Directors of Sustut consisting of the individuals appointed pursuant to Section 2.2(a) shall appoint such officers as it deems is necessary and in the best interests of Sustut.

(d) Prior to Closing, Sustut shall have obtained board and shareholder approval to the extent necessary to (i) consummate the share exchange contemplated by this Agreement, (ii) create an option pool of 6,000,000 shares of Common Stock, and (iii) complete, following Closing, in a manner which is reasonably acceptable to Optex, the sale, spin-off or other disposition of its pre-Closing operations, including all assets and liabilities.

(e) Optex shall have delivered to Sustut its financial statements for the period from October 1, 2007 – September 30, 2008, which shall have been audited in substantial compliance with generally accepted accounting principles in the U.S. ("U.S. GAAP"), and which shall be capable of being audited in accordance with U.S. GAAP.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF SUSTUT

Sustut hereby represents and warrants to Optex as follows:

3.01 Organization, Standing and Power. Sustut is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted, and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary.

3.02 Capital Structure. As of the date of execution of this Agreement, the authorized capital stock of Sustut is as described in the recitals hereto. The Exchange Shares to be issued pursuant to this Agreement shall be, when issued pursuant to the terms of the resolution of the Board of Directors of Sustut approving such issuance, validly issued, fully paid and nonassessable and not subject to preemptive rights. Except as otherwise specified herein, as of the date of execution of this Agreement, there are no other options, warrants, calls, agreements or other rights to purchase or otherwise acquire from Sustut at any time, or upon the happening of any stated event, any shares of the capital stock of Sustut whether or not presently issued or outstanding.

3.03 Certificate of Incorporation, Bylaws, and Minute Books. The copies of the Articles of Incorporation and of the Bylaws of Sustut which have been delivered to Optex are true, correct and complete copies thereof. The minute book of Sustut, which has been made available for inspection, contains accurate minutes of all meetings and accurate consents in lieu of meetings of the Board of Directors (and any committee thereof) and of the shareholders of Sustut since the date of incorporation and accurately reflects all transactions referred to in such minutes and consents in lieu of meetings.

3.04 Authority. Sustut has all requisite power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by the Board of Directors of Sustut. No other corporate or shareholder proceedings on the part of Sustut are necessary to authorize the Exchange, or the other transactions contemplated hereby.

3.05 Conflict with Other Agreements: Approvals. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby will not result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or the loss of a material benefit under, or the creation of a lien, pledge, security interest or other encumbrance on assets (any such conflict, violation, default, right of termination, cancellation or acceleration, loss or creation, a “violation”) pursuant to any provision of the Articles of Incorporation or Bylaws or any organizational document of Sustut or, result in any violation of any loan or credit agreement, note, mortgage, indenture, lease, benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Sustut which violation would have a material adverse effect on Sustut taken as a whole. No consent, approval, order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other governmental authority or instrumentality, domestic or foreign (a “Governmental Entity”) is required by or with respect to Sustut in connection with the execution and delivery of this Agreement by Sustut or the consummation by Sustut of the transactions contemplated hereby.

3.06 Books and Records. Sustut has made and will make available for inspection by Optex upon reasonable request all the books of Sustut relating to the business of Sustut. Such books of Sustut have been maintained in the ordinary course of business. All documents furnished or caused to be furnished to Optex by Sustut are true and correct copies, and there are no amendments or modifications thereto except as set forth in such documents.

3.07 Compliance with Laws. Sustut is and has been in compliance in all material respects with all laws, regulations, rules, orders, judgments, decrees and other requirements and policies imposed by any Governmental Entity applicable to it, its properties or the operation of its businesses.

3.08 SEC Filings. As of the date hereof, Sustut is current in its filing obligations.

3.09 Financial Statements. Copies of Sustut's audited financial statements for the fiscal year ended December 31, 2008 have been delivered to Optex.

3.10 Banks. Sustut will deliver to Optex a true and complete list (in all material respects), as of the date of this Agreement, showing (1) the name of each bank in which Sustut has an account or safe deposit box, and (2) the names and addresses of all signatories.

3.11 Litigation. There is no suit, action or proceeding pending, or, to the knowledge of Sustut, threatened against or affecting Sustut which is reasonably likely to have a material adverse effect on Sustut, nor is there any judgment, decree, injunction, rule or order of any Governmental Entity or arbitrator outstanding against Sustut having, or which, insofar as reasonably can be foreseen, in the future could have, any such effect.

3.12 Employees. Sustut has no employees or consultant contracts and is not in the process of acquiring any employees or consultant contracts.

3.13 Liens, Leases and Contracts. Sustut has no liens, encumbrances, easements, security interests or similar interests in or on any of its assets. Sustut has no leases (whether of real or personal property) contracts, promissory notes, mortgages, licenses, franchises, or other written agreement to which Sustut is a party which involves or can reasonably be expected to involve aggregate future payments or receipts by Sustut (whether by the terms of such lease, contract, promissory note, license, franchise or other written agreement or as a result of a guarantee of the payment of or indemnity against the failure to pay same) except any of said instruments which terminate or are cancelable without penalty.

3.14 Absence of Undisclosed Liabilities. Sustut has no liabilities of any nature, whether fixed, absolute, contingent or accrued. As of the Effective Time, Sustut shall have no assets or liabilities other than accounts payable.

3.15 Absence of Changes. Since January 1, 2009 there has not been any material adverse change in the condition (financial or otherwise), assets, liabilities, earnings or business of Sustut.

3.16 Tax Matters. All taxes and other assessments and levies which Sustut is required by law to withhold or to collect have been duly withheld and collected, and have been paid over to the proper government authorities or are held by Sustut in separate bank accounts for such payment or are represented by depository receipts, and all such withholdings and collections and all other payments due in connection therewith (including, without limitation, employment taxes, both the employee's and employer's share) have been paid over to the government or placed in a separate and segregated bank account for such purpose. There are no known deficiencies in income taxes for any periods and all returns, declarations, reports, estimates and statements required have been filed. There are no liens or taxes upon any assets of Sustut, except taxes not yet due. Further, the representations and warranties as to absence of undisclosed liabilities contained in Section 3.14 includes any and all tax liabilities of whatsoever kind or nature (including, without limitation, all federal, state, local and foreign income, profit, franchise, sales, use and property taxes) due or to become due, incurred in respect of or measured by Sustut income or business prior to the Effective Date. Copies of Sustut's tax returns for years ending December 31, 2006, 2007 and 2008 have been delivered to Optex.

3.17 Brokers and Finders. Sustut shall be solely responsible for payment to any broker or finder retained by Sustut for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated herein.

3.18 Subsidiaries. Sustut does not have any subsidiary, or own an ownership interest in any other corporation.

3.19 Valid Issuance of Securities. The Sustut Common Stock, when issued, sold and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, fully paid and non assessable, and will be free of restrictions on transfer other than restrictions on transfer under this Agreement and under applicable state and federal securities laws.

3.20 Directors, Officers and Controlling Shareholders. No director, officer or controlling shareholder of Sustut has been subject to a criminal proceeding, bankruptcy, Securities and Exchange Commission or NASD censure in the last five years nor is any such individual under investigation for any of the above.

3.21 Accuracy of Information. No representation or warranty by Sustut contained in this Agreement and no statement contained in any certificate or other instrument delivered or to be delivered to Optex pursuant hereto or in connection with the transactions contemplated hereby (including without limitation all Schedules and exhibits hereto) contains or will contain any untrue statement of material fact or omits or will omit to state any material fact necessary in order to make the statements contained herein or therein not misleading.

3.22 Full Disclosure. The representations and warranties of Sustut contained in this Agreement (and in any schedule, exhibit, certificate or other instrument to be delivered under this Agreement) are true and correct in all material respects, and such representations and warranties do not omit any material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading. There is no fact of which Sustut has knowledge that has not been disclosed to Optex pursuant to this Agreement, including the schedules hereto, all taken together as a whole, which has had or could reasonably be expected to have a material adverse effect on Sustut or Optex or materially adversely affect the ability of Sustut to consummate in a timely manner the transactions contemplated hereby.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF OPTEX

Optex hereby represents and warrants to Sustut as follows:

4.01 Organization, Standing and Power. Optex is a corporation duly organized, validly existing and in good standing under the laws of Singapore, has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted, and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary.

4.02 Capital Structure. The capitalization of Optex is as stated in the recitals hereto.. All outstanding shares of Optex stock are validly issued, fully paid and nonassessable and not subject to preemptive rights or other restrictions on transfer. All of the issued and outstanding shares of Optex were issued in compliance with all applicable securities laws. Except as otherwise specified herein, there are no options, warrants, calls, agreements or other rights to purchase or otherwise acquire from Optex at any time, or upon the happening of any stated event, any shares of the capital stock of Optex.

4.03 Authority. Optex has all requisite power to enter into this Agreement and, subject to approval of the proposed transaction by the holders of 100% of its issued and outstanding shares which are entitled to vote to approve the proposed transaction, has the requisite power and authority to consummate the transactions contemplated hereby. Except as specified herein, no other corporate or shareholder proceedings on the part of Optex are necessary to authorize the Exchange and the other transactions contemplated hereby.

4.04 Conflict with Agreements; Approvals. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of any provision of the Certificate of Incorporation or Bylaws of Optex or of any loan or credit agreement, note, mortgage, indenture, lease, benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Optex or its properties or assets. No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to Optex in connection with the execution and delivery of this Agreement by Optex, or the consummation by Optex of the transactions contemplated hereby.

4.06 Financial Statements. Optex will deliver to Sustut financial statements for the period from October 1, 2007 – September 30, 2008, which shall have been audited in substantial compliance with U.S. GAAP, and which shall be capable of being audited in accordance with U.S. GAAP.

4.07 Compliance with Laws. Optex is and has been in compliance in all material respects with all laws, regulations, rules, orders, judgments, decrees and other requirements and policies imposed by any Governmental Entity applicable to it, its properties or the operation of its businesses.

4.08 Broker and Finders. Optex shall be solely responsible for payment to any broker or finder retained by Optex for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated herein.

4.09 Accuracy of Information. No representation or warranty by Sustut contained in this Agreement and no statement contained in any certificate or other instrument delivered or to be delivered to Optex pursuant hereto or in connection with the transactions contemplated hereby (including without limitation all Schedules and exhibits hereto) contains or will contain any untrue statement of material fact or omits or will omit to state any material fact necessary in order to make the statements contained herein or therein not misleading.

4.10 Full Disclosure. The representations and warranties of Optex contained in this Agreement (and in any schedule, exhibit, certificate or other instrument to be delivered under this Agreement) are true and correct in all material respects, and such representations and warranties do not omit any material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading. There is no fact of which Optex has knowledge that has not been disclosed to Sustut pursuant to this Agreement, including the schedules hereto, all taken together as a whole, which has had or could reasonably be expected to have a material adverse effect on Sustut or Optex or materially adversely affect the ability of Optex to consummate in a timely manner the transactions contemplated hereby.

ARTICLE 5
CONDUCT AND TRANSACTIONS PRIOR TO THE
EFFECTIVE TIME OF THE ACQUISITION

5.01 Conduct and Transactions of Sustut. During the period from the date hereof to the Effective Date, Sustut shall:

(a) Conduct its operations in the ordinary course of business, including but not limited to, paying all obligations as they mature, complying with all applicable tax laws, filing all tax returns required to be filed and paying all taxes due; and

(b) Maintain its records and books of account in a manner that fairly and correctly reflects its income, expenses, assets and liabilities.

Sustut shall not during such period, except in the ordinary course of business, without the prior written consent of Optex:

(c) Except as otherwise contemplated or required by this Agreement, sell, dispose of or encumber any of its properties or assets;

(d) Except as set forth in paragraph 5.01(c) above, declare or pay any dividends on shares of its capital stock or make any other distribution of assets to the holders thereof;

(e) Except as set forth in paragraph 5.01(d) above, issue, reissue or sell, or issue capital stock of Sustut or options or rights to subscribe to, or enter into any contract or commitment to issue, reissue or sell, any shares of its capital stock or acquire or agree to acquire any shares of its capital stock;

(f) Except as otherwise contemplated and required by this Agreement, amend its Certificate of Incorporation or merge or consolidate with or into any other corporation or sell all or substantially all of its assets or change in any manner the rights of its capital stock or other securities;

(g) Except as contemplated or required by this Agreement, pay or incur any obligation or liability, direct or contingent, of more than \$1,000;

(h) Incur any indebtedness for borrowed money, assume, guarantee, endorse or otherwise become responsible for obligations of any other party, or make loans or advances to any other party other than to Optex;

(i) Make any material change in its insurance coverage;

(j) Increase in any manner the compensation, direct or indirect, of any of its officers or executive employees; except in accordance with existing employment contracts;

(k) Enter into any agreement or make any commitment to any labor union or organization; or

(l) Make any capital expenditures.

5.02 Conduct and Transactions of Optex. During the period from the date hereof to Effective Date, Optex shall:

(a) Conduct the operations of Optex in the ordinary course of business.

Optex shall not during such period, except in the ordinary course of business, without the prior written consent of Sustut:

(b) Declare or pay any dividends on shares of its capital stock or make any other distribution of assets to the holders thereof;

(c) Issue, reissue or sell, or issue capital stock of Optex or options or rights to subscribe to, or enter into any contract or commitment to issue, reissue or sell, any shares of its capital stock or acquire or agree to acquire any shares of its capital stock; or other securities; or

(d) Except as otherwise contemplated and required by this Agreement, amend its Certificate of Incorporation or merge or consolidate with or into any other corporation or sell substantially all of its assets or change in any manner the rights of its capital stock or other securities.

ARTICLE 6 RIGHTS OF INSPECTION

6.01 Due Diligence; Access to Information; Confidentiality.

(a) Between the date hereof and the Closing Date, Sustut and Optex shall afford to the other party and their authorized representatives the opportunity to conduct and complete a due diligence investigation of the other party as described herein. In light of the foregoing, each party shall permit the other party full access on reasonable notice and at reasonable hours to its properties and shall disclose and make available (together with the right to copy) to the other party and its officers, employees, attorneys, accountants and other representatives (hereinafter collectively referred to as “Representatives”), all books, papers, and records relating to the assets, stock, properties, operations, obligations and liabilities of such party and its subsidiaries, including, without limitation, all books of account (including, without limitation, the general ledger), tax records, minute books of directors’ and stockholders’ meetings, organizational documents, bylaws, contracts and agreements, filings with any regulatory authority, accountants’ work papers, litigation files (including, without limitation, legal research memoranda), attorney’s audit response letters, documents relating to assets and title thereto (including, without limitation, abstracts, title insurance policies, surveys, environmental reports, opinions of title and other information relating to the real and personal property), plans affecting employees, securities transfer records and stockholder lists, and any books, papers and records (collectively referred to herein as “Evaluated Material”) relating to other assets or business activities in which such party may have a reasonable interest, and otherwise provide such assistance as is reasonably requested in order that each party may have a full opportunity to make such investigation and evaluation as it shall reasonably desire to make of the business and affairs of the other party; provided, however, that the foregoing rights granted to each party shall, whether or not and regardless of the extent to which the same are exercised, in no way affect the nature or scope of the representations, warranties and covenants of the respective party set forth herein. In addition, each party and its Representatives shall cooperate fully (including providing introductions, where necessary) with such other party to enable the party to contact third parties, including customers, prospective customers, specified agencies or others as the party deems reasonably necessary to complete its due diligence; provided that such party agrees not to initiate such contacts without the prior approval of the other party, which approval will not be unreasonably withheld.

(b) Sustut and Optex agree that each such party will not use the Evaluation Material for any purpose other than in connection with the transactions contemplated hereunder. Each agrees not to disclose or allow disclosure to others of any Evaluation Material, except to such party’s Affiliates or Representatives, in each case, to the extent necessary to permit such Affiliate or Representative to assist such party in connection with the transactions contemplated hereunder. Each agrees that it will, within ten (10) days of the other party’s request, re-deliver to such party all copies of that party’s Evaluation Material in its possession or that of its affiliates or Representatives if the Exchange contemplated by this Agreement does not close as contemplated herein.

(c) In the event any party or anyone to whom Evaluation Material has been transmitted in accordance with the terms herein is requested in connection with any proceeding to disclose any Evaluation Material, such party will give the other party prompt notice of such request so that the other party may seek an appropriate protective order or other remedy or waive compliance with this Agreement, and such party will cooperate with the other party to obtain such protective order. In the event such protective order is not obtained, the other party waives compliance with the relevant provisions of this Section, such party (or such person to whom such request is directed) will furnish only that portion of the Evaluation Material which is required to be disclosed.

(d) Notwithstanding any of the foregoing, if prior to Closing, for any reason, the transactions contemplated by this Agreement are not consummated, neither Sustut nor Optex nor any of their Representatives shall disclose to third parties or otherwise use any Evaluation Material or other confidential information received from the other party in the course of investigating, negotiating, and performing the transactions contemplated by this Agreement; provided, however, that nothing shall be deemed to be confidential information which:

(i) is or becomes generally available to the public other than as a result of a disclosure by such party, its affiliates or Representatives;

(ii) was available to such party on a non-confidential basis prior to its disclosure;

(iii) becomes available to such party on a non-confidential basis from a source other than the other party or its agents, advisors or Representatives;

(iv) developed by such party independently of any disclosure by the other party; or

(v) is disclosed in compliance with Section 6.01(c).

This provision shall not prohibit the disclosure of information required to be made under federal or state securities laws. If any disclosure is so required, the party making such disclosure shall consult with the other party prior to making such disclosure, and the parties shall use all reasonable efforts, acting in good faith, to agree upon a text for such disclosure which is satisfactory to both parties.

6.02 Sustut and Optex each agree that money damages would not be sufficient to remedy any breach by the other party of this Section, and that, in addition to all other remedies, each party against which a breach of this Section has been committed shall be entitled to specific performance and injunctive or other equitable relief as a remedy of such breach.

ARTICLE 7 CONDITIONS TO CLOSING

7.01 Conditions to Obligations of Optex. The obligation of Optex to perform this Agreement is subject to the satisfaction of the following conditions on or before the Closing unless waived in writing by Optex.

(a) Representations and Warranties. There shall be no information disclosed in the schedules delivered by Sustut, which in the opinion of Optex, would materially adversely affect the proposed transaction and intent of the parties as set forth in this Agreement. The representations and warranties of Sustut set forth in Article 3 hereof shall be true and correct in all material respects as of the date of this Agreement and as of the Closing as though made on and as of the Closing, except as otherwise permitted by this Agreement.

(b) Performance of Obligations. Sustut shall have in all material respects performed all agreements required to be performed by it under this Agreement and shall have performed in all material respects any actions contemplated by this Agreement prior to or on the Closing and Sustut shall have complied in all material respects with the course of conduct required by this Agreement.

(c) Corporate Action and Share Cancellation. Sustut shall have furnished minutes, certified copies of corporate resolutions and/or other documentary evidence satisfactory to counsel for Optex that Sustut has submitted with this Agreement and any other documents required hereby to such parties for approval as provided by applicable law. At closing, 25,000,000 Sustut shall cancel 25,000,000 shares held by its former CEO.

(d) Consents. Execution Consents necessary for or approval of any party listed on any Schedule delivered by Sustut whose consent or approval is required pursuant thereto shall have been obtained.

(e) Statutory Requirements. All statutory requirements for the valid consummation by Sustut of the transactions contemplated by this Agreement shall have been fulfilled.

(f) Governmental Approval. All authorizations, consents, approvals, permits and orders of all federal and state governmental agencies required to be obtained by Sustut for consummation of the transactions contemplated by this Agreement shall have been obtained.

(g) Market Condition. Up to and including the Closing Date, Sustut shall have maintained its listing on the OTC Bulletin Board, without any trading and quotation halts or other notices of deficiency received by or imposed against Sustut.

(h) Changes in Financial Condition of Sustut. There shall not have occurred any material adverse change in the financial condition or in the operations of the business of Sustut, except expenditures in furtherance of this Agreement.

(i) Absence of Pending Litigation. Sustut is not engaged in or threatened with any suit, action, or legal, administrative or other proceedings or governmental investigations pertaining to this Agreement or the consummation of the transactions contemplated hereunder.

(j) Authorization for Issuance of Stock. Optex shall have received in form and substance satisfactory to counsel for Optex a letter instructing and authorizing the transfer agent for the shares of common stock of Sustut to issue stock certificates representing ownership of Sustut common stock to Optex shareholders in accordance with the terms of this Agreement upon surrender by such shareholders of their share certificates representing ownership of shares in Optex duly endorsed for transfer, and a letter from said transfer agent acknowledging receipt of the letter of instruction and stating to the effect that the Transfer Agent holds adequate supplies of stock certificates necessary to comply with the letter of instruction and the terms and conditions of this Agreement.

(k) Books and Records. Sustut shall deliver to Optex all books and records of Sustut.

7.02 Conditions to Obligations of Sustut. The obligation of Sustut to perform this Agreement is subject to the satisfaction of the following conditions on or before the Closing unless waived in writing by Sustut.

(a) Performance of Obligations. Optex shall have in all material respects performed all agreements required to be performed by it under this Agreement and shall have performed in all material respects any actions contemplated by this Agreement prior to or on the Closing and Optex shall have complied in all respects with the course of conduct required by this Agreement.

(b) Corporate Action. Optex shall have furnished minutes, certified copies of corporate resolutions and/or other documentary evidence satisfactory to counsel for Sustut that Optex has submitted with this Agreement and any other documents required hereby to such parties for approval as provided by applicable law.

(c) Financial Statements. Sustut shall have been furnished with audited financial statements of Optex including, but not limited to, balance sheets, income statements, statements of stockholders' equity and statements of cash flows as at and for the year ended September 30, 2008, each prepared in substantial compliance with U.S. GAAP, which are capable of being audited in accordance with U.S. GAAP, and which fairly present the financial condition and results of operations of Optex at the dates thereof and for the periods presented.

(d) Statutory Requirements. All statutory requirements for the valid consummation by Optex of the transactions contemplated by this Agreement shall have been fulfilled.

(e) Governmental Approval. All authorizations, consents, approvals, permits and orders of all federal and state governmental agencies required to be obtained by Optex for consummation of the transactions contemplated by this Agreement shall have been obtained.

(f) Shareholder Approval. All Optex shareholders shall have provided written approval of this Agreement and Plan of Reorganization, shall have provided representations reasonably satisfactory to Sustut to the effect that they own their shares of Optex free and clear of liens, claims or encumbrances of any kind, have the requisite power and authority to transfer such shares pursuant to and in accordance with the terms of this Agreement and Plan of Reorganization, and have delivered the share certificates representing their ownership of shares in Optex to Sustut duly endorsed for transfer.

ARTICLE 8 MATTERS SUBSEQUENT TO CLOSING

8.01 Covenant of Further Assurance. The parties covenant and agree that they shall, from time to time, execute and deliver or cause to be executed and delivered all such further instruments of conveyance, transfer, assignments, receipts and other instruments, and shall take or cause to be taken such further or other actions as the other party or parties to this Agreement may reasonably deem necessary in order to carry out the purposes and intent of this Agreement.

ARTICLE 9
NATURE OF REPRESENTATIONS

9.01 All statements contained in any written certificate, schedule, exhibit or other written instrument delivered by Sustut or Optex pursuant hereto, or otherwise adopted by Sustut, by its written approval, or by Optex by its written approval, or in connection with the transactions contemplated hereby, shall be deemed representations and warranties by Sustut or Optex as the case may be. All representations, warranties and agreements made by either party shall survive for the period of the applicable statute of limitations.

ARTICLE 10
INDEMNIFICATION

10.01 Indemnity of Optex. Sustut agrees to defend, indemnify and hold harmless Optex from and against, and to reimburse Optex with respect to, all liabilities, losses, costs and expenses, including, without limitation, reasonable attorneys' fees and disbursements, asserted against or incurred by Optex by reason of, arising out of, or in connection with any material breach of any representation or warranty contained in this Agreement made by Sustut or in any document or certificate delivered by Sustut pursuant to the provisions of this Agreement or in connection with the transactions contemplated thereby.

10.02 Indemnity of Sustut. Optex agrees to defend, indemnify and hold harmless Sustut from and against, and to reimburse Sustut with respect to, all liabilities, losses, costs and expenses, including, without limitation, reasonable attorneys' fees and disbursements, asserted against or incurred by Sustut by reason of, arising out of, or in connection with any material breach of any representation or warranty contained in this Agreement made by Optex or in any document or certificate delivered by Optex pursuant to the provisions of this Agreement or in connection with the transactions contemplated thereby.

10.03 Indemnification Procedure. A party (an "Indemnified Party") seeking indemnification shall give prompt notice to the other party (the "Indemnifying Party") of any claim for indemnification arising under this Article 10. The Indemnifying Party shall have the right to assume and to control the defense of any such claim with counsel reasonably acceptable to such Indemnified Party, at the Indemnifying Party's own cost and expense, including the cost and expense of reasonable attorneys' fees and disbursements in connection with such defense, in which event the Indemnifying Party shall not be obligated to pay the fees and disbursements of separate counsel for such in such action. In the event, however, that such Indemnified Party's legal counsel shall determine that defenses may be available to such Indemnified Party that are different from or in addition to those available to the Indemnifying Party, in that there could reasonably be expected to be a conflict of interest if such Indemnifying Party and the Indemnified Party have common counsel in any such proceeding, or if the Indemnified Party has not assumed the defense of the action or proceedings, then such Indemnifying Party may employ separate counsel to represent or defend such Indemnified Party, and the Indemnifying Party shall pay the reasonable fees and disbursements of counsel for such Indemnified Party. No settlement of any such claim or payment in connection with any such settlement shall be made without the prior consent of the Indemnifying Party which consent shall not be unreasonably withheld.

ARTICLE 11
TERMINATION OF AGREEMENT AND
ABANDONMENT OF REORGANIZATION

11.01 Termination. Anything herein to the contrary notwithstanding, this Agreement and any agreement executed as required hereunder and the acquisition contemplated hereby may be terminated at any time before the Closing as follows:

(a) By mutual written consent of the Boards of Directors of Sustut and Optex.

(b) By the Board of Directors of Sustut if any of the conditions set forth in Section 7.02 shall not have been satisfied by the Closing Date.

(c) By the Board of Directors of Optex if any of the conditions set forth in Section 7.01 shall not have been satisfied by the Closing Date.

(d) By the Board of Directors of Optex if this Agreement and Plan of Reorganization is not duly approved by the stockholders of Optex following a vote of the stockholders of Optex.

(e) By either of the Boards of Directors of Sustut or Optex if the Closing Date is not on or before March 31, 2009, or such later date as Sustut and Optex may mutually agree (except that a party seeking to terminate this Agreement pursuant to this clause may not do so if the failure to consummate the Exchange contemplated by this Agreement by such date shall be due to the action or failure to act of the party seeking to terminate the Agreement in breach of such party's obligations under this Agreement).

11.02 Termination of Obligations and Waiver of Conditions; Payment of Expenses. In the event this Agreement and the acquisition are terminated and abandoned pursuant to this Article 11 hereof, this Agreement shall become void and of no force and effect and there shall be no liability on the part of any of the parties hereto, or their respective directors, officers, shareholders or controlling persons to each other. For the costs and expenses incident to its negotiation and preparation of this Agreement and any of the documents evidencing the transactions contemplated hereby, including fees, expenses and disbursements of counsel, Sustut shareholders shall bear the expenses incurred by Sustut, and Optex shareholders shall bear the expenses incurred by Optex.

ARTICLE 12
EXCHANGE OF SHARES

12.01 Exchange of Shares. At the Effective Time, Sustut shall issue a letter to the transfer agent of Sustut with a copy of the resolution of the Board of Directors of Sustut authorizing and directing the issuance of Sustut shares as set forth on a list provided by Optex to Sustut prior to the Effective Time.

12.02 Restrictions on Shares Issued to Optex. Due to the fact that the offer and sale of the Sustut Common Stock being issued in connection with the acquisition have not been registered under the Act by virtue of the exemption provided in Section 4(2) of such Act, such shares of Sustut will contain the following legend:

The offer and sale of the shares represented by this certificate have not been registered under the Securities Act of 1933. The shares have been acquired for investment and may not be sold or offered for sale in the absence of an effective Registration Statement for such offer and sale under the Securities Act of 1933 or an opinion of counsel to the Corporation that such registration is not required.

ARTICLE 13
MISCELLANEOUS

13.01 Expenses. All costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses.

13.02 Notices. All notices, requests, demands or other communications hereunder shall be in writing, hand delivered or mailed by certified mail, return receipt required, or by overnight courier, receipt signature required or by facsimile transmission with verification of transmission received by the sender, to each party at the address that follows or at such other place as either party may, by written notice to the other parties hereto, direct:

If to "Sustut":

with a copy to:

If to "Optex":

Optex Systems, Inc.
1420 Presidential Boulevard
Richardson, TX 75081
Attn: Stanley Hirschman, President

With a copy to:

Jolie Kahn, Esq.
61 Broadway, Suite 2820
New York, NY 10006
Fax No.: 866-705-3071

Any such notice, when sent in accordance with the provisions hereof, shall be deemed to have been given and received (a) on the day personally delivered or faxed (with confirmation) or (b) on the second day after the day overnight delivered or (c) on the fifth day following the date mailed.

13.03 Amendment and Waiver. The parties hereby may, by mutual agreement in writing signed by or on behalf of each party, amend this Agreement in any respect. Any term or provision of this Agreement may be waived in writing signed by an authorized officer at any time by the party against which such waiver is to be charged, such waiver right shall include, but not be limited to, the right of either party to:

(a) Extend the time for the performance of any of the obligations of the other;

(b) Waive any inaccuracies in representations by the other contained in this Agreement or in any document delivered pursuant hereto;

(c) Waive compliance by the other with any of the covenants contained in this Agreement, and performance of any obligations by the other; and

(d) Waive the fulfillment of any condition that is precedent to the performance by the party so waiving of any of its obligations under this Agreement.

Any writing on the part of a party relating to such amendment, extension or waiver as provided in this Section 13.03 shall be valid if authorized or ratified by the Board of Directors of such party.

13.04 Remedies not Exclusive. No remedy conferred by any of the specific provisions of this Agreement is intended to be exclusive of any other remedy, and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise. The election of any one or more remedies by Sustut or Optex shall not constitute a waiver of the right to pursue other available remedies.

13.05 Attorneys' Fees. In the event a dispute arises with respect to this Agreement, the party prevailing in such dispute shall be entitled to recover all expenses, including, without limitation, reasonable attorneys' fees and expenses, incurred in ascertaining such party's rights, in preparing to enforce, or in enforcing such party's rights under this Agreement, whether or not it was necessary for such party to institute suit.

13.06 Governing Law; Venue. Any dispute in the meaning, effect or validity of this Agreement shall be resolved in accordance with the laws of the State of Delaware without regard to the conflict of laws provisions thereof. The parties hereby expressly consent to the personal jurisdiction of the state and federal courts located in Wilmington, Delaware, for any lawsuit against either party arising from or related to this Agreement.

13.07 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

13.08 Benefit. This Agreement shall be binding upon, and inure to the benefit of, the respective successors and assigns of Sustut and Optex and its shareholders.

13.09 Entire Agreement. This Agreement and the Schedules and Exhibits attached hereto, represent the entire agreement of the undersigned regarding the subject matter hereof, and supersedes all prior written or oral understandings or agreements between the parties.

13.10 Captions and Section Headings. Captions and section headings used herein are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

Executed as of the date first written above.

“Sustut”

Sustut, Inc.

By: /s/ _____, President

“Shareholder”

Longview Fund, LP.

By: /s/ _____, _____

Alpha Capital Anstalt

By: /s/ _____, _____

“Optex”

Optex Systems, Inc.

By: /s/ Stanley A. Hirschman, President

“ _____ ”

Arland Holdings, Ltd.

By: /s/ _____, _____



BY-LAWS
Of
Optex Systems Holdings, Inc.

ARTICLE I
The Corporation

Section 1. Name. The legal name of this corporation (hereinafter called the "Corporation") is Optex Systems, Inc.

Section 2. Offices. The Corporation shall have its registered office in the State of Delaware at the location of its registered agent in the State of Delaware as stated in its Articles of Incorporation or as otherwise designated by the Board of Directors. The Corporation may also have offices at such other places within and without the United States as the Board of Directors may from time to time appoint or the business of the Corporation may require.

Section 3. Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware". One or more duplicate dies for impressing such seal may be kept and used.

ARTICLE II
Meetings of Shareholders

Section 1. Place of Meetings. All meetings of the shareholders shall be held at any place, within or without the State of Delaware, as is fixed in the notice of the meeting.

Section 2. Annual Meeting. An annual meeting of the shareholders of the Corporation for the election of directors and the transaction of such other business as may properly come before the meeting shall be held on the date and at the time designated by the Board of Directors. If for any reason any annual meeting shall not be held at the time herein specified, the same may be held at any time thereafter upon notice, as herein provided, or the business thereof may be transacted at any special meeting called for the purpose.

Section 3. Special Meetings. Special meetings of shareholders may be called by the President whenever he deems it necessary or advisable. A special meeting of the shareholders shall be called by the President whenever so directed in writing by a majority of the entire Board of Directors or whenever the holders of one-third (1/3) of the number of shares of the capital stock of the Corporation entitled to vote at such meeting shall, in writing, request the same.

Section 4. Notice of Meetings. Notice of the time and place of the annual and of each special meeting of the shareholders shall be given to each of the shareholders entitled to vote at such meeting by mailing the same in a postage prepaid wrapper addressed to each such shareholders at his address as it appears on the books of the Corporation, or by delivering the same personally to any such shareholder in lieu of such mailing, at least ten (10) and not more than sixty (60) days prior to each meeting. Meetings may be held without notice if all of the shareholders entitled to vote thereat are present in person or by proxy, or if notice thereof is waived by all such shareholders not present in person or by proxy, before or after the meeting. Notice by mail shall be deemed to be given when deposited, with postage thereon prepaid, in the United States mail. If a meeting is adjourned to another time, not more than thirty (30) days hence, or to another place, and if an announcement of the adjourned time or place is made at the meeting, it shall not be necessary to give notice of the adjourned meeting unless the Board of Directors, after adjournment fix a new record date for the adjourned meeting. Notice of the annual and each special meeting of the shareholders shall indicate that it is being issued by or at the direction of the person or persons calling the meeting, and shall state the name and capacity of each such person. Notice of each special meeting shall also state the purpose or purposes for which it has been called. Neither the business to be transacted at nor the purpose of the annual or any special meeting of the shareholders need be specified in any written waiver of notice.

Section 5. Record Date for Shareholders. For the purpose of determining the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or for the purpose of determining shareholders entitled to receive payment of any dividend or other distribution or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion, or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action.

If no record date is fixed, the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given, or, if no notice is given, the day on which the meeting is held; the record date for determining shareholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed; and the record date for determining shareholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of shareholders of record entitled to notice of or to vote at any meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 6. Proxy Representation. Every shareholder may authorize another person or persons to act for him by proxy in all matters in which a shareholder is entitled to participate, whether by waiving notice of any meeting, voting or participating at a meeting, or expressing consent or dissent without a meeting. Every proxy must be signed by the shareholder or by his attorney-in-fact. No proxy shall be voted or acted upon after eleven (11) months from its date unless such proxy provides for a longer period. Every proxy shall be revocable at the pleasure of the shareholder executing it, except as otherwise provided in Section 608 of the Delaware Business Corporation Law.

Section 7. Voting at Shareholders' Meetings. Each share of stock shall entitle the holder thereof to one vote. In the election of directors, a plurality of the votes cast shall elect. Any other action shall be authorized by a majority of the votes cast except where the Delaware Business Corporation Law prescribes a different percentage of votes or a different exercise of voting power. In the election of directors, and for any other action, voting need not be by ballot.

Section 8. Quorum and Adjournment. Except for a special election of directors pursuant to the Delaware Business Corporation Law, the presence, in person or by proxy, of the holders of a majority of the shares of the stock of the Corporation outstanding and entitled to vote thereat shall be requisite and shall constitute a quorum at any meeting of the shareholders. When a quorum is once present to organize a meeting, it shall not be broken by the subsequent withdrawal of any shareholders. If at any meeting of the shareholders there shall be less than a quorum so present, the shareholders present in person or by proxy and entitled to vote thereat, may adjourn the meeting from time to time until a quorum shall be present, but no business shall be transacted at any such adjourned meeting except such as might have been lawfully transacted had the meeting not adjourned.

Section 9. List of Shareholders. The officer who has charge of the stock ledger of the Corporation shall prepare, make and certify, at least ten (10) days before every meeting of shareholders, a complete list of the shareholders, as of the record date fixed for such meeting, arranged in alphabetical order, and showing the address of each shareholder and the number of shares registered in the name of each shareholder. Such list shall be open to the examination of any shareholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city or other municipality or community where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder who is present. If the right to vote at any meeting is challenged, the inspectors of election, if any, or the person presiding thereat, shall require such list of shareholders to be produced as evidence of the right of the persons challenged to vote at such meeting, and all persons who appear from such list to be shareholders entitled to vote thereat may vote at such meeting.

Section 10. Inspectors of Election. The Board of Directors, in advance of any meeting, may, but need not, appoint one or more inspectors of election to act at the meeting or any adjournment thereof. If an inspector or inspectors are not appointed, the person presiding at the meeting may, and at the request of any shareholder entitled to vote thereat shall, appoint one or more inspectors.

In case any person who may be appointed as an inspector fails to appear or act, the vacancy may be filled by appointment made by the Board of Directors in advance of the meeting or at the meeting by the person presiding thereat. Each inspector, if any, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of the inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors, if any, shall determine the number of shares of stock outstanding and the voting power of each, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the person presiding at the meeting or any shareholder entitled to vote thereat, the inspector or inspectors, if any, shall make a report in writing of any challenge, question or matter determined by him or them and execute a certificate of any fact found by him or them. Any report or certificate made by the inspector or inspectors shall be prima facie evidence of the facts stated and of the vote as certified by them.

Section 11. Action of the Shareholders Without Meetings. Any action which may be taken at any annual or special meeting of the shareholders may be taken without a meeting on written consent, setting forth the action so taken, signed by the holders of the number of shares required to take action if a meeting had been held to vote thereon. Written consent thus given by the holders of all outstanding shares entitled to vote shall have the same effect as a vote of the shareholders.

ARTICLE III
Directors

Section 1. Number of Directors. The number of directors which shall constitute the entire Board of Directors shall be at least one (1). Subject to the foregoing limitation, such number may be fixed from time to time by action of a majority of the entire Board of Directors or of the shareholders at an annual or special meeting, or, if the number of directors is not so fixed, the number shall be one (1). No decrease in the number of directors shall shorten the term of any incumbent director.

Section 2. Election and Term. The initial Board of Directors shall be elected by the incorporator and each initial director so elected shall hold office until the first annual meeting of shareholders and until his successor has been elected and qualified. Thereafter, each director who is elected at an annual meeting of shareholders, and each director who is elected in the interim to fill a vacancy or a newly created directorship, shall hold office until the next annual meeting of shareholders and until his successor has been elected and qualified.

Section 3. Filling Vacancies, Resignation and Removal. Any director may tender his resignation at any time. Any director or the entire Board of Directors may be removed, with or without cause, by vote of the shareholders. In the interim between annual meetings of shareholders or special meetings of shareholders called for the election of directors or for the removal of one or more directors and for the filling of any vacancy in that connection, newly created directorships and any vacancies in the Board of Directors, including unfilled vacancies resulting from the resignation or removal of directors for cause or without cause, may be filled by the vote of a majority of the remaining directors then in office, although less than a quorum, or by the sole remaining director.

Section 4. Qualifications and Powers. Each director shall be at least eighteen (18) years of age. A director need not be a shareholder, a citizen of the United States or a resident of the State of Delaware. The business of the Corporation shall be managed by the Board of Directors, subject to the provisions of the Certificate of Incorporation.

In addition to the powers and authorities by these By-Laws expressly conferred upon it, the Board may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws directed or required to be exercised or done exclusively by the shareholders.

Section 5. Regular and Special Meetings of the Board. The Board of Directors may hold its meetings, whether regular or special, either within or without the State of Delaware. The newly elected Board may meet at such place and time as shall be fixed by the vote of the shareholders at the annual meeting, for the purpose of organization or otherwise, and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a majority of the entire Board shall be present; or they may meet at such place and time as shall be fixed by the consent in writing of all directors. Regular meetings of the Board may be held with or without notice at such time and place as shall from time to time be determined by resolution of the Board. Whenever the time or place of regular meetings of the Board shall have been determined by resolution of the Board, no regular meetings shall be held pursuant to any resolution of the Board altering or modifying its previous resolution relating to the time or place of the holding of regular meetings, without first giving at least three (3) days written notice to each director, either personally or by telegram, or at least five (5) days written notice to each director by mail, of the substance and effect of such new resolution relating to the time and place at which regular meetings of the Board may thereafter be held without notice. Special meetings of the Board shall be held whenever called by the President, Vice-President, the Secretary or any director in writing. Notice of each special meeting of the Board shall be delivered personally to each director or sent by telegraph to his residence or usual place of business at least three (3) days before the meeting, or mailed to him to his residence or usual place of business at least five (5) days before the meeting. Meetings of the Board, whether regular or special, may be held at any time and place, and for any purpose, without notice, when all the directors are present or when all directors not present shall, in writing, waive notice of and consent to the holding of such meeting, which waiver and consent may be given after the holding of such meeting. All or any of the directors may waive notice of any meeting and the presence of a director at any meeting of the Board shall be deemed a waiver of notice thereof by him. A notice, or waiver of notice, need not specify the purpose or purposes of any regular or special meeting of the Board.

Section 6. Quorum and Action. A majority of the entire Board of Directors shall constitute a quorum except that when the entire Board consists of one director, then one director shall constitute a quorum, and except that when a vacancy or vacancies prevents such majority, a majority of the directors in office shall constitute a quorum, provided that such majority shall constitute at least one-third (1/3) of the entire Board. A majority of the directors present, whether or not they constitute a quorum, may adjourn a meeting to another time and place. Except as herein otherwise provided, and except as otherwise provided by the Delaware Business Corporation Law, the vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board.

Section 7. Telephonic Meetings. Any member or members of the Board of Directors, or of any committee designated by the Board, may participate in a meeting of the Board, or any such committee, as the case may be, by means of conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time, and participation in a meeting by such means shall constitute presence in person at such meeting.

Section 8. Action Without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 9. Compensation of Directors. By resolution of the Board of Directors, the directors may be paid their expenses, if any, for attendance at each regular or special meeting of the Board or of any committee designated by the Board and may be paid a fixed sum for attendance at such meeting, or a stated salary as director, or both. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefore; provided, however, that directors who are also salaried officers shall not receive fees or salaries as directors.

ARTICLE IV Committees

Section 1. In General. The Board of Directors may, by resolution or resolutions passed by the affirmative vote therefore of a majority of the entire Board, designate an Executive Committee and such other committees as the Board may from time to time determine, each to consist of one (1) or more directors, and each of which, to the extent provided in the resolution or in the Certificate of Incorporation or in the By-Laws, shall have all the powers of the Board, except that no such Committee shall have power to fill vacancies in the Board, or to change the membership of or to fill vacancies in any committee, or to make, amend, repeal or adopt By-Laws of the Corporation, or to submit to the shareholders any action that needs shareholder approval under these By-Laws or the Delaware Business Corporation Law, or to fix the compensation of the directors for serving on the Board or any committee thereof, or to amend or repeal any resolution of the Board which by its terms shall not be so amendable or repealable. Each committee shall serve at the pleasure of the Board. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

Section 2. Executive Committee. Except as otherwise limited by the Board of Directors or by these By-Laws, the Executive Committee, if so designated by the Board of Directors, shall have and may exercise, when the Board is not in session, all the powers of the Board of Directors in the management of the business and affairs of the Corporation, and shall have power to authorize the seal of the Corporation to be affixed to all papers which may require it. The Board shall have the power at any time to change the membership of the Executive Committee, to fill vacancies in it, or to dissolve it. The Executive Committee may make rules for the conduct of its business and may appoint such assistance as it shall from time to time deem necessary. A majority of the members of the Executive Committee, if more than a single member, shall

ARTICLE V Officers

Section 1. Designation, Term and Vacancies. The officers of the Corporation shall be a President, one or more Vice-Presidents, a Secretary, a Treasurer, and such other officers as the Board of Directors may from time to time deem necessary. Such officers may have and perform the powers and duties usually pertaining to their respective offices, the powers and duties respectively prescribed by law and by these By-Laws, and such additional powers and duties as may from time to time be prescribed by the Board. The same person may hold any two or more offices, except that the offices of President and Secretary may not be held by the same person unless all the issued and outstanding stock of the Corporation is owned by one person, in which instance such person may hold all or any combination of offices.

The initial officers of the Corporation shall be appointed by the initial Board of Directors, each to hold office until the meeting of the Board of Directors following the first annual meeting of shareholders and until his successor has been appointed and qualified. Thereafter, the officers of the Corporation shall be appointed by the Board as soon as practicable after the election of the Board at the annual meeting of shareholders, and each officer so appointed shall hold office until the first meeting of the Board of Directors following the next annual meeting of shareholders and until his successor has been appointed and qualified. Any officer may be removed at any time, with or without cause, by the affirmative vote of a majority of the entire Board of Directors. All other agents and employees of the Corporation shall hold office during the pleasure of the Board of Directors. Vacancies occurring among the officers of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

Section 2. President. The President shall preside at all meetings of the shareholders and at all meetings of the Board of Directors at which he may be present.

Subject to the direction of the Board of Directors, he shall be the chief executive officer of the Corporation, and shall have general charge of the entire business of the Corporation. He may sign certificates of stock and sign and seal bonds, debentures, contracts or other obligations authorized by the Board, and may, without previous authority of the Board, make such contracts as the ordinary conduct of the Corporation's business requires. He shall have the usual powers and duties vested in the President of a corporation. He shall have power to select and appoint all necessary officers and employees of the Corporation, except those selected by the Board of Directors, and to remove all such officers and employees except those selected by the Board of Directors, and make new appointments to fill vacancies. He may delegate any of his powers to a Vice-President of the Corporation.

Section 3. Vice-President. A Vice-President shall have such of the President's powers and duties as the President may from time to time delegate to him, and shall have such other powers and perform such other duties as may be assigned to him by the Board of Directors. During the absence or incapacity of the President, the Vice-President, or, if there be more than one, the Vice-President having the greatest seniority in office, shall perform the duties of the President, and when so acting shall have all the powers and be subject to all the responsibilities of the office of President.

Section 4. Treasurer. The Treasurer shall have custody of such funds and securities of the Corporation as may come to his hands or be committed to his care by the Board of Directors. Whenever necessary or proper, he shall endorse on behalf of the Corporation, for collection, checks, notes, or other obligations, and shall deposit the same to the credit of the Corporation in such bank or banks or depositories, approved by the Board of Directors as the Board of Directors or President may designate. He may sign receipts or vouchers for payments made to the Corporation, and the Board of Directors may require that such receipts or vouchers shall also be signed by some other officer to be designated by them. Whenever required by the Board of Directors, he shall render a statement of his cash accounts and such other statements respecting the affairs of the Corporation as may be required. He shall keep proper and accurate books of account. He shall perform all acts incident to the office of Treasurer, subject to the control of the Board.

Section 5. Secretary. The Secretary shall have custody of the seal of the Corporation and when required by the Board of Directors, or when any instrument shall have been signed by the President duly authorized to sign the same, or when necessary to attest any proceedings of the shareholders or directors, shall affix it to any instrument requiring the same and shall attest the same with his signature, provided that the seal may be affixed by the President or Vice-President or other officer of the Corporation to any document executed by either of them respectively on behalf of the Corporation which does not require the attestation of the Secretary.

He shall attend to the giving and serving of notices of meetings. He shall have charge of such books and papers as properly belong to his office or as may be committed to his care by the Board of Directors. He shall perform such other duties as appertain to his office or as may be required by the Board of Directors.

Section 6. Delegation. In case of the absence of any officer of the Corporation, or for any other reason that the Board of Directors may deem sufficient, the Board may temporarily delegate the powers or duties, or any of them, of such officer to any other officer or to any director.

ARTICLE VI

Stock

Section 1. Certificates Representing Shares. All certificates representing shares of the capital stock of the Corporation shall be in such form not inconsistent with the Certificate of Incorporation, these By-Laws or the laws of the State of Delaware of the Business Corporation Law. Such shares shall be approved by the Board of Directors, and shall be signed by the President or a Vice-President and by the Secretary or the Treasurer and shall bear the seal of the Corporation and shall not be valid unless so signed and sealed. Certificates countersigned by a duly appointed transfer agent and/or registered by a duly appointed registrar shall be deemed to be so signed and sealed whether the signatures be manual or facsimile signatures and whether the seal be a facsimile seal or any other form of seal. All certificates shall be consecutively numbered and the name of the person owning the shares represented thereby, his residence, with the number of such shares and the date of issue, shall be entered on the Corporation's books. All certificates surrendered shall be cancelled and no new certificates issued until the former certificates for the same number of shares shall have been surrendered and cancelled, except as provided for herein.

In case any officer or officers who shall have signed or whose facsimile signature or signatures shall have been affixed to any such certificate or certificates, shall cease to be such officer or officers of the Corporation before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be adopted by the Corporation, and may be issued and delivered as though the person or persons who signed such certificates, or whose facsimile signature or signatures shall have been affixed thereto, had not ceased to be such officer or officers of the Corporation.

Any restriction on the transfer or registration of transfer of any shares of stock of any class or series shall be noted conspicuously on the certificate representing such shares.

Section 2. Fractional Share Interests. The Corporation, may, but shall not be required to, issue certificates for fractions of a share. If the Corporation does not issue fractions of a share, it shall: (1) arrange for the disposition of fractional interests by those entitled thereto; (2) pay in cash the fair value of fractions of a share as of the time when those entitled to receive such fractions are determined; or (3) issue scrip or warrants in registered or bearer form which shall entitle the holder to receive a certificate for a full share upon the surrender of such scrip or warrants aggregating a full share. A certificate for a fractional share shall, but scrip or warrants shall not unless otherwise provided therein, entitle the holder to exercise voting rights, to receive dividends thereon, and to participate in any distribution of the assets of the Corporation in the event of liquidation. The Board of Directors may cause scrip or warrants to be issued subject to the conditions that they shall become void if not exchanged for certificates representing full shares before a specified date, or subject to the condition that the shares for which scrip or warrants are exchangeable may be sold by the Corporation and the proceeds thereof distributed to the holders of scrip or warrants, or subject to any other conditions which the Board of Directors may impose.

Section 3. Addresses of Shareholders. Every shareholder shall furnish the Corporation with an address to which notices of meetings and other notices may be served upon or mailed to him, and in default thereof notices may be addressed to him at his last known post office address.

Section 4. Stolen, Lost or Destroyed Certificates. The Board of Directors may in its sole discretion direct that a new certificate or certificates of stock be issued in place of any certificate or certificates of stock theretofore issued by the Corporation, alleged to have been stolen, lost or destroyed, and the Board of Directors when authorizing the issuance of such new certificate or certificates, may, in its discretion, and as a condition precedent thereto, require the owner of such stolen, lost or destroyed certificate or certificates or his legal representatives to give to the Corporation and to such registrar or registrars and/or transfer agent or transfer agents as may be authorized or required to countersign such new certificate or certificates, a bond in such sum as the Corporation may direct not exceeding double the value of the stock represented by the certificate alleged to have been stolen, lost or destroyed, as indemnity against any claim that may be made against them or any of them for or in respect of the shares of stock represented by the certificate alleged to have been stolen, lost or destroyed.

Section 5. Transfers of Shares. Upon compliance with all provisions restricting the transferability of shares, if any, transfers of stock shall be made only upon the books of the Corporation by the holder in person or by his attorney thereunto authorized by power of attorney duly filed with the Secretary of the Corporation or with a transfer agent or registrar, if any, upon the surrender and cancellation of the certificate or certificates for such shares properly endorsed and the payment of all taxes due thereon. The Board of Directors may appoint one or more suitable banks and/or trust companies as transfer agents and/or registrars of transfers, for facilitating transfers of any class or series of stock of the Corporation by the holders thereof under such regulations as the Board of Directors may from time to time prescribe. Upon such appointment being made all certificates of stock of such class or series thereafter issued shall be countersigned by one of such transfer agents and/or one of such registrars of transfers, and shall not be valid unless so countersigned.

ARTICLE VII Dividends and Finance

Section 1. Dividends. The Board of Directors shall have power to fix and determine and to vary, from time to time, the amount of the working capital of the Corporation before declaring any dividends among its shareholders, and to direct and determine the use and disposition of any net profits or surplus, and to determine the date or dates for the declaration and payment of dividends and to determine the amount of any dividend, and the amount of any reserves necessary in their judgment before declaring any dividends among its shareholder, and to determine the amount of the net profits of the Corporation from time to time available for dividends.

Section 2. Fiscal Year. The fiscal year of the Corporation shall end on the last business day in the month of September in each year and shall begin on the next succeeding day, or shall be for such other period as the Board of Directors may from time to time designate with the consent of the Department of Taxation and Finance, where applicable.

ARTICLE VIII Miscellaneous Provisions

Section 1. Stock of Other Corporations. The Board of Directors shall have the right to authorize any director, officer or other person on behalf of the Corporation to attend, act and vote at meetings of the shareholders of any corporation in which the Corporation shall hold stock, and to exercise thereat any and all rights and powers incident to the ownership of such stock, and to execute waivers of notice of such meetings and calls therefore; and authority may be given to exercise the same either on one or more designated occasions, or generally on all occasions until revoked by the Board. In the event that the Board shall fail to give such authority, such authority may be exercised by the President in person or by proxy appointed by him on behalf of the Corporation.

Any stocks or securities owned by this Corporation may, if so determined by the Board of Directors, be registered either in the name of this Corporation or in the name of any nominee or nominees appointed for that purpose by the Board of Directors.

Section 2. Books and Records. Subject to the Delaware Business Corporation Law, the Corporation may keep its books and accounts outside the State of Delaware.

Section 3. Notices. Whenever any notice is required by these By-Laws to be given, personal notice is not meant unless expressly so stated, and any notice so required shall be deemed to be sufficient if given by depositing the same in a post office box in a sealed postpaid wrapper, addressed to the person entitled thereto at his last known post office address, and such notice shall be deemed to have been given on the day of such mailing.

Whenever any notice whatsoever is required to be given under the provisions of any law, or under the provisions of the Certificate of Incorporation or these By-Laws a waiver in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

Section 4. Amendments. Except as otherwise provided herein, these By-Laws may be altered, amended or repealed and By-Laws may be made at any annual meeting of the shareholders or at any special meeting thereof if notice of the proposed alteration, amendment or repeal, or By-Law or By-Laws to be made be contained in the notice of such special meeting, by the holders of a majority of the shares of stock of the Corporation outstanding and entitled to vote thereat; or by a majority of the Board of Directors at any regular meeting of the Board of Directors, or at any special meeting of the Board of Directors, if notice of the proposed alteration, amendment or repeal, or By-Law or By-Laws to be made, be contained in the notice of such special meeting.

OPTEX SYSTEMS HOLDINGS, INC.
2009 STOCK OPTION PLAN

ARTICLE I

PURPOSE AND ADOPTION OF THE PLAN

1.01 Purpose. The purpose of the Optex Systems Corporation (“Company”) 2009 Stock Option Plan is to assist the Company (as defined below) in attracting and retaining highly competent employees and to act as an incentive in motivating selected officers and other employees of the Company and its subsidiaries, and directors and consultants of the Company and its subsidiaries, to achieve long-term corporate objectives.

1.02 Adoption and Term. The Plan has been approved by the Board of Directors and shareholders of the Company. The Plan is effective from the date approved by the shareholders of the Company (the “Effective Date”) and shall remain in effect until terminated by action of the Board; provided, however, that no Option (as defined below) or Stock Purchase Right (as defined below) may be granted hereunder after the tenth anniversary of the Effective Date.

ARTICLE II

DEFINITIONS

For the purpose of this Plan, the following capitalized terms shall have the following meanings:

2.01 Applicable Laws means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Options or Stock Purchase Rights are, or will be, granted under the Plan.

2.02 Beneficiary means an individual, trust or estate who or which, by a written designation of the Participant filed with the Company or by operation of law, succeeds to the rights and obligations of the Participant under the Plan and the Option Agreement or Restricted Stock Purchase Agreement upon the Participant’s death.

2.03 Board means the Board of Directors of the Company.

2.04 Code means the Internal Revenue Code of 1986, as amended. References to a section of the Code shall include that section and any comparable section or sections of any future legislation that amends, supplements or supersedes said section

2.05 Committee means the Committee defined in Section 3.01.

2.06 Company means Optex Systems Corporation., a Delaware corporation, and its successors.

2.07 Common Stock means the Common Stock of the Company, par value \$.001 per share.

2.08 Date of Grant means the date designated by the Committee as the date as of which it grants an Option or Stock Purchase Right, which shall not be earlier than the date on which the Committee approves the granting of such Option or Stock Purchase Right.

2.09 Exchange Act means the Securities Exchange Act of 1934, as amended.

2.10 Fair Market Value means, as of any applicable date, the fair market value of the Common Stock as determined by the Board based upon such evidence as it may think necessary or desirable.

2.11 Incentive Stock Option means a stock option within the meaning of Section 422 of the Code.

2.12 Merger means any merger, reorganization, consolidation, exchange, transfer of assets or other transaction having similar effect involving the Company.

2.13 Nonstatutory Stock Option means a stock option which is not an Incentive Stock Option.

2.14 Option Agreement means a written agreement between the Company and a Participant, specifically setting forth the terms and conditions of an Option granted under the Plan, substantially in the form of Exhibit A attached hereto or such other form as shall be determined from time to time by the Committee.

2.15 Option Price, with respect to Options, shall have the meaning set forth in Section 6.01(b).

2.16 Option Term means, with respect to an Option, the period of time set forth in the Option Agreement during which the Option may be exercised.

2.17 Options means all Nonstatutory Stock Options and Incentive Stock Options granted at any time under the Plan.

2.18 Participant means a person designated to receive an Option or Stock Purchase Right under the Plan in accordance with Section 4.03.

2.19 Plan means the Treasure Mountain Holdings, Inc. 2005 Stock Option Plan as described herein, as the same may be amended from time to time.

2.20 Restricted Stock means shares of Common Stock acquired pursuant to a grant of Stock Purchase Rights under Article V of the Plan.

2.21 Restricted Stock Purchase Agreement means a written agreement between the Company and an Optionee evidencing the terms and restrictions applying to stock purchased under a Stock Purchase Right. Each Restricted Stock Purchase Agreement is subject to the terms and conditions of the Plan and shall be substantially in the form of Exhibit B attached hereto or such other form as shall be determined from time to time by the Committee.

2.22 Stock Purchase Right means the right to purchase Common Stock pursuant to Article V of the Plan, as evidenced by a notice of grant included within the applicable Restricted Stock Purchase Agreement (the “Notice of Grant”).

2.23 Ten Percent Shareholder means any individual who, at the time an Option is granted, owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company.

ARTICLE III

ADMINISTRATION

The Plan shall be administered by the Board or, in the discretion of the Board, by a committee of the Board (the “Committee”) comprised of at least two persons. The Committee or Board shall have exclusive and final authority in each determination, interpretation or other action affecting the Plan and its Participants. The Board or Committee shall have the sole discretionary authority to interpret the Plan, to establish and modify administrative rules for the plan, to impose such conditions and restrictions on Options and Stock Purchase Rights as it determines appropriate, and to take such steps in connection with the Plan and Options and Stock Purchase Rights granted hereunder as it may deem necessary or advisable. The Board or Committee may delegate such of its powers and authority under the Plan as it deems appropriate to designated officers or employees of the Company. In the event of such delegation of authority or exercise of authority by the Board or Committee, references in the Plan to the Committee shall be deemed to refer to the delegate of the Board or the Committee as the case may be. For purposes of this Plan, references to the Committee shall be deemed references to the Board to the extent that the Board has not appointed a Committee to administer the Plan.

ARTICLE IV

SHARES AND PARTICIPATION

4.01 Number of Shares Issuable. The total number of shares initially authorized to be issued under the Plan shall be 6,000,000 shares of Common Stock. The number of shares available for issuance under the Plan shall be further subject to adjustment in accordance with Section 7.06. The shares to be offered under the Plan shall be authorized and unissued Common Stock, or issued Common Stock which shall have been reacquired by the Company,

4.02 Shares Subject to Terminated Options and Stock Purchase Rights. Common Stock covered by any unexercised portions of terminated Options and Stock Purchase Rights (including canceled Options and Stock Purchase Rights) granted under Articles V and VI of the Plan and Common Stock subject to any Options and Stock Purchase Rights which are otherwise surrendered by a Participant may again be subject to new Options and Stock Purchase Rights under the Plan.

4.03 Participation. Participants in the Plan shall be such consultants, directors, officers and other employees of the Company and its subsidiaries as the Committee, in its sole discretion, may designate from time to time. The Committee's designation of a Participant in any year shall not require the Committee to designate such person to receive Options, Stock Purchase Rights or grants in any other year. The Committee shall consider such factors as it deems pertinent in selecting Participants and in determining the type and amount of their respective Options and Stock Purchase Rights.

ARTICLE V

STOCK PURCHASE RIGHTS

5.01 Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Committee determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing or electronically, by means of a Restricted Stock Purchase Agreement, of the terms, conditions and restrictions related to the offer, including the number of shares of Common Stock that the offeree shall be entitled to purchase and the price to be paid for such shares. The offer shall be accepted by execution of the Restricted Stock Purchase Agreement.

5.02 Repurchase Option. Unless the Committee determines otherwise, the Restricted Stock Purchase Agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's service with the Company for any reason (including death or "Permanent Disability" (as defined in Section 6.03)). The purchase price for shares repurchased pursuant to the Restricted Stock Purchase Agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at a rate determined by the Committee. In the event that the Restricted Stock Purchase Agreement does not provide for a lapsing schedule, the restrictions shall lapse as to (a) one third of the shares subject to the Restricted Stock Purchase Agreement on the first anniversary of the grant of the Stock Purchase Right, (b) one third of the shares subject to the Restricted Stock Purchase Agreement on the second anniversary of the grant of the Stock Purchase Right and (c) one third of the shares subject to the Restricted Stock Purchase Agreement on the third anniversary of the grant of the Stock Purchase Right.

5.03 Other Provisions. The Restricted Stock Purchase Agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Committee in its sole discretion.

5.04 Rights as a Shareholder. Once the Stock Purchase Right is exercised, the purchaser shall have the rights equivalent to those of a shareholder, and shall be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised; provided, however, that Participants are entitled to share adjustments to reflect capital changes under Section 7.06.

ARTICLE VI

STOCK OPTIONS

6.01 Option Awards.

(a) **General.** The Committee may grant, to such Participants as the Committee may select, Options entitling the Participant to purchase shares of Common Stock from the Company in such number, at such price, and on such terms and subject to such conditions, not inconsistent with the terms of this Plan, as may be established by the Committee. The terms of any Option granted under this Plan shall be set forth in an Option Agreement.

(b) **Purchase Price of Options.** The Option Price of each share of Common Stock which may be purchased upon exercise of any Option granted under the Plan shall be determined by the Committee; provided, however, that (i) with respect to Incentive Stock Options, the Option Price per share shall in all cases be equal to or greater than the Fair Market Value of a share of Common Stock on the Date of Grant as required under Section 422 of the Code, and (ii) with respect to any Incentive Stock Option granted to any Ten Percent Shareholder, the Option Price per share shall in all cases be equal to or greater than 110 percent of the Fair Market Value of a share of Common Stock on the Date of Grant as required under Section 422 of the Code.

(c) **Designation of Options.** Except as otherwise expressly provided in the Plan, the Committee may designate, at the time of the grant of each Option, the Option as an Incentive Stock Option or a Nonstatutory Stock Option.

(d) **Incentive Stock Option Limitations.** No Participant may be granted Incentive Stock Options under the Plan (or any other plans of the Company), which would result in shares with an aggregate Fair Market Value (measured on the Date of Grant) of more than \$100,000 first becoming exercisable in any one calendar year. No Participant may be granted Incentive Stock Options under the Plan (or any other plans of the Company) unless the Participant is an employee of the Company or its Subsidiaries. An individual shall not cease to be an employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company and its subsidiaries. For purposes of an Option initially granted as an Incentive Stock Option, if a leave of absence of more than three months precludes such Option from being treated as an Incentive Stock Option under the Code, such Option thereafter shall be treated as a Nonstatutory Stock Option for purposes of this Plan. Neither service as a director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(e) **Rights as a Shareholder.** A Participant or a transferee of an Option pursuant to Section 7.04 shall have no rights as a shareholder with respect to Common Stock covered by an Option until the Participant or transferee shall have become the holder of record of any such shares, and no adjustment shall be made for dividends in cash or other property or distributions or other rights with respect to any such Common Stock for which the record date is prior to the date on which the Participant or a transferee of the Option shall have become the holder of record of any such shares covered by the Option; provided, however, that Participants are entitled to share adjustments to reflect capital changes under Section 7.06.

(f) **Vesting.** In the event that an Option Agreement does not provide for a vesting schedule, the Options covered thereby shall become exercisable as to (a) one third of the shares subject to the Option Agreement on the first anniversary of the grant of the Option, (b) one third of the shares subject to the Option on the second anniversary of the grant of the Option and (c) one third of the shares subject to the Option on the third anniversary of the grant of the Option.

6.02 Terms of Stock Options.

(a) **Conditions on Exercise.** An Option Agreement with respect to Options may contain such waiting periods, exercise dates and restrictions on exercise (including, but not limited to, periodic installments) as may be determined by the Committee as of the Date of Grant.

(b) **Duration of Options.** Options shall terminate after the first to occur of the following events:

- (i) Expiration of the Option as provided in the Option Agreement;
- (ii) Termination of the Option as provided in Section 6.03, following the Participant's termination of employment; or
- (iii) Ten years from the Date of Grant (five years from the Date of Grant in the case of any Incentive Stock Option granted to a Ten Percent Shareholder).

(c) **Acceleration of Exercise Time.** The Committee, in its sole discretion, shall have the right (but shall not in any case be obligated), exercisable at any time after the Date of Grant, to permit the exercise of any Option prior to the time such Option would otherwise become exercisable under the terms of the Option Agreement.

(d) **Extension of Exercise Time.** The Committee, in its sole discretion, shall have the right (but shall not in any case be obligated), exercisable on or at any time after the Date of Grant, to permit any Option granted under this Plan to be exercised after its expiration date, subject, however, to the limitation described in Section 6.02(b)(iii).

6.03 Exercise of Options upon Termination of Employment.

(a) **General.** In the event of the termination of employment of the Participant by the Participant or the Company and its subsidiaries for any reason whatsoever other than death, Permanent Disability (as defined in Section 6.03(b)) or retirement after attainment of age 65, (i) any Options that were not vested prior to the date of such termination of employment shall terminate on such date and (ii) any Options that were vested prior to the date of such termination of employment (and which were not previously exercised) shall terminate on the ninetieth (90th) day following the date of such termination of employment or the last day of the Option Term, whichever is earlier.

(b) **Death, Permanent Disability or Retirement.** In the event of the termination of the employment of the Participant by reason of death, Permanent Disability or retirement after attainment of age 65, any Options that were vested prior to the date of such termination (and which were not previously exercised), together with any other Options designated by the Committee, shall terminate on the earlier of (i) the first anniversary of the date of such termination and (ii) the last day of the Option Term. Any Options that were not vested prior to the date of such termination and do not become vested pursuant to the immediately preceding sentence shall terminate as of the date of such termination. As used in this Plan, the term "Permanent Disability" means the Participant being deemed to have suffered a disability that makes the Participant eligible for immediate benefits under any long-term disability plan of the Company, as in effect from time to time.

(c) **Termination of Employment.** For purposes of the Plan, there shall have been a termination of employment of a Participant if such Participant is no longer an employee, consultant, director or officer of the Company or of any of its subsidiaries.

6.04 Exercise Procedures. Each Option granted under the Plan shall be exercised by written notice to the Company which must be received by the officer or employee of the Company designated in the Option Agreement on or before the close of business on the expiration date of the Option. The Option Price of shares purchased upon exercise of an Option granted under the Plan shall be paid in full in cash by the Participant pursuant to the Option Agreement; provided, however, that the Committee may (but shall not be required to) permit payment to be made by delivery to the Company of either (a) Common Stock (which may include shares otherwise issuable in connection with the exercise of the Option, subject to such rules as the Committee deems appropriate), (b) any combination of cash and Common Stock, or (c) such other consideration as the Committee deems appropriate. In the event that any Common Stock shall be transferred to the Company to satisfy all or any part of the Option Price, the part of the Option Price deemed to have been satisfied by such transfer of Common Stock shall be equal to the product derived by multiplying the Fair Market Value of a share of Common Stock as of the date of exercise times the number of shares of Common Stock transferred to the Company. The Participant may not transfer to the Company in satisfaction of the Option Price any fractional share of Common Stock. Any part of the Option Price paid in cash upon the exercise of any Option shall be added to the general funds of the Company and may be used for any proper corporate purpose. Unless the Committee shall otherwise determine, any Common Stock transferred to the Company as payment of all or part of the Option Price upon the exercise of any Option shall be held as treasury shares.

ARTICLE VII

MISCELLANEOUS

7.01 Plan Provisions Control Option and Stock Purchase Right Terms. The terms of the Plan shall govern all Options and Stock Purchase Rights granted under the Plan, and in no event shall the Committee have the power to grant any option or stock purchase right under the Plan which is contrary to any of the provision of the Plan. In the event any provision of any Options or Stock Purchase Rights granted under the Plan shall conflict with any term in the Plan as constituted on the Date of Grant of such Option or Stock Purchase Right, the term in the Plan as constituted on the Date of Grant of such Option or Stock Purchase Right shall control. Except as provided in Section 7.03 and Section 7.06, the terms of any Option or Stock Purchase Right granted under the Plan may not be changed after the Date of Grant of such Option or Stock Purchase Right so as to materially decrease the value of the Option or Stock Purchase Right without the express written approval of the holder.

7.02 Option Agreement. No person shall have any rights under any Option granted under the Plan unless and until the Company and the Participant to whom such Option shall have been granted shall have executed and delivered an Option Agreement or received any other Option acknowledgment authorized by the Committee expressly granting the Option to such person and containing provisions setting forth the terms of the Option.

7.03 Modification of Option After Grant. No Option or Stock Purchase Right granted under the Plan to a participant may be modified (unless such modification does not materially decrease the value of the Option or Stock Purchase Right) after the Date of Grant except by express written agreement between the Company and the Participant, provided that any such change (a) shall not be inconsistent with the terms of the Plan, and (b) shall be approved by the Committee.

7.04 Limitation on Transfer. Unless determined otherwise by the Committee, a Participant's rights and interest under the Plan may not be assigned or transferred other than by will or the laws of descent and distribution, and during the lifetime of a Participant, only the Participant personally (or the Participant's personal representative) may exercise rights under the Plan. The Participant's Beneficiary may exercise the Participant's rights to the extent they are exercisable under the Plan following the death of the Participant. In the event that the Committee makes an Option or Stock Purchase Right transferable, such Option or Stock Purchase Right shall contain such additional terms and conditions as the Committee deems appropriate.

7.05 Taxes. The Company shall be entitled, if the Committee deems it necessary or desirable, to withhold (or secure payment from the Participant in lieu of withholding) the amount of any withholding or other tax required by law to be withheld or paid by the Company with respect to any amount payable and/or shares issuable with respect to such Participant's Option or Stock Purchase Right, or with respect to any income recognized upon a disqualifying disposition of shares received pursuant to the exercise of an Incentive Stock Option, and the Company may defer payment or issuance of shares upon exercise of an Option or Stock Purchase Right unless indemnified to its satisfaction against any liability for any such tax. The amount of such withholding or tax payment shall be determined by the Committee and shall be payable by the Participant at such time as the Committee determines. The Participant shall meet his or her withholding requirement by direct payment to the Company in cash of the amount of any taxes required to be withheld with respect to such Option or Stock Purchase Right; provided, however, that the Committee may (but shall not be required to) permit the Participant to meet his or her withholding requirement by (i) having withheld from such Option or Stock Purchase Right at the appropriate time that number of shares of Common Stock, rounded up to the next whole share, whose Fair Market Value is equal to the amount of withholding taxes due, or (ii) a combination of shares and cash.

7.06 Adjustments to Reflect Capital Changes.

(a) **Recapitalization.** The number and kind of shares subject to outstanding Options or Stock Purchase Rights, the Option Price for such shares, the number and kind of shares available for Options and Stock Purchase Rights subsequently granted under the Plan and the maximum number of shares in respect of which Options can be granted to any Participant in any calendar year shall be appropriately adjusted to reflect any stock dividend, stock split, combination or exchange of shares, merger, consolidation or other change in capitalization with a similar substantive effect upon the Plan or the Options or Stock Purchase Rights granted under the Plan. The Committee shall have the power and sole discretion to determine the amount of the adjustment to be made in each case.

(b) **Merger.** After any Merger in which the Company is the surviving corporation, each Participant shall, at no additional cost, be entitled upon any exercise of an Option or Stock Purchase Right to receive (subject to any required action by shareholders), in lieu of the number of shares of Common Stock receivable or exercisable pursuant to such Option or Stock Purchase Right, the number and class of shares or other securities to which such Participant would have been entitled pursuant to the terms of the Merger if, at the time of the Merger, such participant had been the holder of record of a number of shares equal to the number of shares receivable or exercisable pursuant to such Option or Stock Purchase Right. Comparable rights shall accrue to each Participant in the event of successive Mergers of the character described above. In the event of a Merger in which the Company is not the surviving corporation, the surviving, continuing, successor, or purchasing corporation, as the case may be (the "Acquiring Corporation"), shall either assume the Company's rights and obligations under outstanding Options and Stock Purchase Rights or substitute comparable options and stock purchase rights in respect of the Acquiring Corporation's stock for such outstanding Options and Stock Purchase Rights. In the event the Acquiring Corporation elects not to assume or substitute comparable options and stock purchase rights for such outstanding Options and Stock Purchase Rights, the Board shall provide that any unexercisable and/or unvested portion of the outstanding Options and Stock Purchase Rights shall be immediately exercisable and vested as of a date prior to such Merger or consolidation, as the Board so determines. The exercise and/or vesting of any Option and any Stock Purchase Right that was permissible solely by reason of this Section 7.07(b) shall be conditioned upon the consummation of the Merger or consolidation. Any Options and Stock Purchase Rights which are neither assumed by the Acquiring Corporation nor exercised as of the date of the Merger shall terminate effective as of the effective date of the Merger.

For purposes of the Plan, all outstanding Options and Stock Purchase Rights will be considered assumed if, following the consummation of the Merger, the option or stock purchase rights confers the right to purchase or receive, for each share of stock subject to the Option or Stock Purchase Right immediately prior to the consummation of the Merger, the consideration (whether stock, cash, or other securities property) received in the Merger by holders of Common Stock for each share of the Company's Common Stock held on the effective date of the transaction (and if holders were offered a choice of consideration, the type chosen by the holders of a majority of the outstanding shares of the Company's Common Stock); provided, however, that if such consideration received in the Merger is not solely common stock of the successor corporation or its parent, the Committee may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each share of stock subject to the Option or Stock Purchase Right, to be solely common stock of the successor corporation or its parent or subsidiary equal in fair market value to the per share consideration received by holders of the Company's Common Stock in the Merger.

Any outstanding Option which is assumed or replaced in the event of a Merger and does not otherwise accelerate at that time will automatically accelerate in the event that the Participant's service terminates through an "Involuntary Termination" effected within eighteen (18) months following the effective date of such Merger. Any Option so accelerated will remain exercisable until the earlier of (i) the expiration of the Option Term or (ii) the end of the one-year period measured from the date of the Involuntary Termination.

An Involuntary Termination will be deemed to occur upon (i) the Participant's involuntary dismissal or discharge by the Company or its subsidiaries or their successors for reasons other than cause or (ii) such individual's voluntary resignation following (A) a reduction in his or her level of compensation (including base salary, fringe benefits and any corporate-performance based bonus or incentive programs) by more than ten percent or (B) a relocation of such individual's place of employment by more than fifty (50) miles, provided and only if such reduction or relocation is effected by the Company or its subsidiaries or their successor without the Participant's written consent.

(c) **Options to Purchase Shares of Stock of Acquired Companies.** After any Merger in which the Company shall be a surviving corporation, the Committee may grant substituted options outside of the terms of this Plan, pursuant to Section 424 of the Code, replacing old options granted under a plan of another party to the Merger whose shares or stock subject to the old options may no longer be issued following the Merger. The foregoing manner of application of the foregoing provisions shall be determined by the Committee in its sole discretion. Any such application may provide for the elimination of any fractional shares, which might otherwise become subject to any Options.

7.07 No Right to Employment. No employee or other person shall have any claim of right to be granted an Option under this Plan. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company or any of its subsidiaries.

7.08 Options Not Includable for Benefit Purposes. Common Stock received by a Participant pursuant to the provisions of the Plan shall not be included in the determination of benefits under any pension, group insurance or other benefit plan applicable to the Participant, which is maintained by the Company, except as may be provided under the terms of such plans or determined by the Board.

7.09 Governing Law. All determinations made and actions taken pursuant to the Plan shall be governed by the laws of the State of Delaware and construed in accordance therewith (except where the law of the state of incorporation of the Company controls).

7.10 No Strict Construction. No rule of strict construction shall be implied against the Company, the Board, the Committee, or any other person in the interpretation of any of the terms of the Plan, any Option or Stock Purchase Right granted under the Plan or any rule or procedure established by the Committee.

7.11 Captions. The captions (i.e., all Section headings) used in the Plan are for convenience only, do not constitute a part of the Plan, and shall not be deemed to limit, characterize or affect in any way any provisions of the Plan, and all provisions of the Plan shall be construed as if no captions have been used in the Plan.

7.12 Severability. Whenever possible, each provision in the Plan and every Option and Stock Purchase Right at any time granted under the Plan shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of the Plan or any Option or Stock Purchase Right at any time granted under the Plan shall be held to be prohibited by or invalid under applicable law, then (a) such provision shall be deemed amended to accomplish the objectives of the provision as originally written to the fullest extent permitted by law and (b) all other provisions of the Plan and every other Option and Stock Purchase Right at any time granted under the Plan shall remain in full force and effect.

7.13 Amendment and Termination.

(a) **Amendment.** The Board shall have complete power and authority to amend the Plan at any time. No termination or amendment of the Plan may, without the consent of the Participant to whom any Option or Stock Purchase Right shall theretofore have been granted under the Plan, adversely affect the right of such individual under such Option or Stock Purchase Right.

(b) **Termination.** The Board shall have the right and the power to terminate the Plan at any time; provided, however, that the Plan shall terminate no later than ten years after the adoption of the Plan by the Board. No Option or Stock Purchase Right shall be granted under the Plan after the termination of the Plan, but the termination of the Plan shall not have any other effect and any Option or Stock Purchase Right outstanding at the time of the termination of the Plan may be exercised after termination of the Plan at any time prior to the expiration date of such Option or Stock Purchase Right to the same extent such Option or Stock Purchase Right would have been exercisable had the Plan not terminated.

7.14 Limitations. The following limitations shall apply to grants of Options:

(i) No Participant shall be granted, in any fiscal year of the Company, Options to purchase more than 1,000,000 shares of Common Stock, other than grants made to the chief executive officer of the Company pursuant to an employment agreement approved by the Board of Directors of the Company, in which case the maximum number of shares covered by Options granted to such officer in any fiscal year shall not exceed 5% of the Company's outstanding common stock, calculated on a fully diluted basis.

(ii) The foregoing limitation shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 7.06(b).

(iii) If an Option is canceled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 7.06(b)), the canceled Option will be counted against the limits set forth in subsections (i) and (ii) above.

7.15 Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares of Common Stock shall not be issued pursuant to the exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Option or Stock Purchase Right, the Company may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the shares of Common Stock are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required.

(c) Additional Conditions. The Committee shall have the authority to condition the grant of any Option or Stock Purchase Right in such other manner that the Committee determines to be appropriate, provided that such condition is not inconsistent with the terms of the Plan. Such conditions may include, among other things, obligations of Optionees to execute lock-up agreements and shareholder agreements in the future.

(d) Other. The Company shall have the right but not the obligation to file a resale registration statement on behalf of one or more Optionees with respect to shares underlying options on Form S-8 or other applicable registration statement.

7.16. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares of Common Stock hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained.

7.17. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of shares of Common Stock as shall be sufficient to satisfy the requirements of the Plan.

Employment Agreement

EMPLOYMENT AGREEMENT, dated as of December 1, 2008 between Optex Systems, Inc., a Delaware corporation (the "*Company*"), and Danny Schoening ("*Employee*").

WHEREAS, the Company desires to employ Employee as its Chief Operating Officer and General Manager; and

WHEREAS, Employee is willing to accept such employment on the terms set forth herein,

NOW, THEREFORE, the Company and Employee hereby agree as follows:

1. Employment.

1.1 **General.** The Company hereby agrees to employ Employee in the capacity of Chief Operating Officer and General Manager, and Employee hereby accepts such employment, upon the terms and subject to the conditions herein contained.

1.2 **Duties and Authority.** During the term of Employee's employment hereunder, Employee shall serve as the Chief Operating Officer and General Manager of the Company and shall have such responsibilities, duties and authority as may, from time to time, be assigned to him by the Board of Directors (the "*Board*"). During the term of this Agreement, Employee shall serve the Company, faithfully and to the best of Employee's ability, and shall devote substantially all of Employee's business time and efforts to the business and affairs of the Company (including its subsidiaries and affiliates) and the promotion of its interests. Employee shall be available to the Company at such times and places as the Company shall reasonably request during the term hereof. Notwithstanding the foregoing, Employee shall be entitled to pursue charitable and religious endeavors and to participate in professional organizations, provided that such activities do not interfere in any material respect with the performance by Employee of his duties hereunder and as otherwise approved by the Board.

2. **Term of Employment.** The term of this Agreement shall commence as of December 1, 2008 and shall continue through June 1, 2010. Thereafter, the term of this Agreement shall be automatically extended for successive and additional 18 month periods, unless the Company shall provide a written notice of termination at least ninety (90) days, or the Employee shall provide a written notice of termination at least ninety (90) days, prior to the end of the initial term or any extended term, as applicable. The term of this Agreement is subject to early termination in accordance with the provisions set forth in Section 4 hereof. The election by the Company or Employee to terminate this Agreement as of the expiration of the initial term, or as of the end of any 18 month renewal period, as provided in this Section 2 shall not be deemed

to be a termination by the Company under Sections 4.1.2 or 4.1.3 hereof or by Employee with Good Reason (as defined below), and in such event Employee shall only be entitled to the compensation set forth in Section 4.2.3 hereof

3. **Compensation and Benefits.**

3.1 **Salary.** During the first eighteen months of the term of this Agreement, the Company shall pay to Employee a base salary ("Base Salary") at the annual rate of One Hundred Ninety Thousand Dollars (\$190,000). On each renewal date of the commencement of employment, the Employee's base salary shall be reviewed by the Board and may be increased to such rate as the Board, in its sole discretion, may hereafter from time to time determine. The salary payable pursuant to this Section 3.1 shall be payable on a bi-weekly basis and is referred to herein as the "*Base Salary*".

3.2 **Expenses.** Employee shall be entitled to receive proper reimbursement from the Company for all reasonable out-of-pocket expenses incurred by Employee in performing services under this Agreement, according to the Company's expense account and reimbursement policies and provided that Employee shall submit reasonable documentation with respect to such expenses.

3.3 **Annual Incentive Bonus.**

(a) During the term of this Agreement, Employee shall be entitled to receive bonuses of up to 30% of his base salary per year at the discretion of the Company's Board of Directors pursuant to performance objectives to be determined by the Board of Directors. Any bonuses shall be payable in cash and shall be paid within ninety (90) days of any year anniversary of the date of this Agreement.

3.4 **Stock Options.**

3.4.1 The Company shall grant to the Employee the consummation of a reverse merger of the Company into a public shell ("Transaction"), the following number of options: an amount equal to one percent (1%) of the issued and outstanding common shares of the Company immediately after giving effect to the consummation of the Transaction, with 34% of the options vesting one year following the date of grant, and 33% vesting on each of the second and third anniversaries following the date of grant.

3.4.2 The options shall have an exercise price equal to the fair market value of one share of the Company's common stock as determined by the Company's Board of Directors on the date of grant; and shall become fully vested and exercisable upon the sale of all or substantially all of the assets of the Company, the sale of all of the capital stock of the Company by the Company's stockholders to a third party, or the merger or consolidation of the Company with another corporation or other entity (other than a merger or consolidation in which

the owners of the Company's capital stock immediately prior to the merger or consolidation own at least 51% of the capital stock of the surviving corporation or other entity in the merger or consolidation).

3.5 **Other Benefits.** Employee shall be entitled to the following additional benefits:

3.5.1 Employee shall be entitled to vacations, at such times as Employee shall reasonably determine, of 15 days each year of employment hereunder. Unless otherwise set forth in the Company's employment manual, there shall be no carryover of vacation from one year to the next.

3.5.2 Employee shall be entitled to Company-provided healthcare coverage for Employee and family and such other benefits as shall be extended to any other senior executive officer of the Company during the initial term and any renewal period of this Agreement, including, but not limited to, car allowances and entertainment budgets.

3.5.3 Employee shall receive a one-time signing bonus of Ten Thousand Dollars (\$10,000) which shall be due and payable within seven (7) business days of the date hereof.

3.6 **No Other Benefits.** During the term of this Agreement or upon any termination hereof, the Company shall have no obligation to pay or provide, any compensation or benefits other than as set forth herein; provided, however, that Employee shall be entitled to all benefits available to senior Employees of the Company under the employee benefit plans, and the policies and practices, of the Company, determined in accordance with the applicable terms and provisions of such plans, policies and practices, in each case, as accrued to the date of termination of employment.

4.0 **Termination of Employment.**

4.1 **Events of Termination.** Employee's employment hereunder shall terminate prior to the expiration of the term set forth in Section 2 hereof upon the occurrence of any one or more of the following events:

4.1.1 **Death.** In the event of Employee's death, Employee's employment shall terminate on the date of death.

4.1.2 **Termination by the Company for Cause.** The Company may, at its option, terminate the Employee's employment for "Cause" (as defined herein). For purposes hereof, "Cause" shall mean Employee's (i) conviction of, guilty plea to or confession of guilt of a felony, (ii) commission of fraudulent, illegal or dishonest acts, (iii) willful misconduct or gross negligence which reasonably could be expected to be materially injurious to the business,

operations or reputation of the Company (monetarily or otherwise), either individually or in the aggregate, (iv) after a written warning and a reasonable opportunity to cure non-performance, failure to perform Employee's material duties as assigned to Employee pursuant to the terms of this Agreement from time to time or failure to cure any other material breach of this Agreement, (v) any violation of any securities laws or regulations or laws or regulations of similar import with regard to the disclosure of information to the Company or discharge of duties with respect to the Company, or (vi) material breach of the Employee's obligations hereunder.

4.1.3 **Without Cause By The Company.** The Company may, at its option, terminate Employee's employment for any reason whatsoever (other than for Cause) by giving written notice of termination to Employee.

4.1.4 **Termination by Employee.** Employee may terminate Employee's employment for any reason whatsoever by giving ninety (90) days prior notice of termination to the Company, except that Employee may terminate Employee's employment for Good Reason by giving thirty (30) days prior notice of termination. Employee shall be deemed to have terminated employment hereunder for "*Good Reason*" in the event that Employee terminates such employment after (i) the Company has breached any of its material obligations hereunder and fails to cure such breach within 30 business days following receipt of written notice of such breach has been given by Employee to Company, (ii) the Company requires the Employee, without his consent, to be based in any office or location more than 100 miles from the Company's current location, or (iii) there is a merger or consolidation that results in more than 66% of the combined voting power of the then outstanding voting securities of the Company or its successor changing ownership or a the sale of all or substantially all of the Company's assets, and the obligations under this Agreement are not assumed by the surviving entity.

4.1.5 **Disability.** In the event of Employee's Disability (as defined herein), the Company will have the option to terminate Employee's employment by giving a written notice of termination to Employee. Such notice shall specify the date of termination, which date shall not be earlier than sixty (60) days after such notice is given. For purposes of this Agreement, "*Disability*" means the inability of Employee to substantially perform Employee's duties hereunder for one hundred and thirty five (135) days out of two hundred and twenty five (225) consecutive days as a result of a physical or mental illness, all as determined in good faith by the Board.

4.2 **Company's Obligations Upon Termination.** Following the termination of Employee's employment under the circumstances described below, the Company shall pay to Employee the following compensation and provide the following benefits in full satisfaction and final settlement of any and all claims and demands that Employee now has or hereafter may have under this Agreement:

4.2.1 **Termination Without Cause by the Company or by the**

Employee with Good Reason. In the event that Employee's employment shall be terminated by the Company pursuant to Section 4.1.3 or shall be terminated by the Employee for Good Reason pursuant to Section 4.1.4, whether during the initial term of this Agreement or during any renewal term thereof, (a) the Company shall pay Employee all Base Salary and any Bonus earned but unpaid through the date of termination, (b) the Company shall pay Employee six (6) months Base Salary then in effect on a monthly basis, and (c) all stock options granted to Employee by the Company shall remain exercisable for a period of two years after such termination, and all unvested stock options shall immediately vest. In addition, the Company shall reimburse Employee for any expenses incurred through the date of such termination in accordance with Section 3.3 hereof.

4.2.2 Termination by Employee Without Good Reason or by the Company for Cause. In the event that Employee's employment shall be terminated by Employee without Good Reason pursuant to Section 4.1.4 (or if Employee voluntarily resigns other than with Good Reason in accordance with such Section prior to the expiration of the then current term of this Agreement) or by the Company pursuant to Section 4.1.2, Employee shall be entitled to no further compensation or other benefits under this Agreement other than any Base Salary and any Bonus earned on or prior to the date of such termination, but not yet paid, and such benefits as have accrued pursuant to any applicable employee benefit plans of the Company. In addition, the Company shall reimburse Employee for any expenses incurred through the date of such termination in accordance with Section 3.3 hereof

4.2.3 Termination upon Expiration of the Employment Term. Upon expiration of the term of this Agreement, Employee shall be entitled to no further compensation or other benefits under this Agreement other than Base Salary earned, but unpaid, through the date of termination, any health insurance benefits specified herein as surviving date of termination, and any Bonus earned on or prior to the end of such term, but not yet paid and such benefits as have accrued pursuant to any applicable employee benefit plans of the Company. In addition, the Company shall reimburse Employee for any expenses incurred through the date of such termination in accordance with Section 3.3 hereof.

4.2.4 Termination Due to Death. In the event that Employee's employment shall be terminated by the Company pursuant to Section 4.1.1, the Company shall pay Employee or Employee's estate (a) all Base Salary earned but unpaid through the date of termination, and (b) any Bonus earned on or prior to the date of termination, but not yet paid. In addition, the Company shall reimburse Employee for any expenses incurred through the date of termination in accordance with Section 3.3 hereof.

4.2.5 Termination Due to Disability. In the event that Employee's employment shall be terminated by the Company pursuant to Section 4.1.5, (a) the Company shall pay Employee all Base Salary earned but unpaid through the date of termination, (b) any Bonus earned on or prior to the date of termination, but not yet paid, and (c) the Employee shall be entitled to all benefits under all employee benefit plans in which he is a participant. In

addition, the Company shall reimburse Employee for any expenses incurred through the date of termination in accordance with Section 3.3 hereof

4.3 **Nature of Payments.** All amounts to be paid by the Company to Employee pursuant to this Section 4 (other than Base Salary or reimbursement of expenses or amounts paid pursuant to Section 4.2.4) shall be considered by the parties to be severance payments. In the event that such payments shall be treated as damages, it is expressly acknowledged by the parties that damages to Employee for termination of employment would be difficult to ascertain and the above amounts are reasonable estimates thereof and are not a penalty.

4.4 **Release.** Any payments to be made or benefits to be provided by the Company pursuant to this Article 4 shall be subject to the Company's receipt from Employee of an effective general release and agreement not to sue, in a written form reasonably satisfactory to the Company (the "Release"), pursuant to which Employee makes limited customary representations and warranties relating to the validity, enforceability and binding nature of such release and that Employee has the right to enter into and give such release and Employee agrees (i) to release all claims against the Company, its subsidiaries and affiliates and related parties, (ii) not to maintain any action, suit, claim or proceeding against the Company and the officers, directors, and successors thereof, solely with respect to the matters released, and (iii) to be bound by the confidentiality and mutual nondisparagement covenants specified therein. Notwithstanding anything to the contrary contained herein, Employee's release shall expressly not apply to any claims Employee may have as a stockholder or option holder of the Company. Notwithstanding the due date of any payment hereunder requiring a Release, the Company shall not be obligated to make any such payment until after the expiration of any revocation period applicable to the Release.

4.5 **Notice of Nonrenewal.** If the Company determines to not renew this Agreement during the initial term thereof or any renewal term, it shall provide Employee with ninety (90) calendar days notice prior to the end of the then existing term of the Agreement.

5. **Non-Solicitation: Noncompetition.**

5.1 During the term of this Agreement and for a period of one year thereafter (following termination for any reason, subject to the provisions of Section 5.2), Employee shall not:

5.1.1 induce or attempt to induce, directly or indirectly, any then current customer or client of the Company to cease doing business, in whole or in part, with the Company or solicit or divert, directly or indirectly, the business of any such customer or client, or any identified potential customer or client, for Employee's own account or for the account of any other person or entity;

5.1.2 solicit or induce, directly or indirectly, any person or entity, including any

third-party service provider, distributor or supplier of the Company, to terminate its relationship with the Company or otherwise interfere with such relationship;

5.1.3 for Employee's own account or for the account of any other person or entity, solicit, interfere with or endeavor to cause, directly or indirectly, any employee or agent of the Company or induce or attempt to induce, directly or indirectly, any employee or agent of the Company to leave employment or terminate its agency with the Company or induce or attempt to induce, directly or indirectly, any such employee or agent to breach an employment or agency agreement or arrangement with the Company; or

5.1.4 except with respect to a less than 5% passive ownership interest in a publicly traded company, either for Employee or on behalf of any person or entity, directly or indirectly own, control or participate in the ownership or control of, or be employed by or on behalf of, any business which is competitive with the business (as it exists or the date of termination) of the Company, within the United States of America or any country in which the Company then conducts or proposes to conduct business, without the express written consent of the Company.

5.2 Notwithstanding any provision hereunder to the contrary, the provisions of Sections 5.1.1, 5.1.2 and 5.1.4 shall not apply following the termination of Employee's employment by the Company without Cause pursuant to Section 4.1.3 or by Employee for Good Reason pursuant to Section 4.1.4.

6. Property Rights. With respect to information, inventions and discoveries developed, made or conceived of by Employee, either alone or with others, at any time during Employee's employment by the Company and whether or not within working hours, arising out of such employment or pertinent to any field of business or research in which, during such employment, the Company is engaged or (if such is known to or ascertainable by Employee) is considering engaging, Employee agrees:

6.1 that all such information, inventions and discoveries, whether or not patented or patentable, shall be and remain the exclusive property of the Company;

6.2 to disclose promptly to an authorized representative of the Company all such information in Employee's possession as to possible applications and uses thereof;

6.3 not to file any patent application relating to any such invention or discovery except with the prior written consent of an authorized officer of the Company;

6.4 that Employee hereby waives and releases any and all rights Employee may have in and to such information, inventions and discoveries and hereby assigns to the Company and/or its nominees all of Employee's right, title and interest in them, and all Employee's right, title and interest in any patent, patent application, copyright or other property right based

thereon. Employee hereby irrevocably designates and appoints the Company and each of its duly authorized officers and agents as Employee's agent and attorney-in-fact to act for Employee and in Employee's behalf and stead to execute and file any document and to do all other lawfully permitted acts to further the prosecution, issuance and enforcement of any such patent, patent application, copyright or other property right with the same force and effect as if executed and delivered by Employee; and

6.5 at the request of the Company and without expense to Employee, to execute such documents and perform such other acts as the Company deems necessary or appropriate for the Company to obtain patents on such inventions in a jurisdiction or jurisdictions designated by the Company, and to assign to the Company or its designee such inventions and any patent applications and patents relating thereto.

7. **Confidentiality.** With respect to the information, inventions and discoveries referred to in Section 6 hereof, and also with respect to all other information, whatever its nature and form and whether obtained orally, by observation, from graphic materials or otherwise (except such as is generally available to the public or such as Employee shall be compelled by legal process to disclose), obtained by Employee during or as a result of Employee's employment by the Company and relating to any invention, improvement, enhancement, product, know-how, formula, software, process, apparatus, design, concept or other creation of the Company, or to any use of any of them, or to materials, tolerances, specifications, costs (including, without limitation, manufacturing costs), prices, or any plans of the Company, or to any other trade secret or proprietary information of the Company, Employee agrees:

7.1 to hold all such information, inventions and discoveries in strict confidence and not to publish or otherwise disclose any thereof to any person or entity other than the Company, except with the prior written consent of an authorized officer of the Company;

7.2 to take all reasonable precautions to assure that all such information, inventions and discoveries are properly protected from access by unauthorized persons;

7.3 to make no use of nor exploit in any way any such information, invention or discovery except as required in the performance of Employee's employment duties for the Company; and

7.4 upon termination of Employee's employment by the Company, or at any time upon request of the Company, to deliver to it all graphic materials and all substances, models, software, prototypes and the like containing or relating to any such information, invention or discovery, all of which graphic materials and other things shall be and remain the exclusive property of the Company.

For purposes of this Agreement, the term "graphic materials" includes, without limitation, letters, memoranda, reports, notes, notebooks, books of account, drawings, prints,

specifications, formulae software, data print-outs, microfilms, magnetic tapes and disks and other documents and recordings, together with all copies, excerpts and summaries thereof

8. No Conflicts. Employee agrees and acknowledges that Employee's employment by the Company and compliance with this Agreement do not and will not breach any agreement made by Employee to keep in confidence information acquired by Employee prior to or outside of Employee's employment with the Company. Employee will comply with any and all valid obligations which Employee may now have to prior employers or to others relating to confidential information, inventions or discoveries which are the property of those prior employers or others, as the case may be. Employee has supplied or shall promptly supply to the Company upon its request a copy of each written agreement setting forth any such obligation. Employee hereby agrees and acknowledges that Employee has not brought and will not bring with Employee for use in the performance of duties at the Company any materials, documents or information of a former employer or any third party that are not generally available to the public, unless Employee has express written authorization from the owner thereof for possession and use or Employee otherwise has undisputed proprietary rights to such material documents or information.

9. Specific Performance. Without intending to limit the remedies available to the Company, Employee agrees that damages at law would be an inadequate remedy to the Company in the event that Employee shall breach or attempt to breach any of the provisions of Sections 5, 6, 7, 8 or 9 hereof and that the Company may apply for and, without the posting of any bond or other security, upon proof of breach or threatened breach of any of the covenants contained in such Sections, have injunctive relief in any court of competent jurisdiction to restrain the breach or threatened breach of, or otherwise to enforce specifically, any of the covenants contained in such Sections. Such injunctive relief in such court shall be available to the Company in lieu of any arbitration proceeding pursuant to Section 11 hereof

10. Survival. The provisions of Sections 5, 6, 7, 8, 9, 10, 11, and 12 shall survive any termination of this Agreement. In furtherance and not in limitation of the preceding sentence, Employee's obligations under Sections 5, 6 and 7 hereof shall remain in effect throughout Employee's employment by the Company, unaffected by any transfer to a subsidiary or affiliate of the Company.

11. Arbitration. Any controversy or claim based on, arising out of or relating to the interpretation and performance of this Agreement or any termination hereof shall be solely and finally settled by arbitration under the rules of the American Arbitration Association, and judgment on the award rendered in the arbitration may be entered in any court having jurisdiction thereof. Any such arbitration shall be in the State of Delaware, and shall be submitted to a single arbitrator appointed by the mutual consent of the parties or, in the absence of such consent, by application of any party to the American Arbitration Association. A decision of the arbitrator shall be final and binding upon the parties, and the arbitrator shall be authorized to apportion fees and expenses (including counsel fees and expenses) as the arbitrator shall deem

appropriate. In the absence of any such apportionment, the fees and expenses of the arbitrator shall be borne equally by each party, and each party will bear the fee and expenses of its own attorney. The parties agree that this clause has been included to rapidly and inexpensively resolve any disputes between them with respect to this Agreement and that this clause shall be grounds for dismissal of any court action commenced by either party with respect to this Agreement, other than (i) post-arbitration actions seeking to enforce an arbitration award and (ii) actions seeking appropriate equitable or injunctive relief pursuant to Sections 5, 6 and/or 7 hereof

12. Miscellaneous.

12.1 **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without regard to principles of conflicts of laws.

12.2 **Entire Agreement; Amendment.** This Agreement and the exhibits annexed hereto between the Company and Employee contain the complete understanding and agreement between the parties hereto with respect to the subject matter hereof, and supersede all prior understandings and agreements, written or oral, between the parties hereto relating to the subject matter hereof. This Agreement may not be amended or modified except in a writing signed by the parties hereto.

12.3 **Severability.** In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, (i) the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law and (ii) any such invalidity or unenforceability shall be deemed replaced by a term or provision determined by the parties as coming closest to expressing the intention of the invalid or unenforceable term or provision.

12.4 **Notice.** Any notice to be given hereunder shall be in writing and either delivered in person, by nationally recognized overnight courier, by facsimile or by registered or certified first class mail, postage prepaid with return receipt requested, addressed (a) if to the Company, to Optex Systems, Inc., 1420 Presidential Drive, Richardson, TX, 75081, attention: Chairman, and (b) if to the Employee, to Danny Schoening, 2055 Travis Ranch Road, Lucas, TX 75002. Notices delivered personally shall be deemed given as of actual receipt; notices sent via facsimile transmission shall be deemed given as of one business day following sender's receipt from sender's facsimile machine of written confirmation of transmission thereof, notices sent by overnight courier shall be deemed given as of one business day following sending; and notices mailed shall be deemed given as of five business days after proper mailing. Any party may change its address in a notice given to the other party in accordance with this Section 12.4.

12.5 **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors

(including, without limitation, any successor by merger or sale of all or substantially all assets) and permitted assigns.


12.6 **Further Assurances.** Employee and the Company shall execute and deliver all instruments and other documents which, in the opinion of the Company or the Employee, may be necessary or appropriate to carry out the terms of this Agreement.

12.7 **Deadlines.** The Section headings in this Agreement are for convenience of reference only and shall not affect its interpretation.

12.8 **Interpretation.** For purposes of Sections 5, 6, 7, 8 and 9, the "Company" shall include any subsidiary or affiliate of the Company for which Employee renders services.

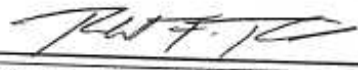
12.9 **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto as of the date first above written.



Danny Schoening

OPTEX SYSTEMS, INC.

By: 

Name: Ronald F. Richards
Title: Chairman of the Board

LEASE

BY AND BETWEEN

ACQUIPORT DFWIP, INC.,
A DELAWARE CORPORATION,

AS LANDLORD,

AND

OPTEX SYSTEMS INC.,
A TEXAS CORPORATION,

AS TENANT

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MULTI-TENANT INDUSTRIAL GROSS (BASE YEAR) LEASE
REFERENCE PAGES

BUILDING: 1360-1420 Presidential

LANDLORD: Acquiport DFWIP, Inc., a Delaware corporation

LANDLORD'S ADDRESS: c/o RREEF Management Company, 1406 Halsey Way,
Suite 110, Carrollton, TX 75007

WIRE INSTRUCTIONS AND/OR ADDRESS FOR
RENT PAYMENT: Acquiport DFWIP, Inc., 75 Remittance Drive, Suite
1117, Chicago, IL 60675-1117

LEASE REFERENCE DATE: August 14, 2003

TENANT: Optex Systems Inc., a Texas corporation

TENANT'S NOTICE ADDRESS:
(a) As of beginning of Term: 1420 Presidential, Richardson, TX 75081
(b) Prior to beginning of Term (if different): 850 N. Dorothy Drive, Suite 510, Richardson, TX
75081

PREMISES ADDRESS: 1420 Presidential, Richardson, TX 75081

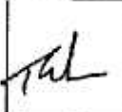

PREMISES RENTABLE AREA: Approximately 34,076 sq. ft. (for outline of Premises
see Exhibit A)

USE: Manufacture of optical assemblies

SCHEDULED COMMENCEMENT DATE: September 1, 2003

TERM OF LEASE: Approximately five (5) years, four (4) months and zero
(0) days beginning on the Commencement Date and
ending on the Termination Date. The period from the
Commencement Date to the last day of the same month
is the "Commencement Month."

TERMINATION DATE: The last day of the sixty-fourth (64th) full calendar
month after (if the Commencement Month is not a full
calendar month), or from and including (if the
Commencement Month is a full calendar month), the
Commencement Month

	
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Initials

ANNUAL RENT and MONTHLY INSTALLMENT
OF RENT (Article 3):

Period		Rentable Square Footage	Annual Rent Per Square Foot	Annual Rent	Monthly Installment of Rent
from	through				
9/1/03	12/31/03	34,076	\$-0-	\$-0-	\$-0-
1/1/04	12/31/04	34,076	\$6.20	\$211,272.00	\$17,606.00
1/1/05	12/31/05	34,076	\$6.40	\$218,088.00	\$18,174.00
1/1/06	12/31/06	34,076	\$6.60	\$224,904.00	\$18,742.00
1/1/07	12/31/07	34,076	\$6.80	\$231,720.00	\$19,310.00
1/1/08	12/31/08	34,076	\$7.00	\$238,536.00	\$19,878.00

BASE YEAR (EXPENSES): January 1, 2003 to December 31, 2003

BASE YEAR (TAXES): Taxes for January 1, 2003 to December 31, 2003

TENANT'S PROPORTIONATE SHARE: 25.3%

SECURITY DEPOSIT: \$17,605.93 (See Articles 5 and 40)

ASSIGNMENT/SUBLETTING FEE: \$1,000.00

REAL ESTATE BROKER DUE COMMISSION: Henry S. Miller Commercial and RREEF Management Company

TENANT'S SIC CODE: 5995

AMORTIZATION RATE: Eleven percent (11%) per annum

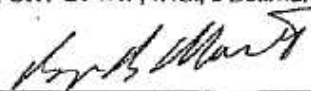
The Reference Pages information is incorporated into and made a part of the Lease. In the event of any conflict between any Reference Pages information and the Lease, the Lease shall control. This Lease includes Exhibits A through D, all of which are made a part of this Lease.

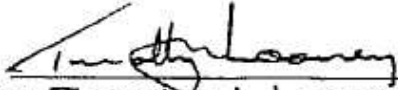
LANDLORD:

TENANT:

ACQUIPORT DFWIP, INC., a Delaware corporation

OPTEX SYSTEMS INC.,
a Texas corporation

By: 
Name: Bryan B. Marsh, III
Title: Vice President
Dated: 9-21-03

By: 
Name: TIMOTHY W. LOONEY
Title: PRESIDENT
Dated: 15 AUG 2003

LEASE

By this Lease Landlord leases to Tenant and Tenant leases from Landlord the Premises in the Building as set forth and described on the Reference Pages. The Premises are depicted on the floor plan attached hereto as Exhibit A, and the Building is depicted on the site plan attached hereto as Exhibit A-1. The Reference Pages, including all terms defined thereon, are incorporated as part of this Lease.

1. USE AND RESTRICTIONS ON USE.

1.1 The Premises are to be used solely for the purposes set forth on the Reference Pages. Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building or injure, annoy, or disturb them, or allow the Premises to be used for any improper, immoral, unlawful, or objectionable purpose, or commit any waste. Tenant shall not do, permit or suffer in, on, or about the Premises the sale of any alcoholic liquor without the written consent of Landlord first obtained. Tenant shall comply with all governmental laws, ordinances and regulations applicable to the use of the Premises and its occupancy and shall promptly comply with all governmental orders and directions for the correction, prevention and abatement of any violations in the Building or appurtenant land, caused or permitted by, or resulting from the specific use by, Tenant, or in or upon, or in connection with, the Premises, all at Tenant's sole expense. Tenant shall not do or permit anything to be done on or about the Premises or bring or keep anything into the Premises which will in any way increase the rate of, invalidate or prevent the procuring of any insurance protecting against loss or damage to the Building or any of its contents by fire or other casualty or against liability for damage to property or injury to persons in or about the Building or any part thereof.

1.2 Tenant shall not, and shall not direct, suffer or permit any of its agents, contractors, employees, licensees or invitees (collectively, the "Tenant Entities") to at any time handle, use, manufacture, store or dispose of in or about the Premises or the Building any (collectively "Hazardous Materials") flammables, explosives, radioactive materials, hazardous wastes or materials, toxic wastes or materials, or other similar substances, petroleum products or derivatives or any substance subject to regulation by or under any federal, state and local laws and ordinances relating to the protection of the environment or the keeping, use or disposition of environmentally hazardous materials, substances, or wastes, presently in effect or hereafter adopted, all amendments to any of them, and all rules and regulations issued pursuant to any of such laws or ordinances (collectively "Environmental Laws"), nor shall Tenant suffer or permit any Hazardous Materials to be used in any manner not fully in compliance with all Environmental Laws, in the Premises or the Building and appurtenant land or allow the environment to become contaminated with any Hazardous Materials. Notwithstanding the foregoing, Tenant may handle, store, use or dispose of products containing small quantities of Hazardous Materials (such as aerosol cans containing insecticides, toner for copiers, paints, paint remover and the like) to the extent customary and necessary for the use of the Premises for general office purposes, and Tenant may use low level radioactive materials and paint for its products, for which Tenant is licensed by the NRC through the Texas Department of Health and the Texas Air and Water Commission (Texas & NRC License #L04332, Texas Air & Water Commission TXD988066437); provided that Tenant shall always handle, store, use, and dispose of any such Hazardous Materials in a safe and lawful manner and never allow such Hazardous Materials to contaminate the Premises, Building and appurtenant land or the environment. Tenant shall protect, defend, indemnify and hold each and all of the Landlord Entities (as defined in Article 30) harmless from and against any and all loss, claims, liability or costs (including court costs and attorney's fees) incurred by reason of any actual or asserted failure of Tenant to fully comply with all applicable Environmental Laws, or the presence, handling, use or disposition in or from the Premises of any Hazardous Materials by Tenant or any Tenant Entity (even though permissible under all applicable Environmental Laws or the provisions of this Lease), or by reason of any actual or asserted failure of Tenant to keep, observe, or perform any provision of this Section 1.2.

1.3 Tenant and the Tenant Entities will be entitled to the non-exclusive use of the common areas of the Building as they exist from time to time during the Term, including the parking facilities, subject to Landlord's rules and regulations regarding such use. However, in no event will Tenant or the Tenant Entities park more vehicles in the parking facilities than Tenant's Proportionate Share of the total parking spaces available for common use. The

foregoing shall not be deemed to provide Tenant with an exclusive right to any parking spaces or any guaranty of the availability of any particular parking spaces or any specific number of parking spaces.

2. TERM.

2.1 The Term of this Lease shall begin on the date ("Commencement Date") which shall be the later of the Scheduled Commencement Date as shown on the Reference Pages and the date that Landlord shall tender possession of the Premises to Tenant, and shall terminate on the date as shown on the Reference Pages ("Termination Date"), unless sooner terminated by the provisions of this Lease. Landlord shall tender possession of the Premises with all the work, if any, to be performed by Landlord pursuant to Exhibit B to this Lease substantially completed. Tenant shall deliver a punch list of items not completed within thirty (30) days after Landlord tenders possession of the Premises and Landlord agrees to proceed with due diligence to perform its obligations regarding such items. Tenant shall, at Landlord's request, execute and deliver a memorandum agreement provided by Landlord in the form of Exhibit C attached hereto, setting forth the actual Commencement Date, Termination Date and, if necessary, a revised rent schedule. Should Tenant fail to do so within thirty (30) days after Landlord's request, the information set forth in such memorandum provided by Landlord shall be conclusively presumed to be agreed and correct.

2.2 Tenant agrees that in the event of the inability of Landlord to deliver possession of the Premises on the Scheduled Commencement Date for any reason, Landlord shall not be liable for any damage resulting from such inability, but Tenant shall not be liable for any rent until the time when Landlord can, after notice to Tenant, deliver possession of the Premises to Tenant. No such failure to give possession on the Scheduled Commencement Date shall affect the other obligations of Tenant under this Lease, except that if Landlord is unable to deliver possession of the Premises within one hundred twenty (120) days after the Scheduled Commencement Date (other than as a result of strikes, shortages of materials, holdover tenancies or similar matters beyond the reasonable control of Landlord and Tenant is notified by Landlord in writing as to such delay), Tenant shall have the option to terminate this Lease unless said delay is as a result of: (a) Tenant's failure to agree to plans and specifications and/or construction cost estimates or bids; (b) Tenant's request for materials, finishes or installations other than Landlord's standard except those, if any, that Landlord shall have expressly agreed to furnish without extension of time agreed by Landlord; (c) Tenant's change in any plans or specifications; or, (d) performance or completion by a party employed by Tenant (each of the foregoing, a "Tenant Delay"). If any delay is the result of a Tenant Delay, the Commencement Date and the payment of rent under this Lease shall be accelerated by the number of days of such Tenant Delay.

2.3 In the event Landlord permits Tenant, or any agent, employee or contractor of Tenant, to enter, use or occupy the Premises prior to the Commencement Date, such entry, use or occupancy shall be subject to all the provisions of this Lease other than the payment of rent, including, without limitation, Tenant's compliance with the insurance requirements of Article 11. Said early possession shall not advance the Termination Date.

3. RENT.

3.1 Tenant agrees to pay to Landlord the Annual Rent in effect from time to time by paying the Monthly Installment of Rent then in effect on or before the first day of each full calendar month during the Term. The Monthly Installment of Rent in effect at any time shall be one-twelfth (1/12) of the Annual Rent in effect at such time. Rent for any period during the Term which is less than a full month shall be a prorated portion of the Monthly Installment of Rent based upon the number of days in such month. Said rent shall be paid to Landlord, without deduction or offset and without notice or demand, at the Rent Payment Address, as set forth on the Reference Pages, or to such other person or at such other place as Landlord may from time to time designate in writing. If an Event of Default occurs, Landlord may require by notice to Tenant that all subsequent rent payments be made by an automatic payment from Tenant's bank account to Landlord's account, without cost to Landlord. Tenant must implement such automatic payment system prior to the next scheduled rent payment or within ten (10) days after Landlord's notice, whichever is later. Unless specified in this Lease to the contrary, all amounts and sums payable by Tenant to Landlord pursuant to this Lease shall be deemed additional rent.

3.2 Tenant recognizes that late payment of any rent or other sum due under this Lease will result in administrative expense to Landlord, the extent of which additional expense is extremely difficult and economically impractical to ascertain. Tenant therefore agrees that if rent or any other sum is not paid within ten (10) days after such rent or other sum becomes due and payable pursuant to this Lease, a late charge shall be imposed in an amount equal to the greater of: (a) Fifty Dollars (\$50.00), or (b) six percent (6%) of the unpaid rent or other payment. The amount of the late charge to be paid by Tenant shall be reassessed and added to Tenant's obligation for each successive month until paid. The provisions of this Section 3.2 in no way relieve Tenant of the obligation to pay rent or other payments on or before the date on which they are due, nor do the terms of this Section 3.2 in any way affect Landlord's remedies pursuant to Article 19 of this Lease in the event said rent or other payment is unpaid after date due.

4. RENT ADJUSTMENTS.

4.1 For the purpose of this Article 4, the following terms are defined as follows:

4.1.1 **Lease Year:** Each fiscal year (as determined by Landlord from time to time) falling partly or wholly within the Term.

4.1.2 **Expenses:** All costs of operation, maintenance, repair, replacement and management of the Building (including the amount of any credits which Landlord may grant to particular tenants of the Building in lieu of providing any standard services or paying any standard costs described in this Section 4.1.2 for similar tenants), as determined in accordance with generally accepted accounting principles, including the following costs by way of illustration, but not limitation: water and sewer charges; insurance charges of or relating to all insurance policies and endorsements deemed by Landlord to be reasonably necessary or desirable and relating in any manner to the protection, preservation, or operation of the Building or any part thereof; utility costs, including, but not limited to, the cost of heat, light, power, steam, gas; waste disposal; the cost of janitorial services; the cost of security and alarm services (including any central-station signaling system); costs of cleaning, repairing, replacing and maintaining the common areas, including parking and landscaping, window cleaning costs; labor costs; costs and expenses of managing the Building including management and/or administrative fees; air conditioning maintenance costs; elevator maintenance fees and supplies; material costs; equipment costs including the cost of maintenance, repair and service agreements and rental and leasing costs; purchase costs of equipment; current rental and leasing costs of items which would be capital items if purchased; tool costs; licenses, permits and inspection fees; wages and salaries; employee benefits and payroll taxes; accounting and legal fees; any sales, use or service taxes incurred in connection therewith. In addition, Landlord shall be entitled to recover, as additional rent (which, along with any other capital expenditures constituting Expenses, Landlord may either include in Expenses or cause to be billed to Tenant along with Expenses and Taxes but as a separate item), Tenant's Proportionate Share of: (i) an allocable portion of the cost of capital improvement items which are reasonably calculated to reduce operating expenses; (ii) the cost of fire sprinklers and suppression systems and other life safety systems; and (iii) other capital expenses which are required under any governmental laws, regulations or ordinances which were not applicable to the Building at the time it was constructed; but the costs described in this sentence shall be amortized over the reasonable life of such expenditures in accordance with such reasonable life and amortization schedules as shall be determined by Landlord in accordance with generally accepted accounting principles, with interest on the unamortized amount at one percent (1%) in excess of the Wall Street Journal prime lending rate announced from time to time. Expenses shall not include depreciation or amortization of the Building or equipment in the Building except as provided herein, loan principal payments, costs of alterations of tenants' premises, leasing commissions, interest expenses on long-term borrowings or advertising costs.

4.1.3 **Taxes:** Real estate taxes and any other taxes, charges and assessments which are levied with respect to the Building or the land appurtenant to the Building, or with respect to any improvements, fixtures and equipment or other property of Landlord, real or personal, located in the Building and used in connection with the operation of the Building and said land, any payments to any ground lessor in reimbursement of tax payments made by such lessor; and all fees, expenses and costs incurred by Landlord in investigating, protesting, contesting or in any way seeking to reduce or avoid increase in any assessments, levies or the tax rate pertaining to any Taxes to be paid by Landlord in any Lease Year; Taxes shall not include any corporate franchise, or estate, inheritance or net

income tax, or tax imposed upon any transfer by Landlord of its interest in this Lease or the Building or any taxes to be paid by Tenant pursuant to Article 28.

4.2 If in any Lease Year, (i) Expenses paid or incurred shall exceed Expenses paid or incurred in the Base Year (Expenses) and/or (ii) Taxes paid or incurred by Landlord in any Lease Year shall exceed the amount of such Taxes which became due and payable in the Base Year (Taxes), Tenant shall pay as additional rent for such Lease Year Tenant's Proportionate Share of such excess.

4.3 The annual determination of Expenses shall be made by Landlord and shall be binding upon Landlord and Tenant, subject to the provisions of this Section 4.3. During the Term, Tenant may review, at Tenant's sole cost and expense, the books and records supporting such determination in an office of Landlord, or Landlord's agent, during normal business hours, upon giving Landlord five (5) days advance written notice within sixty (60) days after receipt of such determination, but in no event more often than once in any one (1) year period, subject to execution of a confidentiality agreement acceptable to Landlord, and provided that if Tenant utilizes an independent accountant to perform such review it shall be one of national standing which is reasonably acceptable to Landlord, is not compensated on a contingency basis and is also subject to such confidentiality agreement. If Tenant fails to object to Landlord's determination of Expenses within ninety (90) days after receipt, or if any such objection fails to state with specificity the reason for the objection, Tenant shall be deemed to have approved such determination and shall have no further right to object to or contest such determination. In the event that during all or any portion of any Lease Year or Base Year, the Building is not fully rented and occupied Landlord shall make an appropriate adjustment in occupancy-related Expenses for such year for the purpose of avoiding distortion of the amount of such Expenses to be attributed to Tenant by reason of variation in total occupancy of the Building, by employing consistent and sound accounting and management principles to determine Expenses that would have been paid or incurred by Landlord had the Building been at least ninety-five percent (95%) rented and occupied, and the amount so determined shall be deemed to have been Expenses for such Lease Year.

4.4 Prior to the actual determination thereof for a Lease Year, Landlord may from time to time estimate Tenant's liability for Expenses and/or Taxes under Section 4.2, Article 6 and Article 28 for the Lease Year or portion thereof. Landlord will give Tenant written notification of the amount of such estimate and Tenant agrees that it will pay, by increase of its Monthly Installments of Rent due in such Lease Year, additional rent in the amount of such estimate. Any such increased rate of Monthly Installments of Rent pursuant to this Section 4.4 shall remain in effect until further written notification to Tenant pursuant hereto.

4.5 When the above mentioned actual determination of Tenant's liability for Expenses and/or Taxes is made for any Lease Year and when Tenant is so notified in writing, then:

4.5.1 If the total additional rent Tenant actually paid pursuant to Section 4.3 on account of Expenses and/or Taxes for the Lease Year is less than Tenant's liability for Expenses and/or Taxes, then Tenant shall pay such deficiency to Landlord as additional rent in one lump sum within thirty (30) days of receipt of Landlord's bill therefor; and

4.5.2 If the total additional rent Tenant actually paid pursuant to Section 4.3 on account of Expenses and/or Taxes for the Lease Year is more than Tenant's liability for Expenses and/or Taxes, then Landlord shall credit the difference against the then next due payments to be made by Tenant under this Article 4, or, if the Lease has terminated, refund the difference in cash. Tenant shall not be entitled to a credit by reason of actual Expenses and/or Taxes in any Lease Year being less than Expenses and/or Taxes in the Base Year (Expenses and/or Taxes).

4.6 If the Commencement Date is other than January 1 or if the Termination Date is other than December 31, Tenant's liability for Expenses and Taxes for the Lease Year in which said Date occurs shall be prorated based upon a three hundred sixty-five (365) day year.

4.7 Notwithstanding anything contained herein or in this Lease to the contrary, it is understood and agreed that for purposes of calculating Tenant's Proportionate Share of excess Expenses in any Lease Year in the

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initial Term of this Lease, as described in Section 4.2(i) above, the amount of Expenses (excluding Non-Controllable Expenses, as hereinafter defined) shall be limited to the percentages of the actual amount of Expenses (excluding Non-Controllable Expenses) in the Base Year (Expenses) set forth below:

<u>Lease Year</u>	<u>% of the Amount of Expenses (excluding Non-Controllable Expenses) in the Base Year (Expenses)</u>
2004	108%
2005	117%
2006	126%
2007	136%
2008	147%

As used herein, the term "Non-Controllable Expenses" shall mean insurance premiums, utility charges, governmentally mandated charges (including sales tax), and the cost for snow removal and security services. Tenant's liability for excess Non-Controllable Expenses and excess Taxes in any given Lease Year shall not be similarly limited, and therefore, Tenant shall remain liable for the full amount of Tenant's Proportionate Share of excess Non-Controllable Expenses in any Lease Year over Non-Controllable Expenses in the Base Year (Expenses) and for the full amount of Tenant's Proportionate Share of excess Taxes in any Lease Year over Taxes in the Base Year (Taxes).

5. **SECURITY DEPOSIT.** Upon the execution of this Lease, Tenant shall deposit an amount equal to \$7,437.93, which amount represents the excess of the amount of the Security Deposit required under this Lease over the amount of the security deposit currently held by Landlord under the Dorothy Lease (as hereinafter defined). The remaining portion of the Security Deposit shall be satisfied as provided in Article 40 of this Lease. Said sum shall be held by Landlord as security for the faithful performance by Tenant of all the terms, covenants and conditions of this Lease to be kept and performed by Tenant and not as an advance rental deposit or as a measure of Landlord's damage in case of Tenant's default. If Tenant defaults with respect to any provision of this Lease, Landlord may use any part of the Security Deposit for the payment of any rent or any other sum in default, or for the payment of any amount which Landlord may spend or become obligated to spend by reason of Tenant's default, or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. If any portion is so used, Tenant shall within five (5) days after written demand therefor, deposit with Landlord an amount sufficient to restore the Security Deposit to its original amount and Tenant's failure to do so shall be a material breach of this Lease. Except to such extent, if any, as shall be required by law, Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security Deposit or any balance thereof shall be returned to Tenant at such time after termination of this Lease when Landlord shall have determined that all of Tenant's obligations under this Lease have been fulfilled.

6. ALTERATIONS.

6.1 Except for those, if any, specifically provided for in Exhibit B to this Lease, Tenant shall not make or suffer to be made any alterations, additions, or improvements, including, but not limited to, the attachment of any fixtures or equipment in, on, or to the Premises or any part thereof or the making of any improvements as required by Article 7, without the prior written consent of Landlord. When applying for such consent, Tenant shall, if requested by Landlord, furnish complete plans and specifications for such alterations, additions and improvements. Landlord's consent shall not be unreasonably withheld with respect to alterations which (i) are not structural in nature, (ii) are not visible from the exterior of the Building, (iii) do not affect or require modification of the Building's electrical, mechanical, plumbing, HVAC or other systems, and (iv) in aggregate do not cost more than \$5.00 per rentable square foot of that portion of the Premises affected by the alterations in question.

6.2 Intentionally deleted.

6.3 All alterations, additions or improvements proposed by Tenant shall be constructed in accordance with all government laws, ordinances, rules and regulations, using Building standard materials where applicable, and Tenant shall, prior to construction, provide the additional insurance required under Article 11 in such case, and also all such assurances to Landlord as Landlord shall reasonably require to assure payment of the costs thereof, including but not limited to, notices of non-responsibility, waivers of lien, surety company performance bonds and funded construction escrows and to protect Landlord and the Building and appurtenant land against any loss from any mechanic's, materialmen's or other liens. Tenant shall pay in addition to any sums due pursuant to Article 4, any increase in real estate taxes attributable to any such alteration, addition or improvement for so long, during the Term, as such increase is ascertainable; at Landlord's election said sums shall be paid in the same way as sums due under Article 4. Landlord may, as a condition to its consent to any particular alterations or improvements, require Tenant to deposit with Landlord the amount reasonably estimated by Landlord as sufficient to cover the cost of removing such alterations or improvements and restoring the Premises, to the extent required under Section 26.2

7. REPAIR.

7.1 Landlord shall have no obligation to alter, remodel, improve, repair, decorate or paint the Premises, except as specified in Exhibit B if attached to this Lease and except that Landlord shall repair and maintain the structural portions of the roof, foundation and walls of the Building. By taking possession of the Premises, Tenant accepts them as being in good order, condition and repair and in the condition in which Landlord is obligated to deliver them, except as set forth in the punch list to be delivered pursuant to Section 2.1. It is hereby understood and agreed that no representations respecting the condition of the Premises or the Building have been made by Landlord to Tenant, except as specifically set forth in this Lease. Landlord shall not be liable for any failure to make any repairs or to perform any maintenance unless such failure shall persist for an unreasonable time after written notice of the need of such repairs or maintenance is given to Landlord by Tenant.

7.2 Tenant shall at its own cost and expense keep and maintain all parts of the Premises and such portion of the Building and improvements as are within the exclusive control of Tenant in good condition, promptly making all necessary repairs and replacements, whether ordinary or extraordinary, with materials and workmanship of the same character, kind and quality as the original (including, but not limited to, repair and replacement of all fixtures installed by Tenant, water heaters serving the Premises, windows, glass and plate glass, doors, exterior stairs, skylights, any special office entries, interior walls and finish work, floors and floor coverings, heating and air conditioning systems serving the Premises, electrical systems and fixtures, sprinkler systems, dock boards, truck doors, dock bumpers, plumbing work and fixtures, and performance of regular removal of trash and debris). Tenant as part of its obligations hereunder shall keep the Premises in a clean and sanitary condition. Tenant will, as far as possible keep all such parts of the Premises from deterioration due to ordinary wear and from falling temporarily out of repair, and upon termination of this Lease in any way Tenant will yield up the Premises to Landlord in good condition and repair, loss by fire or other casualty excepted (but not excepting any damage to glass). Tenant shall, at its own cost and expense, repair any damage to the Premises or the Building resulting from and/or caused in whole or in part by the negligence or misconduct of Tenant, its agents, employees, contractors, invitees, or any other person entering upon the Premises as a result of Tenant's business activities or caused by Tenant's default hereunder.

7.3 Except as provided in Article 22, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Building or the Premises or to fixtures, appurtenances and equipment in the Building. Except to the extent, if any, prohibited by law, Tenant waives the right to make repairs at Landlord's expense under any law, statute or ordinance now or hereafter in effect.

7.4 Tenant shall, at its own cost and expense, enter into a regularly scheduled preventive maintenance/service contract with a maintenance contractor approved by Landlord for servicing all heating and air conditioning systems and equipment serving the Premises (and a copy thereof shall be furnished to Landlord). The service contract must include all services suggested by the equipment manufacturer in the operation/maintenance manual and must become effective not later than the 180th day after the date Landlord delivers possession of the Premises to

Tenant (the "Possession Date"). Should Tenant fail to do so, Landlord may, upon notice to Tenant, enter into such a maintenance/service contract on behalf of Tenant or perform the work and in either case, charge Tenant the cost thereof along with a reasonable amount for Landlord's overhead. Landlord agrees that the existing heating, ventilating and air conditioning system serving the Premises (the "HVAC System") will be in working condition on the Possession Date, and Landlord agrees to service, maintain, and make any necessary repairs to, the HVAC System which arise before the expiration of one hundred eighty (180) days after the Possession Date, provided that Landlord shall not be required to make repairs to the HVAC System which are necessitated by the negligence or misconduct of Tenant, its agents, contractors or employees.

7.5 Landlord shall coordinate any repairs and other maintenance of any railroad tracks serving the Building and, if Tenant uses such rail tracks, Tenant shall reimburse Landlord or the railroad company from time to time upon demand, as additional rent, for its share of the costs of such repair and maintenance and for any other sums specified in any agreement to which Landlord or Tenant is a party respecting such tracks, such costs to be borne proportionately by all tenants in the Building using such rail tracks, based upon the actual number of rail cars shipped and received by such tenant during each calendar year during the Term.

8. **LIENS.** Tenant shall keep the Premises, the Building and appurtenant land and Tenant's leasehold interest in the Premises free from any liens arising out of any services, work or materials performed, furnished, or contracted for by Tenant, or obligations incurred by Tenant. In the event that Tenant fails, within ten (10) days following the imposition of any such lien, to either cause the same to be released of record or provide Landlord with insurance against the same issued by a major title insurance company or such other protection against the same as Landlord shall accept (such failure to constitute an Event of Default), Landlord shall have the right to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith shall be payable to it by Tenant within five (5) days Landlord's demand.

9. ASSIGNMENT AND SUBLETTING.

9.1 Tenant shall not have the right to assign or pledge this Lease or to sublet the whole or any part of the Premises whether voluntarily or by operation of law, or permit the use or occupancy of the Premises by anyone other than Tenant, and shall not make, suffer or permit such assignment, subleasing or occupancy without the prior written consent of Landlord, such consent not to be unreasonably withheld, and said restrictions shall be binding upon any and all assignees of the Lease and subtenants of the Premises. In the event Tenant desires to sublet, or permit such occupancy of, the Premises, or any portion thereof, or assign this Lease, Tenant shall give written notice thereof to Landlord at least sixty (60) days but no more than one hundred twenty (120) days prior to the proposed commencement date of such subletting or assignment, which notice shall set forth the name of the proposed subtenant or assignee, the relevant terms of any sublease or assignment and copies of financial reports and other relevant financial information of the proposed subtenant or assignee.

9.2 Notwithstanding any assignment or subletting, permitted or otherwise, Tenant shall at all times remain directly, primarily and fully responsible and liable for the payment of the rent specified in this Lease and for compliance with all of its other obligations under the terms, provisions and covenants of this Lease. Upon the occurrence of an Event of Default, if the Premises or any part of them are then assigned or sublet, Landlord, in addition to any other remedies provided in this Lease or provided by law, may, at its option, collect directly from such assignee or subtenant all rents due and becoming due to Tenant under such assignment or sublease and apply such rent against any sums due to Landlord from Tenant under this Lease, and no such collection shall be construed to constitute a novation or release of Tenant from the further performance of Tenant's obligations under this Lease.

9.3 In addition to Landlord's right to approve of any subtenant or assignee, Landlord shall have the option, in its sole discretion, in the event of any proposed subletting or assignment, to terminate this Lease, or in the case of a proposed subletting of less than the entire Premises, to recapture the portion of the Premises to be sublet, as of the date the subletting or assignment is to be effective. The option shall be exercised, if at all, by Landlord giving Tenant written notice given by Landlord to Tenant within thirty (30) days following Landlord's receipt of Tenant's written notice as required above. However, if Tenant notifies Landlord, within five (5) days after receipt of

Landlord's termination notice, that Tenant is rescinding its proposed assignment or sublease, the termination notice shall be void and the Lease shall continue in full force and effect. If this Lease shall be terminated with respect to the entire Premises pursuant to this Section, the Term of this Lease shall end on the date stated in Tenant's notice as the effective date of the sublease or assignment as if that date had been originally fixed in this Lease for the expiration of the Term. If Landlord recaptures under this Section only a portion of the Premises, the rent to be paid from time to time during the unexpired Term shall abate proportionately based on the proportion by which the approximate square footage of the remaining portion of the Premises shall be less than that of the Premises as of the date immediately prior to such recapture. Tenant shall, at Tenant's own cost and expense, discharge in full any outstanding commission obligation which may be due and owing as a result of any proposed assignment or subletting, whether or not the Premises are recaptured pursuant to this Section 9.3 and rented by Landlord to the proposed tenant or any other tenant.

9.4 In the event that Tenant sells, assigns, or transfers this Lease, Tenant shall pay to Landlord as additional rent an amount equal to one hundred percent (100%) of any Increased Rent (as defined below), less the Costs Component (as defined below), when and as such Increased Rent is received by Tenant. In the event that Tenant sublets the Premises, Tenant shall pay to Landlord as additional rent an amount equal to fifty percent (50%) of any Increased Rent, less the Costs Component, when and as such Increased Rent is received by Tenant. As used in this Section, "Increased Rent" shall mean the excess of (i) all rent and other consideration which Tenant is entitled to receive by reason of any sale, sublease, assignment or other transfer of this Lease, over (ii) the rent otherwise payable by Tenant under this Lease at such time. For purposes of the foregoing, any consideration received by Tenant in form other than cash shall be valued at its fair market value as determined by Landlord in good faith. The "Costs Component" is that amount which, if paid monthly, would fully amortize on a straight-line basis, over the entire period for which Tenant is to receive Increased Rent, the reasonable costs incurred by Tenant for leasing commissions and tenant improvements in connection with such sublease, assignment or other transfer.

9.5 Notwithstanding any other provision hereof, it shall be considered reasonable for Landlord to withhold its consent to any assignment of this Lease or sublease of any portion of the Premises if at the time of either Tenant's notice of the proposed assignment or sublease or the proposed commencement date thereof, there shall exist any uncured default of Tenant or matter which will become a default of Tenant with passage of time unless cured, or if the proposed assignee or sublessee is an entity: (a) with which Landlord is already in negotiation; (b) is already an occupant of the Building unless Landlord is unable to provide the amount of space required by such occupant; (c) is a governmental agency; (d) is incompatible with the character of occupancy of the Building; (e) with which the payment for the sublease or assignment is determined in whole or in part based upon its net income or profits; or (f) would subject the Premises to a use which would: (i) involve increased personnel or wear upon the Building; (ii) violate any exclusive right granted to another tenant of the Building; (iii) require any addition to or modification of the Premises or the Building in order to comply with building code or other governmental requirements; or, (iv) involve a violation of Section 1.2. Tenant expressly agrees that for the purposes of any statutory or other requirement of reasonableness on the part of Landlord, Landlord's refusal to consent to any assignment or sublease for any of the reasons described in this Section 9.5, shall be conclusively deemed to be reasonable.

9.6 Upon any request to assign or sublet, Tenant will pay to Landlord the Assignment/Subletting Fee plus, on demand, a sum equal to all of Landlord's costs, including reasonable attorney's fees, incurred in investigating and considering any proposed or purported assignment or pledge of this Lease or sublease of any of the Premises, regardless of whether Landlord shall consent to, refuse consent, or determine that Landlord's consent is not required for, such assignment, pledge or sublease. Any purported sale, assignment, mortgage, transfer of this Lease or subletting which does not comply with the provisions of this Article 9 shall be void.

9.7 If Tenant is a corporation, limited liability company, partnership or trust, any transfer or transfers of or change or changes within any twelve (12) month period in the number of the outstanding voting shares of the corporation or limited liability company, the general partnership interests in the partnership or the identity of the persons or entities controlling the activities of such partnership or trust resulting in the persons or entities owning or controlling a majority of such shares, partnership interests or activities of such partnership or trust at the beginning of such period no longer having such ownership or control shall be regarded as equivalent to an assignment of this

Lease to the persons or entities acquiring such ownership or control and shall be subject to all the provisions of this Article 9 to the same extent and for all intents and purposes as though such an assignment.

10. **INDEMNIFICATION.** None of the Landlord Entities shall be liable and Tenant hereby waives all claims against them for any damage to any property or any injury to any person in or about the Premises or the Building by or from any cause whatsoever (including without limiting the foregoing, rain or water leakage of any character from the roof, windows, walls, basement, pipes, plumbing works or appliances, the Building not being in good condition or repair, gas, fire, oil, electricity or the fit), except to the extent caused by or arising from the gross negligence or willful misconduct of Landlord or its agents, employees or contractors. Tenant shall protect, indemnify and hold the Landlord Entities harmless from and against any and all loss, claims, liability or costs (including court costs and attorney's fees) incurred by reason of (a) any damage to any property (including but not limited to property of any Landlord Entity) or any injury (including but not limited to death) to any person occurring in, on or about the Premises or the Building to the extent that such injury or damage shall be caused by or arise from any actual or alleged act, neglect, fault, or omission by or of Tenant or any Tenant Entity to meet any standards imposed by any duty with respect to the injury or damage; (b) the conduct or management of any work or thing whatsoever done by the Tenant in or about the Premises or from transactions of the Tenant concerning the Premises; (c) Tenant's failure to comply with any and all governmental laws, ordinances and regulations applicable to the condition or use of the Premises or its occupancy; or (d) any breach or default on the part of Tenant in the performance of any covenant or agreement on the part of the Tenant to be performed pursuant to this Lease. The provisions of this Article shall survive the termination of this Lease with respect to any claims or liability accruing prior to such termination.

11. **INSURANCE.**

11.1 Tenant shall keep in force throughout the Term: (a) a Commercial General Liability insurance policy or policies to protect the Landlord Entities against any liability to the public or to any invitee of Tenant or a Landlord Entity incidental to the use of or resulting from any accident occurring in or upon the Premises with a limit of not less than \$1,000,000.00 per occurrence and not less than \$2,000,000.00 in the annual aggregate, or such larger amount as Landlord may prudently require from time to time, covering bodily injury and property damage liability and \$1,000,000 products/completed operations aggregate; (b) Business Auto Liability covering owned, non-owned and hired vehicles with a limit of not less than \$1,000,000 per accident; (c) insurance protecting against liability under Worker's Compensation Laws with limits at least as required by statute with Employers Liability with limits of \$500,000 each accident, \$500,000 disease policy limit, \$500,000 disease—each employee; (d) All Risk or Special Form coverage protecting Tenant against loss of or damage to Tenant's alterations, additions, improvements, carpeting, floor coverings, panelings, decorations, fixtures, inventory and other business personal property situated in or about the Premises to the full replacement value of the property so insured; and, (e) Business Interruption Insurance with limit of liability representing loss of at least approximately six (6) months of income.

11.2 The aforesaid policies shall (a) be provided at Tenant's expense; (b) name the Landlord Entities as additional insureds (General Liability) and loss payee (Property—Special Form); (c) be issued by an insurance company with a minimum Best's rating of "A:VII" during the Term; and (d) provide that said insurance shall not be canceled unless thirty (30) days prior written notice (ten days for non-payment of premium) shall have been given to Landlord; a certificate of Liability insurance on Accord Form 25 and a certificate of Property insurance on Accord Form 27 shall be delivered to Landlord by Tenant upon the Commencement Date and at least thirty (30) days prior to each renewal of said insurance.

11.3 Whenever Tenant shall undertake any alterations, additions or improvements in, to or about the Premises ("Work") the aforesaid insurance protection must extend to and include injuries to persons and damage to property arising in connection with such Work, without limitation including liability under any applicable structural work act, and such other insurance as Landlord shall require; and the policies of or certificates evidencing such insurance must be delivered to Landlord prior to the commencement of any such Work.

12. **WAIVER OF SUBROGATION.** So long as their respective insurers so permit, Tenant and Landlord hereby mutually waive their respective rights of recovery against each other for any loss insured by fire, extended coverage, All Risks or other property insurance now or hereafter existing for the benefit of the respective party but

only to the extent of the net insurance proceeds payable under such policies. Each party shall obtain any special endorsements required by their insurer to evidence compliance with the aforementioned waiver.

13. SERVICES AND UTILITIES. Tenant shall pay for all water, gas, heat, light, power, telephone, sewer, sprinkler system charges and other utilities and services used on or from the Premises, together with any taxes, penalties, and surcharges or the like pertaining thereto and any maintenance charges for utilities. Tenant shall furnish all electric light bulbs, tubes and ballasts, battery packs for emergency lighting and fire extinguishers. If any such services are not separately metered to Tenant, Tenant shall pay such proportion of all charges jointly metered with other premises as determined by Landlord, in its sole discretion, to be reasonable. Any such charges paid by Landlord and assessed against Tenant shall be immediately payable to Landlord on demand and shall be additional rent hereunder. Tenant will not, without the written consent of Landlord, contract with a utility provider to service the Premises with any utility, including, but not limited to, telecommunications, electricity, water, sewer or gas, which is not previously providing such service to other tenants in the Building. Landlord shall in no event be liable for any interruption or failure of utility services on or to the Premises.

14. HOLDING OVER. Tenant shall pay Landlord for each day Tenant retains possession of the Premises or part of them after termination of this Lease by lapse of time or otherwise at the rate ("Holdover Rate") which shall be One Hundred Fifty Percent (150%) of the amount of the Annual Rent for the last period prior to the date of such termination plus all Rent Adjustments under Article 4, prorated on a daily basis, and also pay all damages sustained by Landlord by reason of such retention. If Landlord gives notice to Tenant of Landlord's election to such effect, such holding over shall constitute renewal of this Lease for a period from month to month or one (1) year, whichever shall be specified in such notice, in either case at the Holdover Rate, but if the Landlord does not so elect, no such renewal shall result notwithstanding acceptance by Landlord of any sums due hereunder after such termination; and instead, a tenancy at sufferance at the Holdover Rate shall be deemed to have been created. In any event, no provision of this Article 14 shall be deemed to waive Landlord's right of reentry or any other right under this Lease or at law.

15. SUBORDINATION. Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, this Lease shall be subject and subordinate at all times to ground or underlying leases and to the lien of any mortgages or deeds of trust now or hereafter placed on, against or affecting the Building, Landlord's interest or estate in the Building, or any ground or underlying lease; provided, however, that if the lessor, mortgagee, trustee, or holder of any such mortgage or deed of trust elects to have Tenant's interest in this Lease be superior to any such instrument, then, by notice to Tenant, this Lease shall be deemed superior, whether this Lease was executed before or after said instrument. Notwithstanding the foregoing, Tenant covenants and agrees to execute and deliver within ten (10) days of Landlord's request such further instruments evidencing such subordination or superiority of this Lease as may be required by Landlord.

16. RULES AND REGULATIONS. Tenant shall faithfully observe and comply with all the rules and regulations as set forth in Exhibit D to this Lease and all reasonable and non-discriminatory modifications of and additions to them from time to time put into effect by Landlord. Landlord shall not be responsible to Tenant for the non-performance by any other tenant or occupant of the Building of any such rules and regulations.

17. REENTRY BY LANDLORD.

17.1 Landlord reserves and shall at all times, (a) upon 24 hours' prior verbal notice to Tenant, or (b) during the hours of 9:00 a.m. to 5:00 p.m. on Mondays through Fridays, have the right to re-enter the Premises to inspect the same, to show said Premises to prospective purchasers, mortgagees or tenants, and to alter, improve or repair the Premises and any portion of the Building, without abatement of rent, and may for that purpose erect, use and maintain scaffolding, pipes, conduits and other necessary structures and open any wall, ceiling or floor in and through the Building and Premises where reasonably required by the character of the work to be performed, provided entrance to the Premises shall not be blocked thereby, and further provided that the business of Tenant shall not be interfered with unreasonably. Tenant shall have the right to require that Landlord be accompanied by an employee of Tenant on any such entry. Notwithstanding the foregoing, no such notice, performance during specified hours, or accompaniment by an employee shall be required in the event of an emergency or for supplying services requested

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by Tenant. Landlord shall have the right at any time to change the arrangement and/or locations of entrances, or passageways, doors and doorways, and corridors, windows, elevators, stairs, toilets or other public parts of the Building and to change the name, number or designation by which the Building is commonly known. In the event that Landlord damages any portion of any wall or wall covering, ceiling, or floor or floor covering within the Premises, Landlord shall repair or replace the damaged portion to match the original as nearly as commercially reasonable but shall not be required to repair or replace more than the portion actually damaged. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned by any action of Landlord authorized by this Article 17.

17.2 For each of the aforesaid purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in the Premises, excluding Tenant's vaults and safes or special security areas (designated in advance), and Landlord shall have the right to use any and all means which Landlord may deem proper to open said doors in an emergency to obtain entry to any portion of the Premises. As to any portion to which access cannot be had by means of a key or keys in Landlord's possession, Landlord is authorized to gain access by such means as Landlord shall elect and the cost of repairing any damage occurring in doing so shall be borne by Tenant and paid to Landlord within five (5) days of Landlord's demand.

18. DEFAULT.

18.1 Except as otherwise provided in Article 20, the following events shall be deemed to be Events of Default under this Lease:

18.1.1 Tenant shall fail to pay when due any sum of money becoming due to be paid to Landlord under this Lease, whether such sum be any installment of the rent reserved by this Lease, any other amount treated as additional rent under this Lease, or any other payment or reimbursement to Landlord required by this Lease, whether or not treated as additional rent under this Lease, and such failure shall continue for a period of five (5) days after written notice that such payment was not made when due, but if any such notice shall be given, for the twelve (12) month period commencing with the date of such notice, the failure to pay within five (5) days after due any additional sum of money becoming due to be paid to Landlord under this Lease during such period shall be an Event of Default, without notice.

18.1.2 Tenant shall fail to comply with any term, provision or covenant of this Lease which is not provided for in another Section of this Article and shall not cure such failure within twenty (20) days (forthwith, if the failure involves a hazardous condition) after written notice of such failure to Tenant provided, however, that such failure shall not be an event of default if such failure could not reasonably be cured during such twenty (20) day period, Tenant has commenced the cure within such twenty (20) day period and thereafter is diligently pursuing such cure to completion, but the total aggregate cure period shall not exceed ninety (90) days.

18.1.3 Tenant shall fail to vacate the Premises immediately upon termination of this Lease, by lapse of time or otherwise, or upon termination of Tenant's right to possession only.

18.1.4 Tenant shall become insolvent, admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy or a petition to take advantage of any insolvency statute, make an assignment for the benefit of creditors, make a transfer in fraud of creditors, apply for or consent to the appointment of a receiver of itself or of the whole or any substantial part of its property, or file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable law or statute of the United States or any state thereof.

18.1.5 A court of competent jurisdiction shall enter an order, judgment or decree adjudicating Tenant bankrupt, or appointing a receiver of Tenant, or of the whole or any substantial part of its property, without the consent of Tenant, or approving a petition filed against Tenant seeking reorganization or arrangement of Tenant under the bankruptcy laws of the United States, as now in effect or hereafter amended, or any state thereof, and such

order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of entry thereof.

19. REMEDIES.

19.1 Except as otherwise provided in Article 20, upon the occurrence of any of the Events of Default described or referred to in Article 18, Landlord shall have the option to pursue any one or more of the following remedies without any notice or demand whatsoever, concurrently or consecutively and not alternatively:

19.1.1 Landlord may, at its election, terminate this Lease or terminate Tenant's right to possession only, without terminating the Lease.

19.1.2 Upon any termination of this Lease, whether by lapse of time or otherwise, or upon any termination of Tenant's right to possession without termination of the Lease, Tenant shall surrender possession and vacate the Premises immediately, and deliver possession thereof to Landlord, and Tenant hereby grants to Landlord full and free license to enter into and upon the Premises in such event and to repossess Landlord of the Premises as of Landlord's former estate and to expel or remove Tenant and any others who may be occupying or be within the Premises and to remove Tenant's signs and other evidence of tenancy and all other property of Tenant therefrom without being deemed in any manner guilty of trespass, eviction or forcible entry or detainer, and without incurring any liability for any damage resulting therefrom, Tenant waiving any right to claim damages for such re-entry and expulsion, and without relinquishing Landlord's right to rent or any other right given to Landlord under this Lease or by operation of law.

19.1.3 Upon any termination of this Lease, whether by lapse of time or otherwise, Landlord shall be entitled to recover as damages, all rent, including any amounts treated as additional rent under this Lease, and other sums due and payable by Tenant on the date of termination, plus as liquidated damages and not as a penalty, an amount equal to the sum of: (a) an amount equal to the then present value of the rent reserved in this Lease for the residue of the stated Term of this Lease including any amounts treated as additional rent under this Lease and all other sums provided in this Lease to be paid by Tenant, minus the fair rental value of the Premises for such residue; (b) the value of the time and expense necessary to obtain a replacement tenant or tenants, and the estimated expenses described in Section 19.1.4 relating to recovery of the Premises, preparation for reletting and for reletting itself; and (c) the cost of performing any other covenants which would have otherwise been performed by Tenant.

19.1.4 Upon any termination of Tenant's right to possession only without termination of the Lease:

19.1.4.1 Neither such termination of Tenant's right to possession nor Landlord's taking and holding possession thereof as provided in Section 19.1.2 shall terminate the Lease or release Tenant, in whole or in part, from any obligation, including Tenant's obligation to pay the rent, including any amounts treated as additional rent, under this Lease for the full Term, and if Landlord so elects Tenant shall continue to pay to Landlord the entire amount of the rent as and when it becomes due, including any amounts treated as additional rent under this Lease, for the remainder of the Term plus any other sums provided in this Lease to be paid by Tenant for the remainder of the Term.

19.1.4.2 Landlord shall use commercially reasonable efforts to relet the Premises or portions thereof to the extent required by applicable law. Landlord and Tenant agree that nevertheless Landlord shall at most be required to use only the same efforts Landlord then uses to lease premises in the Building generally and that in any case that Landlord shall not be required to give any preference or priority to the showing or leasing of the Premises or portions thereof over any other space that Landlord may be leasing or have available and may place a suitable prospective tenant in any such other space regardless of when such other space becomes available and that Landlord shall have the right to relet the Premises for a greater or lesser term than that remaining under this Lease, the right to relet only a portion of the Premises, or a portion of the Premises or the entire Premises as a part of a larger area, and the right to change the character or use of the Premises. In connection with or in preparation for any reletting, Landlord may, but shall not be required to, make repairs, alterations and additions in or to the Premises and

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redecorate the same to the extent Landlord deems necessary or desirable, and Tenant shall pay the cost thereof, together with Landlord's expenses of reletting, including, without limitation, any commission incurred by Landlord, within five (5) days of Landlord's demand. Landlord shall not be required to observe any instruction given by Tenant about any reletting or accept any tenant offered by Tenant unless such offered tenant has a credit-worthiness acceptable to Landlord and leases the entire Premises upon terms and conditions including a rate of rent (after giving effect to all expenditures by Landlord for tenant improvements, broker's commissions and other leasing costs) all no less favorable to Landlord than as called for in this Lease, nor shall Landlord be required to make or permit any assignment or sublease for more than the current term or which Landlord would not be required to permit under the provisions of Article 9.

19.1.4.3 Until such time as Landlord shall elect to terminate the Lease and shall thereupon be entitled to recover the amounts specified in such case in Section 19.1.3, Tenant shall pay to Landlord upon demand the full amount of all rent, including any amounts treated as additional rent under this Lease and other sums reserved in this Lease for the remaining Term, together with the costs of repairs, alterations, additions, redecorating and Landlord's expenses of reletting and the collection of the rent accruing therefrom (including reasonable attorney's fees and broker's commissions), as the same shall then be due or become due from time to time, less only such consideration as Landlord may have received from any reletting of the Premises; and Tenant agrees that Landlord may file suits from time to time to recover any sums falling due under this Article 19 as they become due. Any proceeds of reletting by Landlord in excess of the amount then owed by Tenant to Landlord from time to time shall be credited against Tenant's future obligations under this Lease but shall not otherwise be refunded to Tenant or inure to Tenant's benefit.

19.2 Upon the occurrence of an Event of Default, Landlord may (but shall not be obligated to) cure such default at Tenant's sole expense. Without limiting the generality of the foregoing, Landlord may, at Landlord's option, enter into and upon the Premises if Landlord determines in its sole discretion that Tenant is not acting within a commercially reasonable time to maintain, repair or replace anything for which Tenant is responsible under this Lease or to otherwise effect compliance with its obligations under this Lease and correct the same, without being deemed in any manner guilty of trespass, eviction or forcible entry and detainer and without incurring any liability for any damage or interruption of Tenant's business resulting therefrom and Tenant agrees to reimburse Landlord within five (5) days of Landlord's demand as additional rent, for any expenses which Landlord may incur in thus effecting compliance with Tenant's obligations under this Lease, plus interest from the date of expenditure by Landlord at the Wall Street Journal prime rate.

19.3 Tenant understands and agrees that in entering into this Lease, Landlord is relying upon receipt of all the Annual and Monthly Installments of Rent to become due with respect to all the Premises originally leased hereunder over the full Initial Term of this Lease for amortization, including interest at the Amortization Rate. For purposes hereof, the "Concession Amount" shall be defined as the aggregate of all amounts forgone or expended by Landlord as free rent under the lease, under Exhibit B hereof for construction allowances (excluding therefrom any amounts expended by Landlord for Landlord's Work, as defined in Exhibit B), and for brokers' commissions payable by reason of this Lease. Accordingly, Tenant agrees that if this Lease or Tenant's right to possession of the Premises leased hereunder shall be terminated as of any date ("Default Termination Date") prior to the expiration of the full Initial Term hereof by reason of a default of Tenant, there shall be due and owing to Landlord as of the day prior to the Default Termination Date, as rent in addition to all other amounts owed by Tenant as of such Date, the amount ("Unamortized Amount") of the Concession Amount determined as set forth below; provided, however, that in the event that such amounts are recovered by Landlord pursuant to any other provision of this Article 19, Landlord agrees that it shall not attempt to recover such amounts pursuant to this Paragraph 19.3. For the purposes hereof, the Unamortized Amount shall be determined in the same manner as the remaining principal balance of a mortgage with interest at the Amortization Rate payable in level payments over the same length of time as from the effectuation of the Concession concerned to the end of the full Initial Term of this Lease would be determined. The foregoing provisions shall also apply to and upon any reduction of space in the Premises, as though such reduction were a termination for Tenant's default, except that (i) the Unamortized Amount shall be reduced by any amounts paid by Tenant to Landlord to effectuate such reduction and (ii) the manner of application shall be that the Unamortized Amount shall first be determined as though for a full termination as of the Effective Date of the elimination of the portion, but then the amount so determined shall be multiplied by the fraction of which the numerator is the rentable

square footage of the eliminated portion and the denominator is the rentable square footage of the Premises originally leased hereunder; and the amount thus obtained shall be the Unamortized Amount.

19.4 If, on account of any breach or default by Tenant in Tenant's obligations under the terms and conditions of this Lease, it shall become necessary or appropriate for Landlord to employ or consult with an attorney or collection agency concerning or to enforce or defend any of Landlord's rights or remedies arising under this Lease or to collect any sums due from Tenant, Tenant agrees to pay all costs and fees so incurred by Landlord, including, without limitation, reasonable attorneys' fees and costs. TENANT EXPRESSLY WAIVES ANY RIGHT TO: (A) TRIAL BY JURY; AND (B) SERVICE OF ANY NOTICE REQUIRED BY ANY PRESENT OR FUTURE LAW OR ORDINANCE APPLICABLE TO LANDLORDS OR TENANTS BUT NOT REQUIRED BY THE TERMS OF THIS LEASE.

19.5 Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies provided in this Lease or any other remedies provided by law (all such remedies being cumulative), nor shall pursuit of any remedy provided in this Lease constitute a forfeiture or* waiver of any rent due to Landlord under this Lease or of any damages accruing to Landlord by reason of the violation of any of the terms, provisions and covenants contained in this Lease.

19.6 No act or thing done by Landlord or its agents during the Term shall be deemed a termination of this Lease or an acceptance of the surrender of the Premises, and no agreement to terminate this Lease or accept a surrender of said Premises shall be valid, unless in writing signed by Landlord. No waiver by Landlord of any violation or breach of any of the terms, provisions and covenants contained in this Lease shall be deemed or construed to constitute a waiver of any other violation or breach of any of the terms, provisions and covenants contained in this Lease. Landlord's acceptance of the payment of rental or other payments after the occurrence of an Event of Default shall not be construed as a waiver of such Default, unless Landlord so notifies Tenant in writing. Forbearance by Landlord in enforcing one or more of the remedies provided in this Lease upon an Event of Default shall not be deemed or construed to constitute a waiver of such Default or of Landlord's right to enforce any such remedies with respect to such Default or any subsequent Default.

19.7 To secure the payment of all rentals and other sums of money becoming due from Tenant under this Lease, Landlord shall have and Tenant grants to Landlord a first lien upon the leasehold interest of Tenant under this Lease, which lien may be enforced in equity, and a continuing security interest upon all goods, wares, equipment, fixtures, furniture, inventory, accounts, contract rights, chattel paper and other personal property of Tenant situated on the Premises, and such property shall not be removed therefrom without the consent of Landlord until all arrearages in rent as well as any and all other sums of money then due to Landlord under this Lease shall first have been paid and discharged. Upon the occurrence of an Event of Default, Landlord shall have, in addition to any other remedies provided in this Lease or by law, all rights and remedies under the Uniform Commercial Code, including without limitation the right to sell the property described in this Section 19.7 at public or private sale upon five (5) days' notice to Tenant. Tenant shall execute all such financing statements and other instruments as shall be deemed necessary or desirable in Landlord's discretion to perfect the security interest hereby created.

19.8 Any and all property which may be removed from the Premises by Landlord pursuant to the authority of this Lease or of law, to which Tenant is or may be entitled, may be handled, removed and/or stored, as the case may be, by or at the direction of Landlord but at the risk, cost and expense of Tenant, and Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. Tenant shall pay to Landlord, upon demand, any and all expenses incurred in such removal and all storage charges against such property so long as the same shall be in Landlord's possession or under Landlord's control. Any such property of Tenant not retaken by Tenant from storage within thirty (30) days after removal from the Premises shall, at Landlord's option, be deemed conveyed by Tenant to Landlord under this Lease as by a bill of sale without further payment or credit by Landlord to Tenant.

19.9 If more than one (1) Event of Default occurs during the Term or any renewal thereof, Tenant's renewal options, expansion options, purchase options and rights of first offer and/or refusal, if any are provided for in this Lease, shall be null and void.

20. TENANT'S BANKRUPTCY OR INSOLVENCY.

20.1 If at any time and for so long as Tenant shall be subjected to the provisions of the United States Bankruptcy Code or other law of the United States or any state thereof for the protection of debtors as in effect at such time (each a "Debtor's Law"):

20.1.1 Tenant, Tenant as debtor-in-possession, and any trustee or receiver of Tenant's assets (each a "Tenant's Representative") shall have no greater right to assume or assign this Lease or any interest in this Lease, or to sublease any of the Premises than accorded to Tenant in Article 9, except to the extent Landlord shall be required to permit such assumption, assignment or sublease by the provisions of such Debtor's Law. Without limitation of the generality of the foregoing, any right of any Tenant's Representative to assume or assign this Lease or to sublease any of the Premises shall be subject to the conditions that:

20.1.1.1 Such Debtor's Law shall provide to Tenant's Representative a right of assumption of this Lease which Tenant's Representative shall have timely exercised and Tenant's Representative shall have fully cured any default of Tenant under this Lease.

20.1.1.2 Tenant's Representative or the proposed assignee, as the case shall be, shall have deposited with Landlord as security for the timely payment of rent an amount equal to the larger of: (a) three (3) months' rent and other monetary charges accruing under this Lease; and (b) any sum specified in Article 5; and shall have provided Landlord with adequate other assurance of the future performance of the obligations of the Tenant under this Lease. Without limitation, such assurances shall include, at least, in the case of assumption of this Lease, demonstration to the satisfaction of the Landlord that Tenant's Representative has and will continue to have sufficient unencumbered assets after the payment of all secured obligations and administrative expenses to assure Landlord that Tenant's Representative will have sufficient funds to fulfill the obligations of Tenant under this Lease; and, in the case of assignment, submission of current financial statements of the proposed assignee, audited by an independent certified public accountant reasonably acceptable to Landlord and showing a net worth and working capital in amounts determined by Landlord to be sufficient to assure the future performance by such assignee of all of the Tenant's obligations under this Lease.

20.1.1.3 The assumption or any contemplated assignment of this Lease or subleasing any part of the Premises, as shall be the case, will not breach any provision in any other lease, mortgage, financing agreement or other agreement by which Landlord is bound.

20.1.1.4 Landlord shall have, or would have had absent the Debtor's Law, no right under Article 9 to refuse consent to the proposed assignment or sublease by reason of the identity or nature of the proposed assignee or sublessee or the proposed use of the Premises concerned.

21. **QUIET ENJOYMENT.** Landlord represents and warrants that it has full right and authority to enter into this Lease and that Tenant, while paying the rental and performing its other covenants and agreements contained in this Lease, shall peaceably and quietly have, hold and enjoy the Premises for the Term without hindrance or molestation from Landlord subject to the terms and provisions of this Lease. Landlord shall not be liable for any interference or disturbance by other tenants or third persons, nor shall Tenant be released from any of the obligations of this Lease because of such interference or disturbance.

22. CASUALTY.

22.1 In the event the Premises or the Building are damaged by fire or other cause and in Landlord's reasonable estimation such damage can be materially restored within one hundred eighty (180) days, Landlord shall forthwith repair the same and this Lease shall remain in full force and effect, except that Tenant shall be entitled to a proportionate abatement in rent from the date of such damage. Such abatement of rent shall be made pro rata in accordance with the extent to which the damage and the making of such repairs shall interfere with the use and occupancy by Tenant of the Premises from time to time. Within forty-five (45) days from the date of such damage, Landlord shall notify Tenant, in writing, of Landlord's reasonable estimation of the length of time within which

material restoration can be made, and Landlord's determination shall be binding on Tenant. For purposes of this Lease, the Building or Premises shall be deemed "materially restored" if they are in such condition as would not prevent or materially interfere with Tenant's use of the Premises for the purpose for which it was being used immediately before such damage.

22.2 If such repairs cannot, in Landlord's reasonable estimation, be made within one hundred eighty (180) days, Landlord and Tenant shall each have the option of giving the other, at any time within ninety (90) days after such damage, notice terminating this Lease as of the date of such damage. In the event of the giving of such notice, this Lease shall expire and all interest of the Tenant in the Premises shall terminate as of the date of such damage as if such date had been originally fixed in this Lease for the expiration of the Term. In the event that neither Landlord nor Tenant exercises its option to terminate this Lease, then Landlord shall repair or restore such damage, this Lease continuing in full force and effect, and the rent hereunder shall be proportionately abated as provided in Section 22.1.

22.3 Landlord shall not be required to repair or replace any damage or loss by or from fire or other cause to any panelings, decorations, partitions, additions, railings, ceilings, floor coverings, office fixtures or any other property or improvements installed on the Premises by, or belonging to, Tenant. Any insurance which may be carried by Landlord or Tenant against loss or damage to the Building or Premises shall be for the sole benefit of the party carrying such insurance and under its sole control.

22.4 In the event that Landlord should fail to complete such repairs and material restoration within sixty (60) days after the date estimated by Landlord therefor as extended by this Section 22.4, Tenant may at its option and as its sole remedy terminate this Lease by delivering written notice to Landlord, within fifteen (15) days after the expiration of said period of time, whereupon the Lease shall end on the date of such notice or such later date fixed in such notice as if the date of such notice was the date originally fixed in this Lease for the expiration of the Term; provided, however, that if construction is delayed because of changes, deletions or additions in construction requested by Tenant, strikes, lockouts, casualties, Acts of God, war, material or labor shortages, government regulation or control or other causes beyond the reasonable control of Landlord, the period for restoration, repair or rebuilding shall be extended for the amount of time Landlord is so delayed.

22.5 Notwithstanding anything to the contrary contained in this Article: (a) Landlord shall not have any obligation whatsoever to repair, reconstruct, or restore the Premises when the damages resulting from any casualty covered by the provisions of this Article 22 occur during the last twelve (12) months of the Term or any extension thereof, but if Landlord determines not to repair such damages Landlord shall notify Tenant and if such damages shall render any material portion of the Premises untenantable Tenant shall have the right to terminate this Lease by notice to Landlord within fifteen (15) days after receipt of Landlord's notice; and (b) in the event the holder of any indebtedness secured by a mortgage or deed of trust covering the Premises or Building requires that any insurance proceeds be applied to such indebtedness, then Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within fifteen (15) days after such requirement is made by any such holder, whereupon this Lease shall end on the date of such damage as if the date of such damage were the date originally fixed in this Lease for the expiration of the Term.

22.6 In the event of any damage or destruction to the Building or Premises by any peril covered by the provisions of this Article 22, it shall be Tenant's responsibility to properly secure the Premises and upon notice from Landlord to remove forthwith, at its sole cost and expense, such portion of all of the property belonging to Tenant or its licensees from such portion or all of the Building or Premises as Landlord shall request.

23. **EMINENT DOMAIN.** If all or any substantial part of the Premises shall be taken or appropriated by any public or quasi-public authority under the power of eminent domain, or conveyance in lieu of such appropriation, either party to this Lease shall have the right, at its option, of giving the other, at any time within thirty (30) days after such taking, notice terminating this Lease, except that Tenant may only terminate this Lease by reason of taking or appropriation, if such taking or appropriation shall be so substantial as to materially interfere with Tenant's use and occupancy of the Premises. If neither party to this Lease shall so elect to terminate this Lease, the rental thereafter to be paid shall be adjusted on a fair and equitable basis under the circumstances. In addition to the rights

of Landlord above, if any substantial part of the Building shall be taken or appropriated by any public or quasi-public authority under the power of eminent domain or conveyance in lieu thereof, and regardless of whether the Premises or any part thereof are so taken or appropriated, Landlord shall have the right, at its sole option, to terminate this Lease. Landlord shall be entitled to any and all income, rent, award, or any interest whatsoever in or upon any such sum, which may be paid or made in connection with any such public or quasi-public use or purpose, and Tenant hereby assigns to Landlord any interest it may have in or claim to all or any part of such sums, other than any separate award which may be made with respect to Tenant's trade fixtures and moving expenses; Tenant shall make no claim for the value of any unexpired Term.

24. **SALE BY LANDLORD.** In event of a sale or conveyance by Landlord of the Building, the same shall operate to release Landlord from any future liability upon any of the covenants or conditions, expressed or implied, contained in this Lease in favor of Tenant, and in such event Tenant agrees to look solely to the responsibility of the successor in interest of Landlord in and to this Lease. Except as set forth in this Article 24, this Lease shall not be affected by any such sale and Tenant agrees to attorn to the purchaser or assignee. If any security has been given by Tenant to secure the faithful performance of any of the covenants of this Lease, Landlord may transfer or deliver said security, as such, to Landlord's successor in interest and thereupon Landlord shall be discharged from any further liability with regard to said security.

25. **ESTOPPEL CERTIFICATES.** Within ten (10) days following any written request which Landlord may make from time to time, Tenant shall execute and deliver to Landlord or mortgagee or prospective mortgagee a sworn statement certifying: (a) the date of commencement of this Lease; (b) the fact that this Lease is unmodified and in full force and effect (or, if there have been modifications to this Lease, that this lease is in full force and effect, as modified, and stating the date and nature of such modifications); (c) the date to which the rent and other sums payable under this Lease have been paid; (d) the fact that there are no current defaults under this Lease by either Landlord or Tenant except as specified in Tenant's statement; and (e) such other matters as may be requested by Landlord. Landlord and Tenant intend that any statement delivered pursuant to this Article 25 may be relied upon by any mortgagee, beneficiary or purchaser, and Tenant shall be liable for all loss, cost or expense resulting from the failure of any sale or funding of any loan caused by any material misstatement contained in such estoppel certificate. Tenant irrevocably agrees that if Tenant fails to execute and deliver such certificate within such ten (10) day period Landlord or Landlord's beneficiary or agent may execute and deliver such certificate on Tenant's behalf, and that such certificate shall be fully binding on Tenant.

26. **SURRENDER OF PREMISES.**

26.1 Tenant shall arrange to meet Landlord for two (2) joint inspections of the Premises, the first to occur at least thirty (30) days (but no more than sixty (60) days) before the last day of the Term, and the second to occur not later than forty-eight (48) hours after Tenant has vacated the Premises. In the event of Tenant's failure to arrange such joint inspections and/or participate in either such inspection, Landlord's inspection at or after Tenant's vacating the Premises shall be conclusively deemed correct for purposes of determining Tenant's responsibility for repairs and restoration.

26.2 All alterations, additions, and improvements in, on, or to the Premises made or installed by or for Tenant, including carpeting (collectively, "Alterations"), shall be and remain the property of Tenant during the Term. Upon the expiration or sooner termination of the Term, all Alterations shall become a part of the realty and shall belong to Landlord without compensation, and title shall pass to Landlord under this Lease as by a bill of sale. At the end of the Term or any renewal of the Term or other sooner termination of this Lease, Tenant will peaceably deliver up to Landlord possession of the Premises, together with all Alterations by whomsoever made, in the same conditions received or first installed, broom clean and free of all debris, excepting only ordinary wear and tear and damage by fire or other casualty. Notwithstanding the foregoing, if Landlord elects by notice given to Tenant at least ten (10) days prior to expiration of the Term, Tenant shall, at Tenant's sole cost, remove any Alterations, including carpeting, so designated by Landlord's notice, and repair any damage caused by such removal. Tenant must, at Tenant's sole cost, remove upon termination of this Lease, any and all of Tenant's furniture, furnishings, movable partitions of less than full height from floor to ceiling and other trade fixtures and personal property (collectively, "Personalty"). Personalty not so removed shall be deemed abandoned by the Tenant and title to the same shall

thereupon pass to Landlord under this Lease as by a bill of sale, but Tenant shall remain responsible for the cost of removal and disposal of such Personalty, as well as any damage caused by such removal. In lieu of requiring Tenant to remove Alterations and Personalty and repair the Premises as aforesaid, Landlord may, by written notice to Tenant delivered at least thirty (30) days before the Termination Date, require Tenant to pay to Landlord, as additional rent hereunder, the cost of such removal and repair in an amount reasonably estimated by Landlord.

26.3 All obligations of Tenant under this Lease not fully performed as of the expiration or earlier termination of the Term shall survive the expiration or earlier termination of the Term. Upon the expiration or earlier termination of the Term, Tenant shall pay to Landlord the amount, as estimated by Landlord, necessary to repair and restore the Premises as provided in this Lease and/or to discharge Tenant's obligation for unpaid amounts due or to become due to Landlord. All such amounts shall be used and held by Landlord for payment of such obligations of Tenant, with Tenant being liable for any additional costs upon demand by Landlord, or with any excess to be returned to Tenant after all such obligations have been determined and satisfied. Any otherwise unused Security Deposit shall be credited against the amount payable by Tenant under this Lease.

27. **NOTICES.** Any notice or document required or permitted to be delivered under this Lease shall be addressed to the intended recipient, shall be transmitted by fully prepaid registered or certified United States Mail return receipt requested, or by reputable independent contract delivery service furnishing a written record of attempted or actual delivery, and shall be deemed to be delivered when tendered for delivery to the addressee at its address set forth on the Reference Pages, or at such other address as it has then last specified by written notice delivered in accordance with this Article 27, or if to Tenant at either its aforesaid address or its last known registered office or home of a general partner or individual owner, whether or not actually accepted or received by the addressee. Any such notice or document may also be personally delivered if a receipt is signed by and received from the individual, if any, named in Tenant's Notice Address.

28. **TAXES PAYABLE BY TENANT.** In addition to rent and other charges to be paid by Tenant under this Lease, Tenant shall reimburse to Landlord, upon demand, any and all taxes payable by Landlord (other than net income taxes) whether or not now customary or within the contemplation of the parties to this Lease: (a) upon, allocable to, or measured by or on the gross or net rent payable under this Lease, including without limitation any gross income tax or excise tax levied by the State, any political subdivision thereof, or the Federal Government with respect to the receipt of such rent; (b) upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy of the Premises or any portion thereof, including any sales, use or service tax imposed as a result thereof; (c) upon or measured by the Tenant's gross receipts or payroll or the value of Tenant's equipment, furniture, fixtures and other personal property of Tenant or leasehold improvements, alterations or additions located in the Premises; or (d) upon this transaction or any document to which Tenant is a party creating or transferring any interest of Tenant in this Lease or the Premises. In addition to the foregoing, Tenant agrees to pay, before delinquency, any and all taxes levied or assessed against Tenant and which become payable during the term hereof upon Tenant's equipment, furniture, fixtures and other personal property of Tenant located in the Premises.

29. **INTENTIONALLY DELETED.**

30. **DEFINED TERMS AND HEADINGS.** The Article headings shown in this Lease are for convenience of reference and shall in no way define, increase, limit or describe the scope or intent of any provision of this Lease. Any indemnification or insurance of Landlord shall apply to and inure to the benefit of all the following "Landlord Entities", being Landlord, Landlord's investment manager, and the trustees, boards of directors, officers, general partners, beneficiaries, stockholders, employees and agents of each of them. Any option granted to Landlord shall also include or be exercisable by Landlord's trustee, beneficiary, agents and employees, as the case may be. In any case where this Lease is signed by more than one person, the obligations under this Lease shall be joint and several. The terms "Tenant" and "Landlord" or any pronoun used in place thereof shall indicate and include the masculine or feminine, the singular or plural number, individuals, firms or corporations, and their and each of their respective successors, executors, administrators and permitted assigns, according to the context hereof. The term "rentable area" shall mean the rentable area of the Premises or the Building as calculated by the Landlord on the basis of the plans and specifications of the Building including a proportionate share of any common areas. Tenant hereby

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accepts and agrees to be bound by the figures for the rentable square footage of the Premises and Tenant's Proportionate Share shown on the Reference Pages; however, Landlord may adjust either or both figures if there is manifest error, addition or subtraction to the Building or any business park or complex of which the Building is a part, remeasurement or other circumstance reasonably justifying adjustment. The term "Building" refers to the structure in which the Premises are located and the common areas (parking lots, sidewalks, landscaping, etc.) appurtenant thereto. If the Building is part of a larger complex of structures, the term "Building" may include the entire complex, where appropriate (such as shared Expenses or Taxes) and subject to Landlord's reasonable discretion.

31. **TENANT'S AUTHORITY.** If Tenant signs as a corporation, partnership, trust or other legal entity each of the persons executing this Lease on behalf of Tenant represents and warrants that Tenant has been and is qualified to do business in the state in which the Building is located, that the entity has full right and authority to enter into this Lease, and that all persons signing on behalf of the entity were authorized to do so by appropriate actions. Tenant agrees to deliver to Landlord, simultaneously with the delivery of this Lease, a corporate resolution, proof of due authorization by partners, opinion of counsel or other appropriate documentation reasonably acceptable to Landlord evidencing the due authorization of Tenant to enter into this Lease.

32. **FINANCIAL STATEMENTS AND CREDIT REPORTS.** At Landlord's request, Tenant shall deliver to Landlord a copy, certified by an officer of Tenant as being a true and correct copy, of Tenant's most recent audited financial statement, or, if unaudited, certified by Tenant's chief financial officer as being true, complete and correct in all material respects. Tenant hereby authorizes Landlord to obtain one or more credit reports on Tenant at any time, and shall execute such further authorizations as Landlord may reasonably require in order to obtain a credit report.

33. **COMMISSIONS.** Each of the parties represents and warrants to the other that it has not dealt with any broker or finder in connection with this Lease, except as described on the Reference Pages.

34. **TIME AND APPLICABLE LAW.** Time is of the essence of this Lease and all of its provisions. This Lease shall in all respects be governed by the laws of the state in which the Building is located.

35. **SUCCESSORS AND ASSIGNS.** Subject to the provisions of Article 9, the terms, covenants and conditions contained in this Lease shall be binding upon and inure to the benefit of the heirs, successors, executors, administrators and assigns of the parties to this Lease.

36. **ENTIRE AGREEMENT.** This Lease, together with its exhibits, contains all agreements of the parties to this Lease and supersedes any previous negotiations. There have been no representations made by the Landlord or any of its representatives or understandings made between the parties other than those set forth in this Lease and its exhibits. This Lease may not be modified except by a written instrument duly executed by the parties to this Lease.

37. **EXAMINATION NOT OPTION.** Submission of this Lease shall not be deemed to be a reservation of the Premises. Landlord shall not be bound by this Lease until it has received a copy of this Lease duly executed by Tenant and has delivered to Tenant a copy of this Lease duly executed by Landlord, and until such delivery Landlord reserves the right to exhibit and lease the Premises to other prospective tenants. Notwithstanding anything contained in this Lease to the contrary, Landlord may withhold delivery of possession of the Premises from Tenant until such time as Tenant has paid to Landlord any security deposit required by Article 5, the first month's rent as set forth in Article 3 and any sum owed pursuant to this Lease.

38. **RECORDATION.** Tenant shall not record or register this Lease or a short form memorandum hereof without the prior written consent of Landlord, and then shall pay all charges and taxes incident such recording or registration.

39. RIGHT OF FIRST OFFER.

39.1 Tenant shall, during the Term of this Lease, have a right of first offer (as hereinafter described) on the building commonly known as 1400 Presidential, containing approximately 33,244 square feet and being more particularly shown on Exhibit A-2 attached hereto (the "Right of First Offer Space"), for a term beginning on the date proposed by Landlord in its notice to Tenant, as hereinafter described (the "Expansion Date") and ending contemporaneously with the expiration of the Term of this Lease.

39.2 Provided that no uncured Event of Default under this Lease has occurred, Landlord shall, upon the vacating or intended vacating of all or any portion of the Right of First Offer Space (the "Available Right of First Offer Space") by any tenant, deliver notice to Tenant of such fact and shall include in such notice those terms and conditions on which Landlord would lease such Available Right of First Offer Space to Tenant, which terms and conditions may be substantially different than those provided to any other prospective tenant; provided, however, that the Annual Rent for such Available Right of First Offer Space shall be calculated at the Fair Market Value Rate as of the Expansion Date. As used herein, the term "Fair Market Value Rate" shall mean the fair market value rental rate per square foot of rentable area per year in effect on the Expansion Date for comparable tenants taking comparable space in comparable conditions under comparable terms in comparable buildings in the same rental market (hereinafter called "Comparable Buildings"). It is also agreed and understood that the Fair Market Value Rate shall include: (a) rent; and (b) rental operating expenses, property tax, and utility and expense adjustments that are being included as part of the terms and conditions of industrial tenant leases for comparable tenants in Comparable Buildings as of the time of determination of the Fair Market Value Rate. With respect to the portion of the Right of First Offer Space which is currently vacant, Landlord shall have no obligation to offer such Right of First Offer Space to Tenant prior to or in connection with its initial leasing subsequent to the date hereof. Landlord shall have no such obligation to notify Tenant until any and all other existing tenants in the Building (or any successors in interest thereto) to which Landlord has previously granted a right or option to lease the Right of First Offer Space have declined such space, and Tenant's right of first offer shall remain subject to any right of first offer, right of first refusal, or similar right or option which has previously been granted to any other party.

39.3 Within five (5) business days after the delivery of Landlord's notice to Tenant as described in Section 39.2 above, Tenant shall notify Landlord in writing of its election to exercise its right of first offer contained herein. If Tenant delivers written notice to Landlord that Tenant does not desire to exercise its right of first offer contained herein (or if Tenant fails to so deliver notice to Landlord) within such five (5) business day period, Tenant shall be deemed to have declined such right of first offer to lease the Available Right of First Offer Space, Landlord shall have the right to lease such Available Right of First Offer Space to any other tenant, and the right of first offer on the Available Right of First Offer Space shall be terminated and of no further force or effect.

39.4 Upon the exercise by Tenant of the right of first offer as provided in this Article 39, the Available Right of First Offer Space shall be deemed to be included under this Lease as of the Expansion Date, on the terms and conditions set forth in Landlord's notice to Tenant, except as otherwise expressly set forth in this Lease and as set forth below, and Landlord and Tenant shall enter into a written agreement confirming that the Available Right of First Offer Space is part of the Premises under this Lease as of the Expansion Date.

39.5 Possession of the Available Right of First Offer Space shall be delivered to Tenant on the Expansion Date and in the condition specified by Landlord pursuant to Section 39.2 above. Landlord will use reasonable diligence to make the Available Right of First Offer Space available to Tenant on the Expansion Date. Landlord shall not be liable for the failure to give possession of the Available Right of First Offer Space to Tenant on the Expansion Date by reason of the holding over or retention of possession of any tenant, tenants, or occupants, or for any other reason, and such failure shall not impair the validity of this Lease, or extend the Term, but the rent for such Available Right of First Offer Space shall be abated until possession is delivered to Tenant and such abatement shall constitute full settlement of all claims that Tenant might otherwise have against Landlord by reason of such failure to give possession of the Available Right of First Offer Space to Tenant on the Expansion Date.

40. TERMINATION OF PRIOR LEASES AND APPLICATION OF SECURITY DEPOSIT.


40.1 Reference is hereby made to that certain Lease dated November 7, 1997, executed by and between Landlord and Tenant, as amended by that certain First Amendment to Lease dated as of September 28, 2000, by and between Landlord and Tenant, pursuant to which Tenant leases space known as Suites 504 and 510 (the "Dorothy Space"), located at 850 N. Dorothy Drive in Richardson, Texas (as amended, the "Dorothy Lease"). The Dorothy Lease shall be deemed terminated and of no further force and effect, except for any provisions which survive the termination thereof, as set forth in the Dorothy Lease or as otherwise provided under applicable law, on the later of (a) the Commencement Date of this Lease, or (b) the date upon which Tenant surrenders possession of the Dorothy Space to Landlord in the condition required under the Dorothy Lease. Tenant shall be entitled to utilize, upon the effective date of such termination, any remaining security deposit held by Landlord under the Dorothy Lease to satisfy Tenant's obligation to provide the Security Deposit hereunder; any deficiency in the Security Deposit remaining upon the application of Tenant's security deposit under the Dorothy Lease shall be paid by Tenant to Landlord within ten (10) days after demand therefor.

40.2 Reference is further made to that certain Storage Space Lease Agreement dated as of April 10, 2003, executed by and between Landlord and Tenant (the "Storage Space Lease"), pursuant to which Tenant leases certain storage space known as Suite 610 (the "Storage Space"), located at 860 N. Dorothy Drive in Richardson, Texas. The Storage Space Lease shall be deemed terminated and of no further force and effect, except for any provisions which survive the termination thereof, as set forth in the Storage Space Lease or as otherwise provided under applicable law, on the later of (a) the date of execution of this Lease, or (b) the date upon which Tenant surrenders possession of the Storage Space to Landlord in the condition required under the Storage Space Lease.

41. **LIMITATION OF LANDLORD'S LIABILITY.** Redress for any claim against Landlord under this Lease shall be limited to and enforceable only against and to the extent of Landlord's interest in the Building. The obligations of Landlord under this Lease are not intended to be and shall not be personally binding on, nor shall any resort be had to the private properties of, any of its or its investment manager's trustees, directors, officers, partners, beneficiaries, members, stockholders, employees, or agents, and in no case shall Landlord be liable to Tenant hereunder for any lost profits, damage to business, or any form of special, indirect or consequential damages.

LANDLORD:

ACQUIPORT DFWIP, INC., a Delaware corporation

By: 
Name: Bryan B. Marsh, III
Title: Vice President
Dated: 8-21-03

TENANT:

OPTEX SYSTEMS INC.,
a Texas corporation

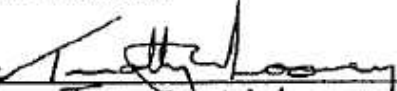
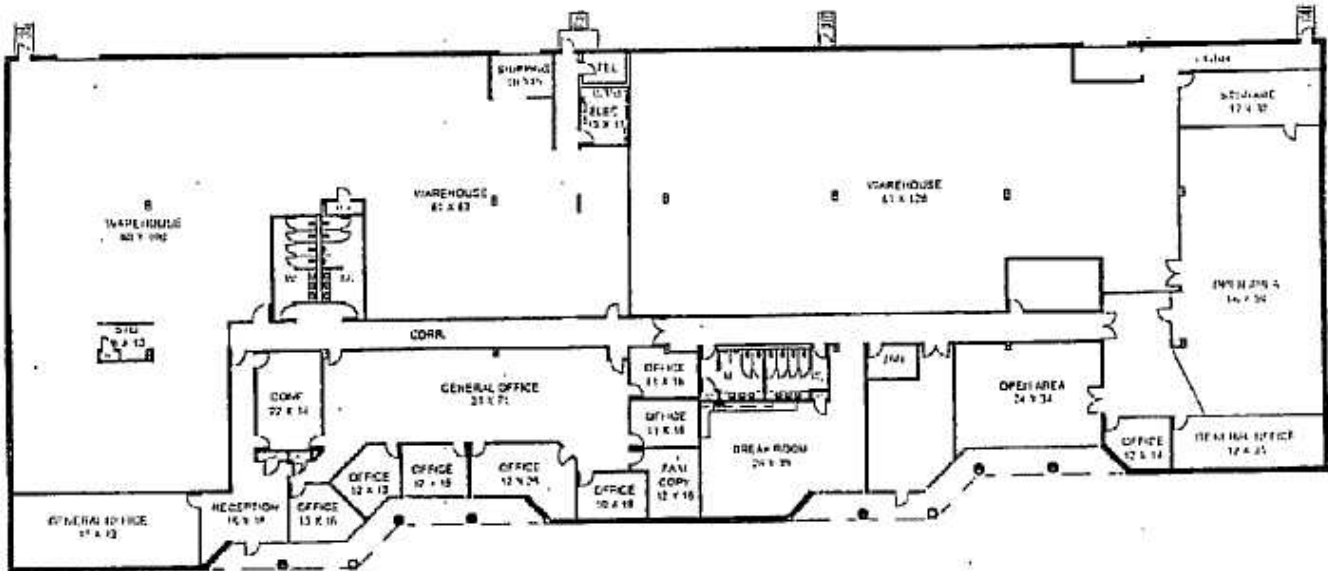
By: 
Name: TIMOTHY W. LAANEY
Title: PRESIDENT
Dated: 15 AUG 2003

EXHIBIT A – FLOOR PLAN DEPICTING THE PREMISES

attached to and made a part of Lease bearing the Lease Reference Date of August 14, 2003 between Acquiport DFWIP, Inc., a Delaware corporation, as Landlord and Optex Systems Inc., a Texas corporation, as Tenant

Exhibits A and A-1 are intended only to show the general layout of the Premises as of the beginning of the Term of this Lease. They do not in any way supersede any of Landlord's rights set forth in Article 17 with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate.



1420 Presidential Drive
Richardson, Texas



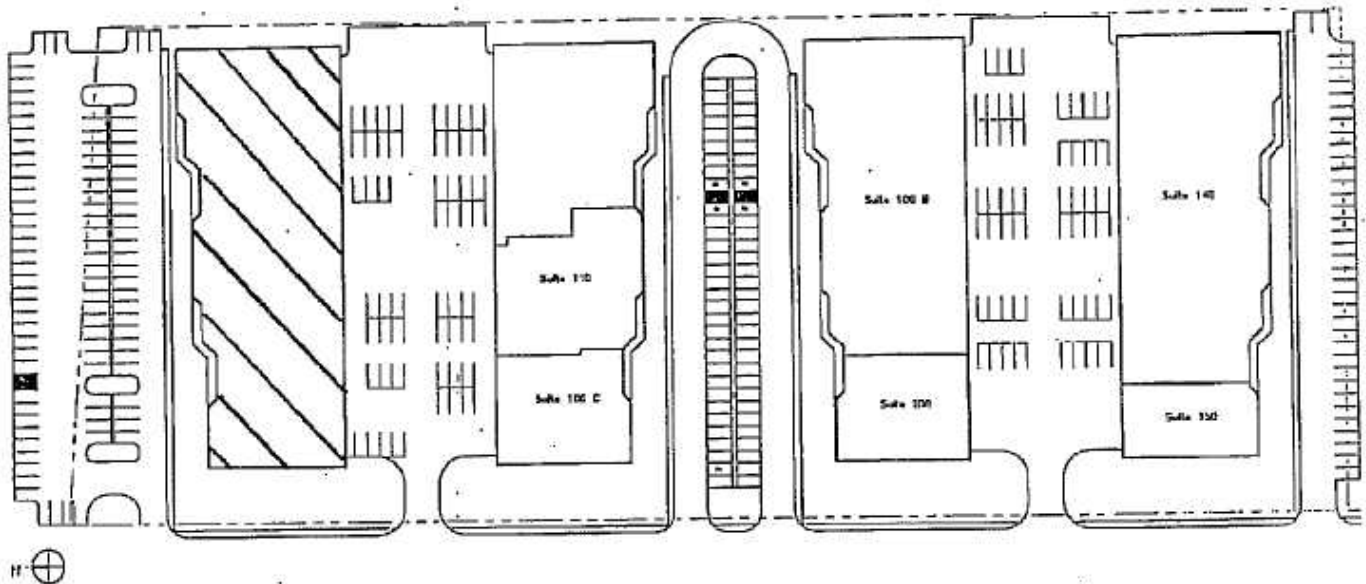
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EXHIBIT A-1 - SITE PLAN

attached to and made a part of Lease bearing the
Lease Reference Date of August 14, 2003 between
Acquiport DFWIP, Inc., a Delaware corporation, as Landlord and
Optex Systems Inc., a Texas corporation, as Tenant



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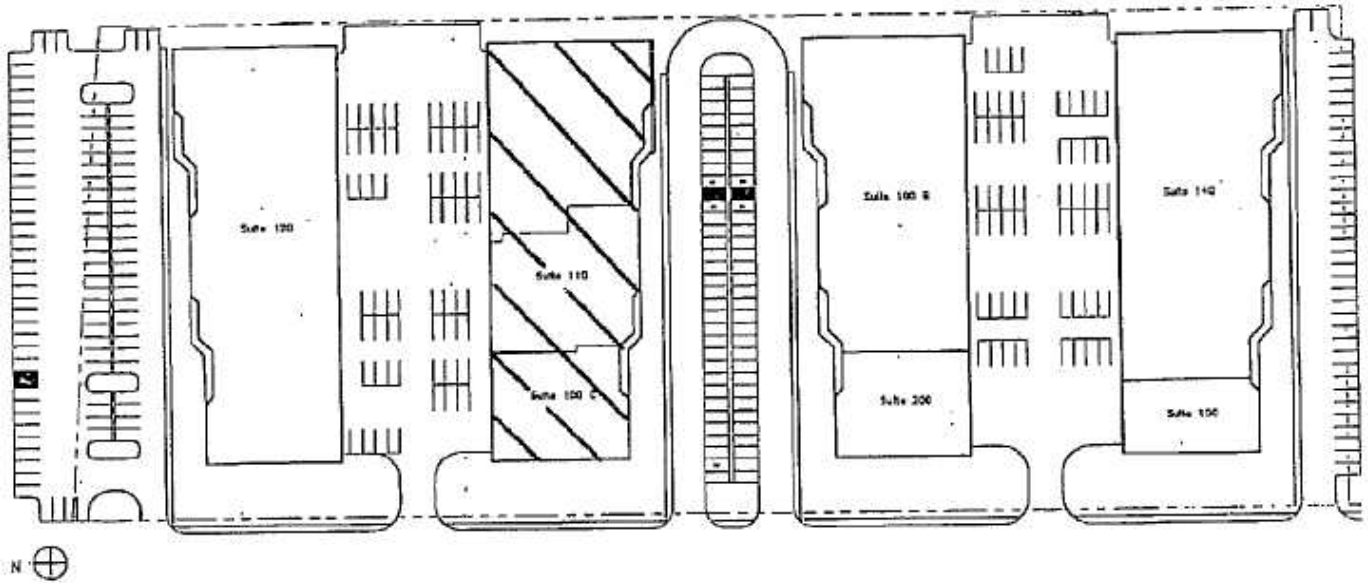
	
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EXHIBIT A-2 RIGHT OF FIRST OFFER SPACE

attached to and made a part of Lease bearing the Lease Reference Date of August 14, 2003 between Acquiport DFWIP, Inc., a Delaware corporation, as Landlord and Optex Systems Inc., a Texas corporation, as Tenant

Exhibit A-2 is intended only to show the general layout of the Right of First Offer Space as of the beginning of the Term of this Lease. It does not in any way supersede any of Landlord's rights set forth in Article 17 with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate.



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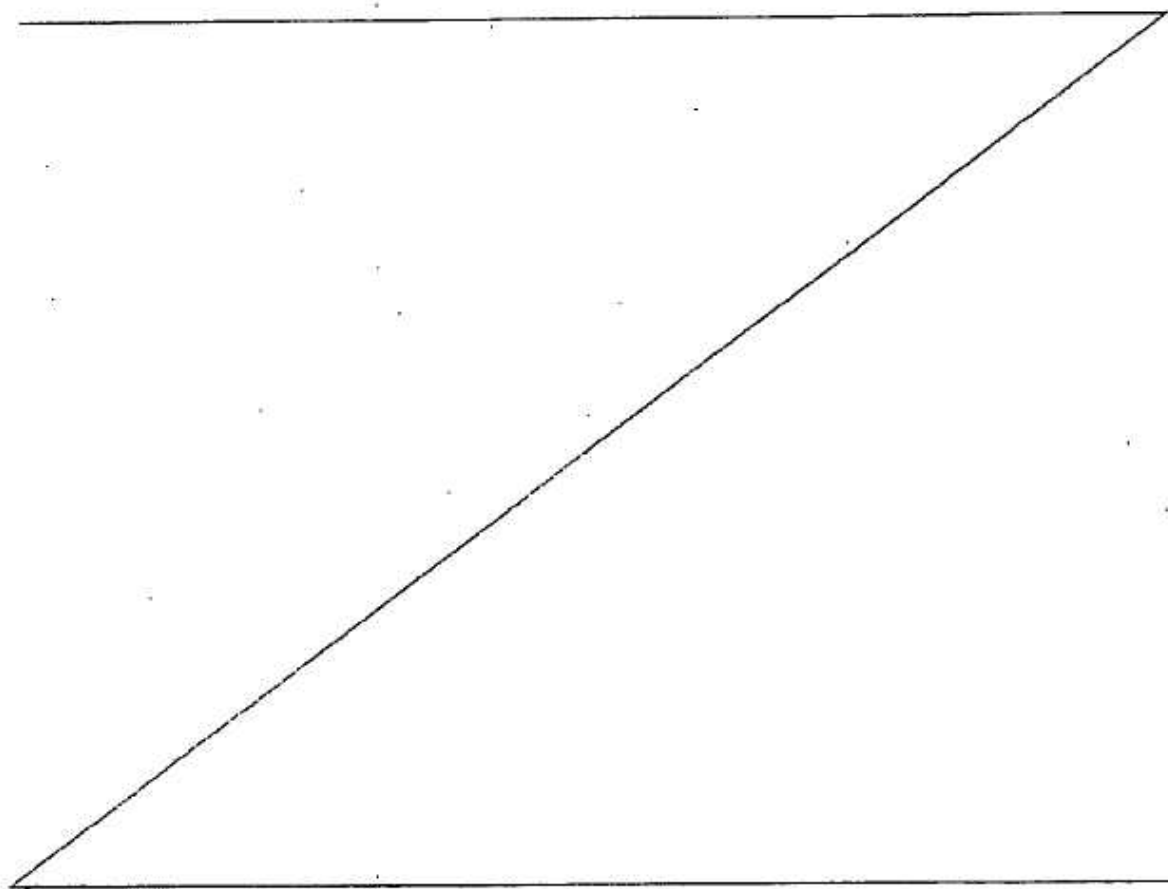
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EXHIBIT B – INITIAL ALTERATIONS

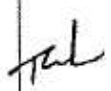

attached to and made a part of Lease bearing the Lease Reference Date of August 14, 2003 between Acquiport DFWP, Inc., a Delaware corporation, as Landlord and Optex Systems Inc., a Texas corporation, as Tenant

Tenant shall take the Premises in its "as-is" condition except for certain work (the "Leasehold Improvements") described in the bid attached as Schedule One hereto (the "Bid"). The Leasehold Improvements shall be completed in accordance with the terms of this Exhibit B.

Landlord shall complete the Leasehold Improvements by hiring a contractor to install or construct the Leasehold Improvements. So long as no Event of Default (or any event which with notice and/or lapse of time could become an Event of Default) has occurred under the Lease, Landlord agrees to provide Tenant an allowance equal to Thirty-Four Thousand Seventy-Six and No/100 Dollars (\$34,076.00) (the "Improvement Allowance"), which allowance is to be used solely for completion of the Leasehold Improvements and satisfaction of any architectural or design fees. Any work (labor or materials) outside the scope of the Bid or the cost of which is in excess of the Improvement Allowance shall be at Tenant's sole cost and expense. Any portion of the Improvement Allowance remaining upon completion of the Leasehold Improvements shall be deemed forfeited by Tenant.



10/31/01 MTIG(BY)
Revised 08/2002
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SCHEDULE ONE

attached to and made a part of Lease bearing the
Lease Reference Date of August 14, 2003 between
Acquiport DFWIP, Inc., a Delaware corporation, as Landlord and
Optax Systems Inc., a Texas corporation, as Tenant



M.C.S., Inc.
2326 Peters Road
Irving, TX 75061
972-438-2192

ESTIMATE

DATE	ESTIMATE #
8/6/2003	3220

NAME / ADDRESS	PROJECT	TOTAL
RREEF Management LORIE RICH 1406 Halsey Way #110 Carrollton, Texas 75007	1420 Presidential - demo, dry-wall, etc.	
DEMOLITION: DEMO WALLS AND FLOORING AS PER PLAN PROVIDED.		5,858.00T
DRYWALL: INSTALL WALLS TO CREATE LARGE ROOM. WALL TO SEPARATE WAREHOUSE AT RESTROOMS AND OFFICE, WALL AT GENERAL OFFICE AREA.		5,733.00T
DOORS, FRMS, HWWR: INSTALL (3) DOUBLE DOORS AND (3) 3.0 X 7.0 DOORS.		4,587.00T
INTERIOR PAINT: TAPE, BED, TEXTURE AND PAINT NEW SHEETROCK WALLS TO MATCH EXISTING.		755.00T
ELECTRICAL: DEMO ELECTRIC IN DEMO WALLS, ADD SWITCH IN NEW LARGE ROOM. RELOCATE LIGHTS IN NEW CREATED OFFICE.		2,000.00T
FLOORING:		3,227.00T
OVERHEAD/ INSURANCE:		3,323.00T
SALES TAX 6.25%		2,101.85
Thank you for the opportunity to bid this project.	TOTAL:	\$27,578.85

Authorized by: _____

	
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10/31/01 MTIG(BY)
Revised 08/2002
362276.v2: 028481/048

EXHIBIT C - COMMENCEMENT DATE MEMORANDUM

attached to and made a part of Lease bearing the Lease Reference Date of August 14, 2003 between Acquiport DFWIP, Inc., a Delaware corporation, as Landlord and Optex Systems Inc., a Texas corporation, as Tenant

COMMENCEMENT DATE MEMORANDUM

THIS MEMORANDUM, made as of _____, 2002, by and between _____ ("Landlord") and _____ ("Tenant").

Recitals:

- A. Landlord and Tenant are parties to that certain Lease, dated for reference _____, 2002 (the "Lease") for certain premises (the "Premises") consisting of approximately _____ square feet at the building commonly known as _____.
B. Tenant is in possession of the Premises and the Term of the Lease has commenced.
C. Landlord and Tenant desire to enter into this Memorandum confirming the Commencement Date, the Termination Date and other matters under the Lease.

NOW, THEREFORE, Landlord and Tenant agree as follows:

- 1. The actual Commencement Date is _____.
2. The actual Termination Date is _____.
3. The schedule of the Annual Rent and the Monthly Installment of Rent set forth on the Reference Pages is deleted in its entirety, and the following is substituted therefor:

[insert rent schedule]

- 4. Capitalized terms not defined herein shall have the same meaning as set forth in the Lease.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

LANDLORD:

TENANT:

a _____

a _____

By: _____
Name: _____
Title: _____
Dated: _____, 20____

By: _____
Name: _____
Title: _____
Dated: _____, 20____



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Initials

EXHIBIT D – RULES AND REGULATIONS

attached to and made a part of Lease bearing the Lease Reference Date of August 14, 2003 between Acquiport DFWIP, Inc., a Delaware corporation, as Landlord and Optex Systems Inc., a Texas corporation, as Tenant

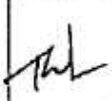

1. No sign, placard, picture, advertisement, name or notice (collectively referred to as "Signs") shall be installed or displayed on any part of the outside of the Building without the prior written consent of the Landlord which consent shall be in Landlord's sole discretion. All approved Signs shall be printed, painted, affixed or inscribed at Tenant's expense by a person or vendor approved by Landlord and shall be removed by Tenant at Tenant's expense upon vacating the Premises. Landlord shall have the right to remove any Sign installed or displayed in violation of this rule at Tenant's expense and without notice.
2. If Landlord objects in writing to any curtains, blinds, shades or screens attached to or hung in or used in connection with any window or door of the Premises or Building, Tenant shall immediately discontinue such use. No awning shall be permitted on any part of the Premises. Tenant shall not place anything or allow anything to be placed against or near any glass partitions or doors or windows which may appear unsightly, in the opinion of Landlord, from outside the Premises.
3. Tenant shall not alter any lock or other access device or install a new or additional lock or access device or bolt on any door of its Premises without the prior written consent of Landlord. Tenant, upon the termination of its tenancy, shall deliver to Landlord the keys or other means of access to all doors.
4. If Tenant requires telephone, data, burglar alarm or similar service, the cost of purchasing, installing and maintaining such service shall be borne solely by Tenant. No boring or cutting for wires will be allowed without the prior written consent of Landlord. Landlord shall direct electricians as to where and how telephone, data, and electrical wires are to be introduced or installed. The location of burglar alarms, telephones, call boxes or other office equipment affixed to the Premises shall be subject to the prior written approval of Landlord.
5. Tenant shall not place a load upon any floor of its Premises, including mezzanine area, if any, which exceeds the load per square foot that such floor was designed to carry and that is allowed by law. Heavy objects shall stand on such platforms as determined by Landlord to be necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such equipment or other property from any cause, and all damage done to the Building by maintaining or moving such equipment or other property shall be repaired at the expense of Tenant.
6. Tenant shall not install any radio or television antenna, satellite dish, loudspeaker or other device on the roof or exterior walls of the Building without Landlord's prior written consent which consent shall be in Landlord's sole discretion.
7. Tenant shall not mark, drive nails, screw or drill into the partitions, woodwork, plaster or drywall (except for pictures and general office uses) or in any way deface the Premises or any part thereof. Tenant shall not affix any floor covering to the floor of the Premises or paint or seal any floors in any manner except as approved by Landlord. Tenant shall repair any damage resulting from noncompliance with this rule.
8. No cooking shall be done or permitted on the Premises, except that Underwriters' Laboratory approved microwave ovens or equipment for brewing coffee, tea, hot chocolate and similar beverages shall be permitted.

	
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Initials

provided that such equipment and use is in accordance with all applicable federal, state and city laws, codes, ordinances, rules and regulations.

9. Tenant shall not use any hand trucks except those equipped with the rubber tires and side guards, and may use such other material-handling equipment as Landlord may approve. Tenant shall not bring any other vehicles of any kind into the Building. Forklifts which operate on asphalt areas shall only use tires that do not damage the asphalt.
10. Tenant shall not use the name of the Building or any photograph or other likeness of the Building in connection with or in promoting or advertising Tenant's business except that Tenant may include the Building name in Tenant's address. Landlord shall have the right, exercisable without notice and without liability to any tenant, to change the name and address of the Building.
11. All trash and refuse shall be contained in suitable receptacles at locations approved by Landlord. Tenant shall not place in the trash receptacles any personal trash or material that cannot be disposed of in the ordinary and customary manner of removing such trash without violation of any law or ordinance governing such disposal.
12. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governing authority.
13. Tenant assumes all responsibility for securing and protecting its Premises and its contents including keeping doors locked and other means of entry to the Premises closed.
14. Tenant shall not use any method of heating or air conditioning other than that supplied by Landlord without Landlord's prior written consent.
15. No person shall go on the roof without Landlord's permission.
16. Tenant shall not permit any animals, other than seeing-eye dogs, to be brought or kept in or about the Premises or any common area of the property.
17. Tenant shall not permit any motor vehicles to be washed or mechanical work or maintenance of motor vehicles to be performed on any portion of the Premises or parking lot.
18. These Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms, covenants, agreements and conditions of any lease of any premises in the Building. Landlord may waive any one or more of these Rules and Regulations for the benefit of any tenant or tenants, and any such waiver by Landlord shall not be construed as a waiver of such Rules and Regulations for any or all tenants.
19. Landlord reserves the right to make such other and reasonable rules and regulations as in its judgment may from time to time be needed for safety and security, for care and cleanliness of the Building and for the preservation of good order in and about the Building. Tenant agrees to abide by all such rules and regulations herein stated and any additional rules and regulations which are adopted. Tenant shall be responsible for the observance of all of the foregoing rules by Tenant's employees, agents, clients, customers, invitees and guests.
20. Any toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown into them. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the Tenant who, or whose employees or invitees, shall have caused it.

	
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Initials

21. Tenant shall not permit smoking or carrying of lighted cigarettes or cigars in areas reasonably designated by Landlord or any applicable governmental agencies as non-smoking areas.

22. Any directory of the Building or project of which the Building is a part ("Project Area"), if provided, will be exclusively for the display of the name and location of tenants only and Landlord reserves the right to charge for the use thereof and to exclude any other names.

23. Canvassing, soliciting, distribution of handbills or any other written material in the Building or Project Area is prohibited and each tenant shall cooperate to prevent the same. No tenant shall solicit business from other tenants or permit the sale of any goods or merchandise in the Building or Project Area without the written consent of Landlord.

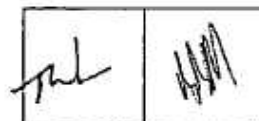
24. Any equipment belonging to Tenant which causes noise or vibration that may be transmitted to the structure of the Building or to any space therein to such a degree as to be objectionable to Landlord or to any tenants in the Building shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate the noise or vibration.

25. Driveways, sidewalks, halls, passages, exits, entrances and stairways ("Access Areas") shall not be obstructed by tenants or used by tenants for any purpose other than for ingress to and egress from their respective premises. Access areas are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence, in the judgement of Landlord, shall be prejudicial to the safety, character, reputation and interests of the Building or its tenants.

26. Landlord reserves the right to designate the use of parking areas and spaces. Tenant shall not park in visitor, reserved, or unauthorized parking areas. Tenant and Tenant's guests shall park between designated parking lines only and shall not park motor vehicles in those areas designated by Landlord for loading and unloading. Vehicles in violation of the above shall be subject to being towed at the vehicle owner's expense. Vehicles parked overnight without prior written consent of the Landlord shall be deemed abandoned and shall be subject to being towed at vehicle owner's expense. Tenant will from time to time, upon the request of Landlord, supply Landlord with a list of license plate numbers of vehicles owned or operated by its employees or agents.

27. No trucks, tractors or similar vehicles can be parked anywhere other than in Tenant's own truck dock area. Tractor-trailers which must be unhooked or parked with dolly wheels beyond the concrete loading areas must use steel plates or wood blocks under the dolly wheels to prevent damage to the asphalt paving surfaces. No parking or storing of such trailers will be permitted in the parking areas or on streets adjacent thereto.

28. During periods of loading and unloading, Tenant shall not unreasonably interfere with traffic flow and loading and unloading areas of other tenants. All products, materials or goods must be stored within the Tenant's Premises and not in any exterior areas, including, but not limited to, exterior dock platforms, against the exterior of the Building, parking areas and driveway areas. Tenant agrees to keep the exterior of the Premises clean and free of nails, wood, pallets, packing materials, barrels and any other debris produced from their operation.

A rectangular box containing two columns of handwritten initials. The left column contains the initials 'ML' and the right column contains the initials 'AMM'.

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STORAGE SPACE LEASE AGREEMENT

THIS STORAGE SPACE LEASE AGREEMENT (this "Lease") has been executed to be effective as of April 10, 2003, by and between Optex Systems Inc., a Texas corporation ("Tenant"), and Acquiport DFWIP, Inc., a Delaware corporation ("Landlord"). Landlord hereby leases to Tenant that certain storage space containing approximately 4,372 rentable square feet known as Suite 610, as shown on the floor plan attached hereto as Exhibit A (the "Premises"), located at 860 N. Dorothy Drive in the project known as 850-890 N. Dorothy Drive (the "Building"), and shall be subject to the conditions and covenants hereinafter provided.

The Term (herein so called) of this Lease shall be ninety (90) days, commencing on April 10, 2003, and continuing through July 9, 2003; provided, however, that either party shall have the right to terminate this Lease upon ten (10) days notice to the other party. The Rent (herein so called) shall be payable in monthly installments equal to One Hundred Fifty and No/100 Dollars (\$150.00) each, payable in advance, in lawful money of the United States of America, to Landlord and sent to Acquiport DFWIP, Inc., 75 Remittance Drive, Suite 1117, Chicago, IL 60675-1117, commencing upon the execution of this Lease, and continuing on the first day of each and every succeeding month thereafter during the Term of this Lease, with rent for any partial month being prorated.

So long as Tenant shall observe and perform the covenants and agreements binding on it hereunder, Tenant shall at all times during the Term herein granted peacefully and quietly have and enjoy possession of the Premises without any encumbrance or hindrance by, from, or through Landlord; subject, however, to the terms, provisions, covenants, agreements, and conditions of this Lease and any deeds of trust, mortgages, ground leases, ordinances, leases, utility easements, and agreements to which this Lease is, or may become, subject and subordinate to, as hereinafter provided except that Landlord covenants to take such action as may be required to prevent Landlord from defaulting thereunder.

Landlord shall have the right at any time during the Term hereof, upon giving Tenant not less than ten (10) days prior written notice, to provide and furnish Tenant with space elsewhere in the Building of approximately the same size as the Premises and remove and place Tenant in such space, with Landlord to pay all reasonable costs and expenses incurred as a result of such removal of Tenant. Should Tenant refuse to permit Landlord to move Tenant to such new space, Landlord shall have the right to cancel and terminate this Lease effective as of the expiration of such ten-day period. If Landlord moves Tenant to such new space, this Lease and each and all of its terms, covenants, and conditions shall remain in full force and effect and be deemed applicable to such new space, and such new space shall thereafter be deemed to be the Premises as though Landlord and Tenant had entered into an express written amendment of this Lease with respect thereto.

Tenant agrees not to sublet the Premises in whole or in part or to assign this Lease, or to conduct, directly or indirectly, any sale of property by auction in the Premises, or to use or allow the Premises to be used for any other purpose than storage, without the written consent of Landlord.

Tenant hereby acknowledges and agrees that the Premises shall be taken "as-is". During the Term, Landlord agrees to furnish for the Premises, at Landlord's cost and expense, sufficient power only for lighting.

Landlord shall not be liable and Tenant hereby waives all claims against Landlord for any damage to any property or any injury to any person in or about the Premises by or from any cause whatsoever (including without limiting the foregoing, rain or water leakage of any character from the roof, windows, walls, basement, pipes, plumbing works or appliances, the Building not being in good condition or repair, gas, fire, oil, electricity or theft), except to the extent caused by or arising from the gross negligence or willful misconduct of Landlord or its agents, employees or contractors.

Tenant agrees to purchase, at its own cost and expense, and to keep in force during the Term of this Lease, a comprehensive public liability and property damage insurance policy to protect

against any liability to the public or to any invitee of Tenant or Landlord incident to the use of or resulting from any accident occurring in or upon the Premises with a comprehensive single limit of not less than Two Million Dollars (\$2,000,000.00). Said policy or policies shall: (a) name Landlord and the building management company, if any, as additional insureds; (b) be issued by an insurance company which is acceptable to Landlord and licensed to do business in the State of Texas; and (c) provide that said insurance shall not be cancelled unless ten (10) day's prior written notice shall have been given to Landlord. Said policy or policies or certificates thereof shall be delivered to Landlord by Tenant upon the Commencement Date and upon each renewal of said insurance.

Tenant acknowledges and agrees that Landlord and its authorized representatives may enter the Premises upon reasonable advance notice to Tenant for the purpose of showing the Premises to prospective tenants. Tenant also agrees to allow employees of Landlord access to the Premises to view condition of same and to allow Landlord's contractors or workmen to enter upon the Premises for the purpose of making any repairs Landlord may desire to make at any time.

Tenant agrees not to allow any signs to be painted on the Premises and agrees to leave the Premises in good order and condition, at the termination of this Lease, reasonable wear and from careful usage excepted, such Premises to be broom swept and all rubbish removed.

Tenant agrees that Tenant, its agents and contractors, licensees, or invitees shall not handle, use, manufacture, store or dispose of any flammables, explosives, radioactive materials, hazardous wastes or materials, toxic wastes or materials, or other similar substances, petroleum products or derivatives (collectively "Hazardous Materials") on, under, or about the Premises, without Landlord's prior written consent (which consent may be given or withheld in Landlord's sole discretion), provided that Tenant may handle, store, use or dispose of products containing small quantities of Hazardous Materials, which products are of a type customarily found in offices and households (such as aerosol cans containing insecticides, toner for copiers, paints, paint remover, and the like), provided further that Tenant shall handle, store, use and dispose of any such Hazardous Materials in a safe and lawful manner and shall not allow such Hazardous Materials to contaminate the Premises or the environment.

Without limiting the above, Tenant shall reimburse, defend, indemnify and hold Landlord harmless from and against any and all claims, losses, liabilities, damages, costs and expenses, including without limitation, loss of rental income, loss due to business interruption, and attorneys' fees and costs, arising out of or in any way connected with the use, manufacture, storage, or disposal of Hazardous Materials by Tenant, its agents or contractors on, under or about the Premises including, without limitation, the costs of any required or necessary investigation, repair, cleanup or detoxification and the preparation of any closure or other required plans in connection herewith, whether voluntary or compelled by governmental authority. The indemnity obligations of Tenant under this clause shall survive any termination of this Lease.

Notwithstanding anything set forth in this Lease, Tenant shall only be responsible for contamination of Hazardous Materials or any cleanup resulting directly therefrom, resulting directly from matters occurring or Hazardous Materials deposited (other than by contractors, agents or representatives controlled by Landlord) during the Term of this Lease, and any other period of time during which Tenant is in actual or constructive occupancy of the Premises. Tenant shall take reasonable precautions to prevent the contamination of the Premises with Hazardous Materials by third parties.

Any default under this Lease shall be a default under the certain Lease dated November 7, 1997, as amended by First Amendment to Lease dated as of September 28, 2000 (as amended, the "Original Lease"), by and between Landlord and Tenant, covering space known as Suites 504 and 510 at 850 N. Dorothy Drive, and any default under the Original Lease shall be a default under this Lease. All remedies provided to Landlord under the Original Lease shall be available to Landlord upon the occurrence of any breach or default by Tenant under this Lease.

This Lease shall be governed by and construed under the laws of the State of Texas. Any action

brought to enforce or interpret this Lease shall be brought in the court of appropriate jurisdiction in Dallas County, Texas. Should any provision of this Lease require judicial interpretation, it is agreed that the court interpreting or considering the same shall not apply the presumption that the terms hereof shall be more strictly construed against the party, who itself or through its agent prepared the same, it being agreed that all parties hereto have participated in the preparation of this Lease and that legal counsel was consulted by each party hereto before the execution of this Lease.

All notices, demands, requests, consents, or approvals which may or are to be given by either party to the other shall be in writing and shall be deemed given when sent by United States Certified or Registered Mail, postage prepaid, addressed to Landlord or Tenant, as the case may be, at the respective addresses shown below or at such other place as Landlord and Tenant may from time to time designate by notice to each other. All consents and approvals provided for herein must be in writing to be valid. If the term "Tenant" as used in this Lease refers to more than one person, any notice, consent, approval, request, bill, demand, or statement, given as aforesaid to any one of such persons shall be deemed to have been duly given to Tenant.

Notices to Landlord:

Acquiptort DFWIP, Inc.
1406 Halsey Way, Suite 110
Carruliton, TX 75007

Notices to Tenant:

Optex Systems Inc.
850 N. Dorothy Drive, Suite 510
Richardson, TX 75081

Redress for any claims against Landlord under this Lease shall only be made against Landlord to the extent of Landlord's interest in the property to which the Premises are a part. The obligations of Landlord under this Lease shall not be personally binding on, nor shall any resort be had to the private properties of, any of its trustees or board of directors and officers, as the case may be, its investment manager, the general partners thereof or any beneficiaries, stockholders, employees or agents of Landlord, or the investment manager.

IN WITNESS WHEREOF, the parties herein set their hand the day and year first above written.

LANDLORD:

TENANT:

ACQUIPORT DFWIP, INC.,
a Delaware corporation

OPTEX SYSTEMS INC., a Texas
corporation

By: 

Name: Bryan B. Marsh III

Title: Vice President

Date: 4-11-03

By: 

Name: Timothy W. Lockrey

Title: PRESIDENT

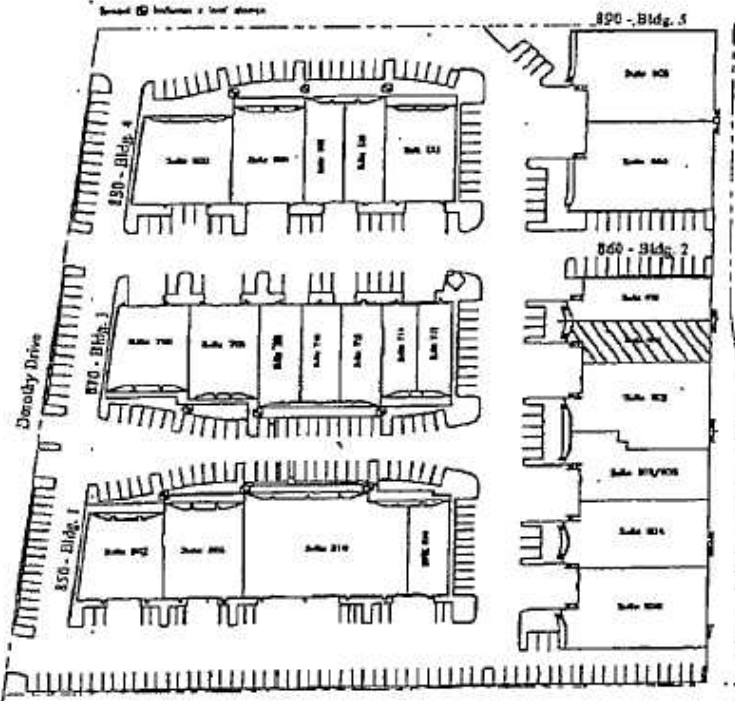
Date: 11 APR 03

EXHIBIT A

attached to and made a part of Storage Space Lease Agreement
dated effective as of April 10, 2003 between
Airport DFWIP, Inc., as Landlord and
Optex Systems Inc., as Tenant

PREMISES

Exhibit A is intended only to show the general layout of the Premises and the Building as of the beginning of the Term of this Lease. It does not in any way supersede any of Landlord's rights with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate.



850-890 N. Dorothy Drive
Richardson, Texas

SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE (this "Amendment") is entered on and to be effective as of January 7, 2005, by and between ACQUIPORT DFWIP, INC., a Delaware corporation, as landlord ("Landlord"), and OPTEX SYSTEMS INC., a Texas corporation, as tenant ("Tenant").

R E C I T A L S

WHEREAS, Landlord and Tenant entered into that certain Lease dated August 14, 2003, as amended by that certain First Amendment to Lease dated effective as of November 26, 2003 (as amended, the "Lease"), pursuant to which Tenant leases from Landlord certain industrial space known as 1420 Presidential, Richardson, Texas (the "Existing Premises") in the building known as 1360-1420 Presidential (the "Building"); and

WHEREAS, Tenant desires to extend the term of the Lease and to lease approximately 14,762 square feet of additional space in that portion of the Building commonly known as 1400 Presidential, Suite 120, such space being shown by hatching on Exhibit A-2 attached hereto and made a part hereof for all purposes (the "Additional Space") (the Existing Premises and the Additional Space being referred to collectively herein as the "Premises"); and

WHEREAS, Landlord and Tenant desire to set forth the terms and conditions upon which the Lease will be extended and the Additional Space will be leased to Tenant.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Landlord and Tenant hereby agree that the Lease should be, and hereby is, amended as follows:

1. Term of Lease. The "Term" of the Lease, as defined in the Lease, is hereby extended to February 28, 2010, and the term "Termination Date", as defined in the Lease, is hereby amended accordingly.

2. Additional Space. Landlord hereby leases to Tenant, and Tenant hereby accepts from Landlord, the Additional Space for a term commencing on January 15, 2005 (the "Additional Space Commencement Date") and continuing through the Termination Date, unless sooner terminated pursuant to the terms of the Lease. Effective as of the Additional Space Commencement Date, the term "Premises", as used in the Lease, shall be amended to include the Additional Space, and Exhibit A and Exhibit A-1 to the Lease shall be deleted in their entireties, and Exhibit A and Exhibit A-1 attached hereto shall be substituted therefor.

3. Annual Rent; Monthly Installments of Rent. Effective as of the Additional Space Commencement Date, the Annual Rent and Monthly Installments of Rent for the Additional Space only shall mean, for the time periods specified, as follows:

<u>Time Period</u>	<u>Monthly Installment of Rent</u>	<u>Annual Rent</u>
January 15, 2005 through June 14, 2005	\$-0-	\$-0-
June 15, 2005 through March 31, 2006	\$7,873.06	\$94,476.80
April 1, 2006 through March 31, 2007	\$8,119.10	\$97,429.20
April 1, 2007 through March 31, 2008	\$8,365.13	\$100,381.60
April 1, 2008 through February 28, 2010	\$8,611.16	\$103,334.00

Annual Rent and Monthly Installments of Rent for the Existing Premises shall remain as currently set forth in the Lease through November 30, 2009; Annual Rent for the Existing Premises for the period from December 1, 2009 through February 28, 2010 shall remain equal to \$238,536.00, and Monthly Installments of Rent for the Existing Premises for the period from

December 1, 2009 through February 28, 2010 shall remain equal to \$19,878.00.

4. Premises Rentable Area; Tenant's Proportionate Share. Effective as of the Additional Space Commencement Date, the term "Premises Rentable Area", as defined in the Lease, shall be amended to mean approximately 48,838 square feet, and the term "Tenant's Proportionate Share", as defined in the Lease, shall be amended to mean 36.27%.

5. Tenant's Proportionate Share of Expenses and Taxes. Effective as of the Additional Space Commencement Date, the terms "Base Year (Expenses)" and "Base Year (Taxes)", as defined on the Reference Pages of the Lease, shall be amended to read as follows:

"BASE YEAR (EXPENSES):	(a) with respect to the Existing Premises, January 1, 2003 to December 31, 2003
	(b) with respect to the Additional Space, January 1, 2005 to December 31, 2005
BASE YEAR (TAXES):	(a) with respect to the Existing Premises, January 1, 2003 to December 31, 2003
	(b) with respect to the Additional Space, January 1, 2005 to December 31, 2005"

The limitation on Tenant's Proportionate Share of Expenses and Taxes set forth in Section 4.7 of the Lease shall not apply to the Additional Space, and therefore, the clause in Section 4.7 which precedes the table is hereby amended to read as follows:

"Notwithstanding anything contained herein or in this Lease to the contrary, it is understood and agreed that for purposes of calculating Tenant's Proportionate Share of excess Expenses in the approximately 34,076 square foot portion of the Premises known as 1420 Presidential (the "Original Premises") in any Lease Year in the initial Term of this Lease, as described in Section 4.2(i) above, the amount of Expenses (excluding Non-Controllable Expenses, as hereinafter defined) shall be limited to the percentages of the actual amount of Expenses (excluding Non-Controllable Expenses) in the Base Year (Expenses) set forth below:"

In addition, the following sentence is hereby added to the end of Section 4.7:

"For purposes of the approximately 14,762 square foot portion of the Premises known as 1400 Presidential, Suite 120 (the "Additional Space"), Tenant shall remain liable for the full amount of Tenant's Proportionate Share of excess Expenses in any Lease Year over Expenses in the Base Year (Expenses) and for the full amount of Tenant's Proportionate Share of excess Taxes in any Lease Year over Taxes in the Base Year (Taxes)."

6. Improvements to Additional Space. Landlord shall deliver the Additional Space to Tenant in its as-is condition. Tenant agrees to submit all plans and specifications for its leasehold improvements (the "Improvements") in the Additional Space to Landlord for Landlord's written approval. No work shall be commenced with respect to the Improvements until Landlord has approved plans and specifications therefor. The approved plans and specifications for the Improvements, including all changes required by Landlord, shall be referred to herein as the "Approved Plans".

All work with respect to the Improvements shall (a) be performed substantially in accordance with the Approved Plans; (b) be performed in such a manner as to maintain harmonious labor relations and not to interfere with or delay any other work and activities being carried on by Landlord, any of Landlord's contractors, and other tenants; (c) be designed, performed, and completed in strict compliance with the Lease and with all building standards and regulations established by Landlord; (d) be completed by contractors and subcontractors approved by Landlord; (e) be coordinated by all contractors and subcontractors engaged by Tenant so as to

insure timely completion thereof; (f) be coordinated with Landlord with respect to the movement of equipment and materials; (g) not adversely affect the structure or safety of the Building; (h) comply with all building, safety, fire, plumbing, electrical, and other codes and governmental and insurance requirements; (i) not result in any usage in excess of services provided by Landlord under the Lease for the Premises, including water, electricity, gas, heating, ventilating, and air conditioning (either during or after such work), unless prior written arrangements satisfactory to Landlord are made with respect thereto; and (j) be completed promptly and in a good and workmanlike manner.

So long as no Event of Default (as defined in the Lease), or event which with notice and/or lapse of time could become an Event of Default, has occurred, Tenant shall be entitled to a cash allowance in the amount of Forty-Five Thousand and 00/100 Dollars (\$45,000.00) (the "Improvement Allowance") toward the construction of the Improvements in the Additional Space, which shall be payable to Tenant within twenty (20) days after receipt by Landlord of (a) a Certificate of Occupancy by the City of Richardson, (b) invoices of the general contractor aggregating at least the amount requested, and (c) final lien waivers and/or releases of liens from the general contractor and all subcontractors associated with the Improvements (collectively, the "Construction Documentation"), and upon Landlord's confirmation that Tenant has opened for business in the Additional Space. Tenant acknowledges and agrees that Landlord has conditioned its agreement to fund the Improvement Allowance on the payment thereof on or before July 31, 2005. Therefore, all Construction Documentation must be delivered to Landlord on or before July 11, 2005, and any portion of the Improvement Allowance remaining after payment of the amount supported by such Construction Documentation will be deemed forfeited by Tenant.

7. HVAC. Landlord agrees that the heating, ventilating, and air conditioning system serving the Additional Space shall be in working order on the date Landlord delivers possession of the Additional Space to Tenant. Provided Tenant provides adequate documentation to Landlord that, at all times throughout the Term of the Lease, Tenant has (a) maintained a regularly scheduled preventive maintenance/service contract in effect with a maintenance contractor to service the heating, ventilating and air conditioning system serving the Additional Space (the "Additional Space HVAC System"), as required by Section 7.4 of the Lease, and (b) performed all service and maintenance to the Additional Space HVAC System recommended by such contractor, if any unit comprising a part of the Additional Space HVAC System at the time this Amendment is executed (an "Existing Additional Space HVAC Unit"), or a major component thereof, fails and requires replacement, then Landlord shall cause such unit or component to be replaced. Notwithstanding the foregoing, any replacement of an Existing Additional Space HVAC Unit necessitated by the negligence or misconduct of Tenant, or Tenant's agents, contractors, or employees, shall be made by Tenant at Tenant's sole cost. Tenant expressly acknowledges and agrees that the cost of all repairs and routine service and maintenance to the Additional Space HVAC System remain Tenant's obligation. Landlord shall cause any replacement required under this paragraph to be done within a reasonable period of time following Tenant's written notice to Landlord that such replacement is required; provided, however, that if Landlord disagrees with the need for replacement, it may select a qualified unrelated third-party engineer to inspect the unit or component and the determination of such engineer shall be binding on Landlord and Tenant.

8. Security Deposit. Upon the execution of this Amendment, Tenant shall deposit with Landlord an amount equal to \$8,611.16 as an additional security deposit, and the term "Security Deposit", as defined in the Lease, is hereby amended to include such additional amount.

9. Conditions to Effectiveness. Tenant acknowledges that the Additional Space is currently subject to a lease between Landlord and Cable Plus, Inc. ("Existing Tenant"). Therefore, the effectiveness of this Amendment is expressly conditioned upon the execution of an agreement by and between Landlord and Existing Tenant, terminating Existing Tenant's leasing of the Additional Space. In the event that on or before January 15, 2005, Landlord and Existing Tenant have not executed an agreement terminating Existing Tenant's leasing of the Additional Space, Landlord and Tenant shall each have the right to terminate this Amendment

upon written notice to the other.

10. Right of First Offer. Tenant acknowledges that the Additional Space is a portion of the Right of First Offer Space (as defined in the Lease), and Tenant further agrees that because Tenant is leasing the Additional Space, the right of first offer described in Article 39 of the Lease shall be terminated. Therefore, any and all references to Tenant's right of first offer or the Right of First Offer Space, including Article 39 and Exhibit A-2 to the Lease, are hereby deleted in their entireties, and the right of first offer described therein shall be deemed null and void and of no further force or effect.

11. Renewal Option. Tenant shall have, at its option (the "Renewal Option"), the right to renew and extend the Lease for one term of five (5) years (the "Renewal Term"). The Renewal Term shall commence immediately upon the expiration of the initial Term, as extended hereby, by Tenant's giving written notice thereof to Landlord no earlier than nine (9) months, and no later than six (6) months, prior to the expiration of the initial Term. Once Tenant shall exercise the Renewal Option, Tenant may not thereafter revoke such exercise, except as expressly set forth below. Tenant shall not have the right to exercise the Renewal Option at a time that an Event of Default (or an event which with notice and/or lapse of time could become an Event of Default) under the Lease has occurred. Tenant's failure to exercise timely the Renewal Option for any reason whatsoever shall conclusively be deemed a waiver thereof. At Landlord's option, Landlord may adjust the Annual Rent for the Renewal Term at an annual rate equal to the Fair Market Value Rate (as hereinafter defined) as of the commencement of the Renewal Term. As used in the Lease, "Fair Market Value Rate" shall mean the fair market value rental rate per square foot of rentable area per year in effect at the commencement of the Renewal Term for comparable tenants taking comparable space in comparable conditions under comparable terms in comparable buildings in the same rental market (hereinafter called "Comparable Buildings"); provided, however, that in no event shall the Annual Rent for the Renewal Term be less than the Annual Rent for the last twelve (12) months of the initial Term. It is also agreed and understood that the Fair Market Value Rate shall include: (a) rent; and (b) rental operating expenses, property tax, and utility and expense adjustments that are being included as part of the terms and conditions of industrial tenant leases for comparable tenants in Comparable Buildings as of the time of determination of the Fair Market Value Rate. Landlord shall advise Tenant within twenty (20) days after Tenant exercises the Renewal Option of the Fair Market Value Rate which shall be in effect as of the commencement date of the Renewal Term. Tenant shall then have fifteen (15) days to notify Landlord of its acceptance or rejection of the Fair Market Value Rate for the Renewal Term. In the event Tenant fails to so notify Landlord within such fifteen (15) day period, Tenant shall be deemed to have accepted the Fair Market Value Rate proposed by Landlord. Notwithstanding the prohibition on Tenant's right to revoke its exercise of the Renewal Option, in the event Tenant and Landlord are unable to agree on the Fair Market Value Rate for the Renewal Term within sixty (60) days after Tenant exercises the Renewal Option, Tenant shall be deemed to have revoked the Renewal Option and the Renewal Option shall be deemed null and void and of no further force or effect. Tenant shall take the Premises "as is" for the Renewal Term and Landlord shall have no obligation to make any improvements or alterations to the Premises. Except as set forth in this Paragraph, the leasing of the Premises for the Renewal Term shall be upon the same terms and conditions as the leasing of the Premises for the initial Term and shall be upon and subject to all of the provisions of the Lease. Any Renewal Option granted to Tenant under this Paragraph shall be personal to Tenant and shall not be transferred, encumbered, or assigned by Tenant or in any manner transferred to, or exercised by, any subtenant of Tenant.

12. Financial Statements and Credit Reports. At Landlord's request, Tenant shall deliver to Landlord a copy, certified by an officer of Tenant as being a true and correct copy, of Tenant's most recent audited financial statement, or, if unaudited, certified by Tenant's chief financial officer as being true, complete and correct in all material respects. Tenant hereby authorizes Landlord to obtain one or more credit reports on Tenant at any time, and shall execute such further authorizations as Landlord may reasonably require in order to obtain a credit report.

13. Tenant's Authority. If Tenant signs as a corporation, partnership, trust or other legal entity, each of the persons executing this Amendment on behalf of Tenant represents and

warrants that Tenant has been and is qualified to do business in the state in which the Premises are located, that the entity has full right and authority to enter into this Amendment, and that all persons signing on behalf of the entity were authorized to do so by appropriate actions.

14. Brokerage Commissions. Each of the parties hereto represents and warrants to the other that it has not dealt with any broker or finder in connection with this Amendment, except RREEF Management Company and Henry S. Miller Commercial.

15. Effectiveness. Except as modified herein, all other terms and conditions of the Lease shall remain unchanged and shall continue in full force and effect.

16. Time and Governing Law. Time is of the essence of this Amendment and all of its provisions. The laws of the State of Texas and of the United States of America shall govern the rights, remedies, and duties of the parties hereto and the validity, construction, enforcement, and interpretation hereof.

17. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

18. Illegality. If any provision of this Amendment is held to be illegal, invalid, or unenforceable under present or future laws, such provision shall be fully severable; this Amendment shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part hereof; and the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance herefrom.

19. Limited Liability. Redress for any claim against Landlord under this Amendment or the Lease shall be limited to and enforceable only against and to the extent of Landlord's interest in the Building. The obligations of Landlord under this Amendment and the Lease are not intended to be and shall not be personally binding on, nor shall any resort be had to the private properties of, any of its or its investment manager's trustees, directors, officers, partners, beneficiaries, members, stockholders, employees, or agents, and in no case shall Landlord be liable to Tenant hereunder for any lost profits, damage to business, or any form of special, indirect or consequential damages.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the day and year first above written.

LANDLORD:

ACQUIPORT DFWIP, INC.,
a Delaware corporation

By: 

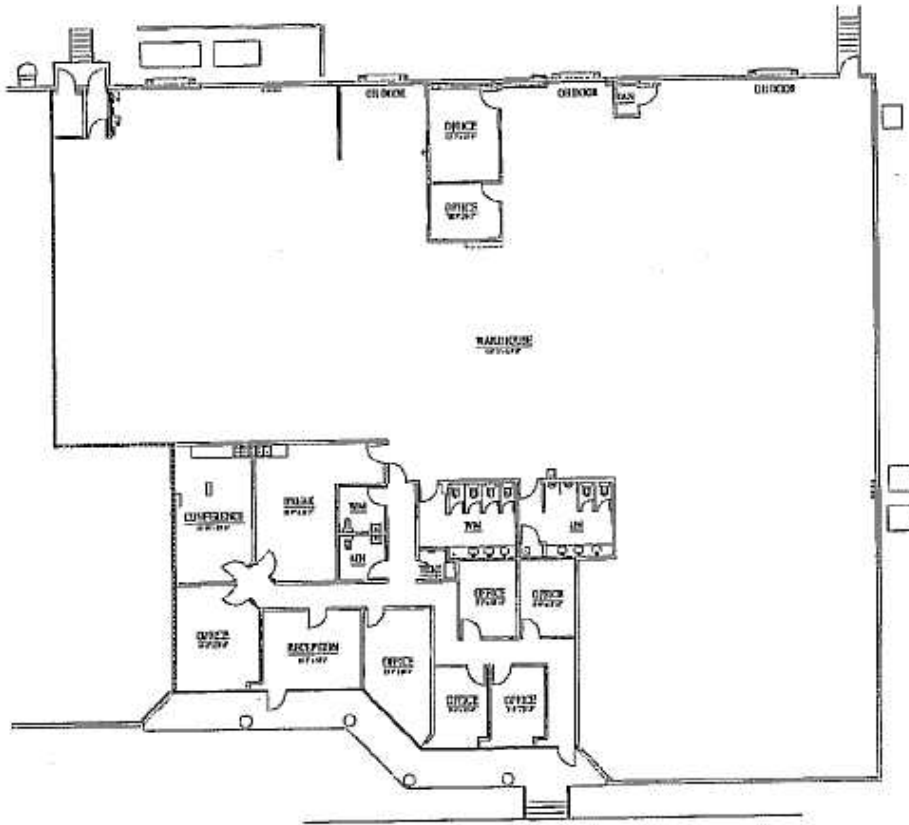
Name: Bryan B. Marsh III
Title: Vice President

TENANT:

OPTEX SYSTEMS INC.,
a Texas corporation

By: 

Name: Timothy W. Looney
Title: PRESIDENT



FLOOR PLAN / 1400 PRESIDENTIAL / STE. 120

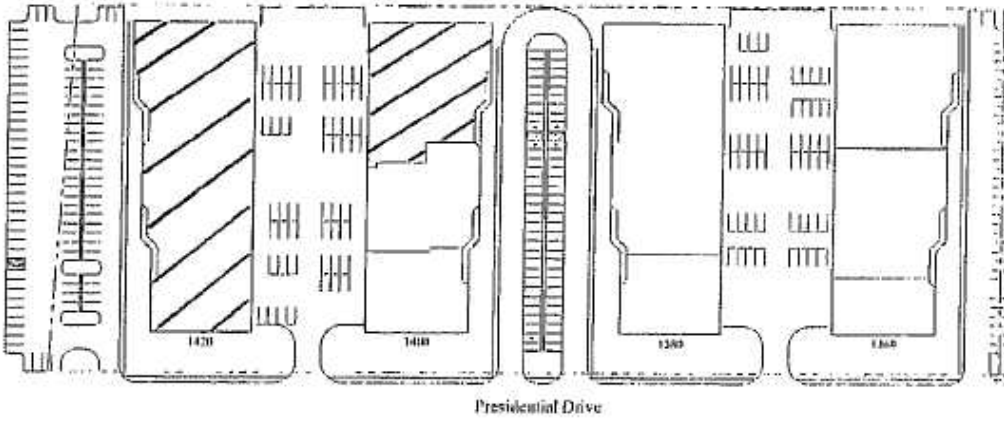





EXHIBIT A-1 - SITE PLAN

attached to and made a part of Lease bearing the Lease Reference Date of August 14, 2003, between Acquiport DFWIP, Inc., a Delaware corporation, as Landlord and Optex Systems Inc., a Texas corporation, as Tenant

Exhibit A-1 is intended only to show the general layout of the Building and the Premises as of the date of the Additional Space Commencement Date. It does not in any way supersede any of Landlord's rights set forth in Article 17 of the Lease with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate.



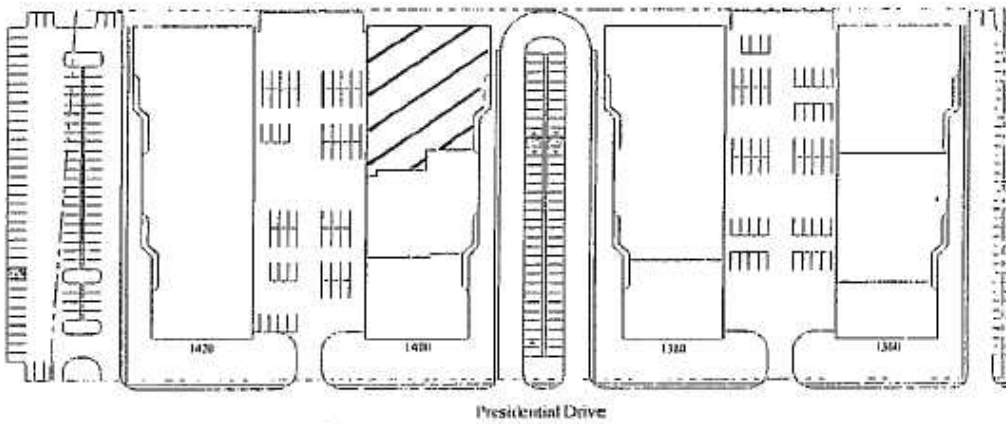
Initials

EXHIBIT A-2

attached to and made a part of Second Amendment to Lease
dated January 7, 2005 between
Acquipoort DFWIP, Inc., a Delaware corporation, as Landlord and
Optex Systems Inc., a Texas corporation, as Tenant

ADDITIONAL SPACE

Exhibit A-2 is intended only to show the general layout of the Additional Space and the Building as of the execution of the Second Amendment to Lease. It does not in any way supersede any of Landlord's rights in Article 17 of the Lease with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate.



Initials

April 3, 2009

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

RE: Optex Systems Holdings, Inc.

Ladies and Gentlemen:

I have read the statements made by Optex Systems Holdings, Inc. in Item 4.01 of the accompanying Form 8-K, which is being filed with the Securities and Exchange Commission. I agree with the statements contained therein concerning the firm.

Optex Systems Holdings, Inc. has my permission to file this letter as Exh 16 to Form 9-K.

Very truly yours,

/s/ Gately & Associates, LLC

Name:

EXHIBIT 21.1

SUBSIDIARIES OF OPTEX SYSTEMS HOLDINGS, INC.

Optex Systems, Inc., a Delaware corporation

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Optex Systems, Inc.
Richardson, Texas

We have audited the accompanying balance sheets of Optex Systems, Inc. (the Company) as of September 28, 2008 and September 30, 2007, and the related statements of operations, stockholders' equity, and cash flows for the years then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Optex Systems, Inc. as of December September 28, 2008 and September 30, 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/Rotenberg & Co., LLP

Rotenberg & Co., LLP
Rochester, New York
April 3, 2009

Optex Systems, Inc.
Balance Sheets

	<u>09/28/08</u>	<u>09/30/07</u>
ASSETS		
Current Assets		
Cash	170,183	504,753
Accounts Receivable	2,454,235	2,043,634
Net Inventory	4,547,726	6,112,565
Prepaid Expenses	<u>307,507</u>	<u>17,072</u>
Total Current Assets	7,479,651	8,678,024
Property and Equipment		
Property Plant and Equipment	1,314,109	1,196,543
Accumulated Depreciation	<u>(994,542)</u>	<u>(830,108)</u>
Total Property and Equipment	319,567	366,435
Other Assets		
Security Deposits	20,684	20,684
Intangibles	1,100,140	1,696,507
Goodwill	<u>10,047,065</u>	<u>11,633,481</u>
Total Other Assets	11,167,889	13,350,672
Total Assets	<u>18,967,107</u>	<u>22,395,131</u>

The accompanying notes are an integral part of these financial statements

Optex Systems, Inc.
Balance Sheets - continued

	<u>09/28/08</u>	<u>09/30/07</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	1,821,534	3,381,508
Accrued Expenses	798,974	371,320
Accrued Warranties	227,000	-
Accrued Contract Losses	821,885	1,377,348
Loans Payable	373,974	-
Income Tax Payable	4,425	25,969
Total Current Liabilities	<u>4,047,792</u>	<u>5,156,145</u>
Other Liabilities		
Note Payable	2,000,000	2,000,000
Accrued Interest on Note	336,148	136,148
Due to IRSN (Parent)	4,300,151	1,987,870
Total Other Liabilities	<u>6,636,299</u>	<u>4,124,018</u>
Total Liabilities	<u>10,684,091</u>	<u>9,280,163</u>
Stockholders' Equity		
Common Stock (no par 100,000 authorized, 18,870 shares issued and 10,000 shares outstanding)	164,834	164,834
Treasury Stock (8,870 shares at cost)	(1,217,400)	(1,217,400)
Additional Paid-in-capital	15,246,282	15,246,282
Retained Earnings (Deficit)	(5,910,700)	(1,078,748)
Total Stockholders' Equity	<u>8,283,016</u>	<u>13,114,968</u>
Total Liabilities and Stockholders' Equity	<u>18,967,107</u>	<u>22,395,131</u>

The accompanying notes are an integral part of these financial statements

Optex Systems, Inc.
Statements of Operations

	<u>Year Ended</u> <u>September 28, 2008</u>	<u>Year Ended</u> <u>September 30, 2007</u>
Revenues	20,017,209	15,406,186
Cost of Goods Sold	18,145,211	17,361,378
Gross Margin	1,871,998	(1,955,192)
General and Administrative		
Salaries and Wages	910,854	876,366
Employee Benefits	190,489	222,433
Employee Stock Bonus Plan	378,716	388,756
Amortization of Intangibles	223,491	223,835
Rent, Utilities and Building Maintenance	228,694	210,936
Legal and Accounting Fees	223,715	374,845
Consulting and Contract Service Fees	325,723	212,925
Corporate Allocations	2,076,184	2,010,027
Other Expenses	381,459	361,932
Total General and Administrative	4,939,325	4,882,055
Loss before Other Expenses and Taxes	(3,067,327)	(6,837,247)
Other Expenses		
Asset Impairment of Goodwill	1,586,416	-
Interest Expense - Net	199,753	136,148
Total Other	1,786,169	136,148
Loss Before Taxes	(4,853,496)	(6,973,395)
Income Taxes (Benefit)	(21,544)	(162,541)
Net Loss After Taxes	(4,831,952)	(6,810,854)
Basic and diluted loss per share	\$ (483.20)	\$ (681.09)
Weighted Average Common Shares Outstanding	10,000	10,000

The accompanying notes are an integral part of these financial statements

Optex Systems, Inc.
Statements of Cash Flows

	<u>Year Ended</u> <u>September 28, 2008</u>	<u>Year Ended</u> <u>September 30, 2007</u>
Cash flows from operating activities:		
Net Loss	(4,831,952)	(6,810,854)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	760,801	1,068,938
Provision for (use of) allowance for inventory valuation	(102,579)	701,308
Noncash interest expense	200,000	136,148
(Gain) loss on disposal and impairment of assets	1,586,416	-
(Increase) decrease in accounts receivable	(410,602)	688,023
(Increase) decrease in inventory (net of progress billed)	1,667,418	(1,124,352)
(Increase) decrease in other current assets	(290,435)	(757)
(Increase) decrease in other assets	-	(530)
Increase (decrease) in accounts payable and accrued expenses	(1,132,319)	61,917
Increase (decrease) in accrued warranty costs	227,000	-
Increase (decrease) in due to parent	2,312,280	2,385,105
Increase (decrease) in accrued estimated loss on contracts	(555,462)	1,377,348
Increase (decrease) in income taxes payable	(21,544)	30,558
Total adjustments	4,240,974	5,323,706
Net cash (used)/provided by operating activities	(590,978)	(1,487,149)
Cash flows from investing activities:		
Purchase of property and equipment	(117,566)	(61,465)
Net cash used in investing activities	(117,566)	(61,465)
Cash flows from financing activities:		
Proceeds from Notes Payable	373,974	2,000,000
Net cash provided by financing activities	373,974	2,000,000
Net increase (decrease) in cash and cash equivalents	(334,570)	451,385
Cash and cash equivalents at beginning of period	504,753	53,367
Cash and cash equivalents at end of period	170,183	504,753
Noncash investing and financing activities:		
Irvine Sensors purchase of remaining 30% interest in Optex Texas pushed down to subsidiary's equity		
Intangible Assets	-	954,000
Goodwill	-	3,223,633
Other	-	(10,093)
Additional Paid in Capital	-	4,167,540
Supplemental cash flow information:		
Cash paid for interest	-	-
Cash paid for taxes	-	6,681

The accompanying notes are an integral part of these financial statements

Optex Systems, Inc.
Statements of Stockholders' Equity

	<u>Number of Outstanding Shares</u>	<u>Common Stock</u>	<u>Treasury Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders Equity</u>
Balance at September 30, 2006	10,000	164,834	(1,217,400)	11,078,742	5,732,106	15,758,282
Net Earnings (Loss) from continuing operations					(6,810,854)	(6,810,854)
30% acquisition of Optex by Irvine Sensors pushed down to subsidiary's equity				4,167,540		4,167,540
Balance at September 30, 2007	10,000	164,834	(1,217,400)	15,246,282	(1,078,748)	13,114,968
Net Earnings (Loss) from continuing operations					(4,831,952)	(4,831,952)
Balance at September 28, 2008	<u>10,000</u>	<u>164,834</u>	<u>(1,217,400)</u>	<u>15,246,282</u>	<u>(5,910,700)</u>	<u>8,283,016</u>

The accompanying notes are an integral part of these financial statements

Note 1 - Organization and Operations

Optex Systems, Inc. (“Optex Texas”) was a privately held Texas Subchapter “S” Corporation from inception in 1987 until December 30, 2005 when 70% of the issued and outstanding stock was acquired by Irvine Sensors Corp. (“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 October 14, 2008, certain senior secured creditors of IRSN, Longview Fund, L.P. (“Longview Fund”) and Alpha Capital Anstalt (“Alpha”) formed Optex Systems, Inc., a Delaware Corporation, (“Optex Delaware”), which acquired substantially all of the assets and assumed certain liabilities of Optex Texas in a transaction that was consummated via purchase at a public auction. Longview and Alpha owned Optex Delaware until February 20, 2009, when Longview sold 100% of its equity interests in Optex Delaware to Sileas Corp, as discussed in the following paragraph. 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. Accordingly, in subsequent periods the financial statements presented will be those of the accounting acquirer.

On February 20, 2009, Sileas Corp. (“Sileas”), a newly-formed Delaware corporation, owned by present members of the company’s management, purchased 100% of the equity interest held by Longview, representing 90% of Optex Delaware in a private transaction (the “Acquisition”). See Note 14.

Optex’s operations are based in Richardson, Texas in a leased facility comprising 49,100 square feet. As of fiscal year ended September 28, 2008 the company operated with 109 full-time equivalent employees.

Optex Systems manufactures optical sighting systems and assemblies primarily for Department of Defense (DOD) 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 Future Combat Systems (FCS) Stryker vehicle. Optex also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. The Company products consist primarily of build to customer print products that are delivered both directly to the military services and to other defense prime contractors.

In May 2008, Optex Systems was awarded ISO9001:2000 certification.

Note 2 - Accounting Policies

Basis of Presentation

The accompanying financial statements include the historical accounts of Optex Texas (hereinafter, the “Company” or Optex Texas). The financial statements have been presented as subsidiary-only financial statements, reflecting the balance sheets, results of operations and cash flows of the subsidiary as a stand-alone entity.

Although, the Company was majority-owned by IRSN during the fiscal periods presented, no accounts of IRSN or the effects of consolidation with IRSN have been included in the accompanying financial statements.

The financial statements have been presented on the basis of push down accounting in accordance with Staff Accounting Bulletin No. 54 (SAB 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 purchase transaction such as goodwill, debt incurred by the parent to acquire the subsidiary and other cost related to the purchase have been recorded on the financial statements of the Company.

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.

Segment Reporting: Management has determined that the Company is organized, managed and internally reported as one business segment. Segments are determined based on differences in products, internal reporting and how operational decisions are made.

Fiscal Year: The Company's fiscal year ends on the Sunday nearest September 30. Fiscal year 2008 ended on September 28, 2008 and included 52 weeks. Fiscal year 2007 ended on September 30 and included 52 weeks. Fiscal year 2009 will end on September 27, 2009 and will include 52 weeks.

Fair Value of Financial Instruments: FASB No. 107, "*Disclosures about Fair Value of Financial Instruments*," requires disclosure of fair value information about certain financial instruments, including, but not limited to, cash and cash equivalents, accounts receivable, refundable tax credits, prepaid expenses, accounts payable, accrued expenses, notes payable to related parties and convertible debt-related securities. Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of fiscal years ended September 28, 2008 and September 30, 2007. The carrying value of the balance sheet financial instruments included in the Company's consolidated financial statements approximated their fair values.

Cash and Cash Equivalents: For financial statement presentation purposes, the Company considers those short-term, highly liquid investments with original maturities of three months or less to be cash or cash equivalents.

Concentration of Credit Risk: The Company's cash and cash equivalents are on deposit with banks. Only a portion of the cash and cash equivalents would be covered by deposit insurance and the uninsured balances are substantially greater than the insured amounts. Although cash and cash equivalent balances exceed insured deposit amounts, management does not anticipate non-performance by the banks.

Most of the Company's accounts receivable are derived from sales to U.S. government agencies or prime government contractors. The Company does not believe that this concentration increases credit risks because of the financial strength of the payees.

Accounts Receivable: The Company records its accounts receivable at the original sales invoice amount less shipment liquidations for previously collected advance/progress bills and an allowance for doubtful accounts. An account receivable is considered to be past due if any portion of the receivable balance is outstanding beyond its scheduled due date. On a quarterly basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on its history of past write-offs and collections, and current credit conditions. No interest is accrued on past due accounts receivable. As the customer base is primarily U.S. government and government prime contractors, the Company has concluded that there is no need for an allowance for doubtful accounts for the years ended September 28, 2008 and September 30, 2007.

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. As of years ended September 28, 2008, and September 30, 2007 inventory included:

	<u>As of 9/28/2008</u>	<u>As of 9/30/2007</u>
Raw Materials	\$ 4,199,657	\$ 6,812,810
Work in Process	5,575,520	6,423,902
Finished Goods	28,014	157,389
Gross Inventory	\$ 9,803,191	\$ 13,394,101
Less:		
Unliquidated Progress Payments	(4,581,736)	(6,505,228)
Inventory Reserves	(673,729)	(776,308)
Net Inventory	\$ 4,547,726	\$ 6,112,565

Warranty Costs: Optex Systems warrants the quality of its products to meet customer requirements and be free of defects for twelve months subsequent to delivery. On certain product lines the warranty period has been extended to 24 months due to technical considerations incurred during the manufacture of such products. In the year ended September 28, 2008, the company incurred \$227,000 of warranty expenses representing the estimated cost of repair or replacement for specific customer returned products still covered under warranty as of the return date and awaiting replacement, in addition to estimated future warranty costs for shipments occurring during the twelve months proceeding September 28, 2008. Future warranty costs are based on the estimated cost of replacement for expected returns based upon our most recent experience rate of defects as a percentage of sales. Prior to fiscal year 2008, all warranty expenses were incurred as product was replaced with no reserve for warranties against deliveries in the covered period.

Estimated Costs to Complete and Accrued Loss on Contracts: The Company reviews and reports on the performance of its contracts and production orders against the respective resource plans for such contracts/orders. These reviews are summarized in the form of estimates to complete ("ETC"s) and estimates at completion ("EAC"s). EACs include Optex's incurred costs to date against the contract/order plus management's current estimates of remaining amounts for direct labor, material, other direct costs and subcontract support and indirect overhead costs based on the completion status and future contractual requirements for each order. If an EAC indicates a potential overrun (loss) against a fixed price contract/order, management generally seeks to reduce costs and /or revise the program plan in a manner consistent with customer objectives in order to eliminate or minimize any overrun and to secure necessary customer agreement to proposed revisions.

If an EAC indicates a potential overrun against budgeted resources for a fixed price contract/order, management first attempts to implement lower cost solutions to still profitably meet the requirements of the fixed price contract. If such solutions do not appear practicable, management makes a determination whether to seek renegotiation of contract or order requirements from the customer. If neither cost reduction nor renegotiation appears probable, an accrual for the contract loss/overrun is recorded against earnings and the loss is recognized in the first period the loss is identified based on the most recent EAC of the particular contract or product order.

For years ended September 28, 2008 and September 30, 2007, estimated loss reserves were estimated as \$821,885 and \$1,377,348, respectively. Decreases in estimated loss reserves from 2007 to 2008 of \$555,463 were primarily attributable to the successful negotiation of an equitable price adjustment for technical issues related to our US Government M187 program and several negotiated price increases in exchange for accelerated schedule deliveries on US Government periscope contracts.

Property and Equipment: Property and equipment are recorded at cost. Depreciation is computed using the straight line method over the estimated useful lives of the assets, ranging from three to seven years. Expenditures for renewals and betterments are capitalized. Expenditures for minor items, repairs and maintenance are charged to operations as incurred. Gain or loss upon sale or retirement due to obsolescence is reflected in the operating results in the period the event takes place.

Goodwill and Other Intangible Assets: Goodwill represents the cost of acquired businesses in excess of fair value of the related net assets at acquisition. (See also notes 9 and 14). The Company does not amortize goodwill, but tests it annually for impairment using a fair value approach as of the first day of its fourth fiscal quarter and between annual testing periods, if circumstances warrant. Goodwill of Optex was reviewed as of September 30, 2007 and based on the assessment, it was determined that no impairment was required. Goodwill was reviewed as of September 28, 2008, and it was determined that an impairment charge of \$1,586,416 was required. The fair values assigned to the assets of the Company and the goodwill was based upon the most recent value of the Company as determined by the sale to third party purchasers on October 14, 2008.

The Company amortizes the cost of other intangibles over their estimated useful lives, unless such lives are deemed indefinite. Amortizable intangible assets are tested for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values. The identified amortizable intangible assets at September 28, 2008 and September 30, 2007 derived from the acquisition of Optex by Irvine Sensors and consisted of non-competition agreements and customer backlog, with initial useful lives ranging from two to eight years. (See Note 9). Intangible assets with indefinite lives are tested annually for impairment, as of the first day of the Company's fourth fiscal quarter and between annual periods, if impairment indicators exist, and are written down to fair value as required.

Impairment or Disposal of Long-Lived Assets: The Company adopted the provisions of FASB No. 144 (FASB 144), “*Accounting for the Impairment or Disposal of Long-lived Assets*.” This standard requires, among other things, that long-lived assets be reviewed for potential impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these expected cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The primary measure of fair value is based on discounted cash flows. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

Revenue Recognition: The Company recognizes revenue upon transfer of title at the time of shipment (F.O.B. shipping point), when all significant contractual obligations have been satisfied, the price is fixed or determinable, and collectability is reasonably assured.

Shipping and Handling Costs: All shipping and handling costs are included as a component of Cost of Goods sold.

Income Taxes: The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations.

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 gives effect to the assumed exercise of stock options when dilutive. There were no dilutive stock options during 2008 or 2007.

Note 3 - Recent Accounting Pronouncements

In June 2006, The FASB issued Interpretation No. 48 “*Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*” (“FIN 48”). 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 consolidated financial position, results of operations, or cash flows.

In September 2006, the FASB issued FASB No. 157, “*Fair Value Measurements*” which establishes a framework for measuring fair value, and expands disclosures about fair value measurements. While FASB No. 157 does not apply to transactions involving share-based payment covered by FASB No. 123, it establishes a theoretical framework for analyzing fair value measurements that is absent from FASB No. 123. We have relied on the theoretical framework established by FASB No. 157 in connection with certain valuation measurements that were made in the preparation of these financial statements. FASB No. 157 is effective for years beginning after November 15, 2007. Subsequent to the Standard’s issuance, the FASB issued an exposure draft that provides a one year deferral for implementation of the Standard for non-financial assets and liabilities. The Company is currently evaluating the impact FASB No. 157 will have on its financial statements.

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*," (FASB 159), 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 Company is currently evaluating what effect the adoption of FASB 159 will have on its financial statements.

In March 2007, the Financial Accounting Standards Board ratified Emerging Issues Task Force ("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 Company is currently evaluating the impact of EITF 06-10 on its financial statements, but does not expect it to have a material effect.

In December 2007, the 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 14 for adoption of SFAS 141R subsequent to September 30, 2008.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 ("SAB 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, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("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, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard ("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 generally accepted accounting principles (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 Company is currently evaluating the impact of SFAS 162 on its consolidated financial statements but does not expect it to have a material effect.

In May 2008, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 163, "Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60" (“SFAS 163”). 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 - Property and Equipment

A summary of property and equipment at September 28, 2007 and September 30, 2007 is as follows:

	Estimated Useful Life	Year Ended 09/28/08	Year Ended 09/30/07
Property and Equipment			
Office Furniture/Equipment	3-5yrs	\$ 145,071	\$ 127,502
Machinery and Equipment	5 yrs	1,026,250	926,253
Leasehold Improvements	7 yrs	142,788	142,788
Less: Accumulated Depreciation		(994,542)	(830,108)
Net Property & Equipment		\$ (319,567)	\$ (366,435)
Depreciation Expense		\$ 164,434	\$ 129,069

Depreciation expense included in cost of goods sold and general and administrative expense for 2008 is \$104,837 and 59,597 respectively. Depreciation expense included in cost of goods sold and general and administrative expense for 2007 is \$68,663 and \$60,406 respectively.

Note 5 – Accrued Liabilities

The components of accrued liabilities for years ended 2008 and 2007 are summarized below:

	Year End as of 09/28/08	Year End as of 09/30/07
Customer Advance Payments	\$ -	\$ 62,784
Deferred Rent Expense	84,435	119,073
Accrued Vacation	94,311	69,803
Property Taxes	17,557	13,031
Contract Settlement	351,217	-
Operating Expenses	128,717	-
Payroll & Payroll Related	122,737	106,629
Total Accrued Expenses	\$ 798,974	\$ 371,320

Contract Settlement Costs represent amounts due to the US government in relation to a progress billed contract that was cancelled prior to completion. The remaining government-owned (progress billed) materials on the contract were subsequently used to satisfy other existing and new contracts at full value, although the unliquidated progress payments for the original contract have yet to be refunded. Optex expects to settle the contract overpayment with the customer by third quarter of fiscal year 2009. Accrued operating expenses include additional operating costs for estimated costs not yet invoiced or invoices not vouched into accounts payable as of year-end period close.

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 year ended September 28, 2008 was \$313,032 and total expenses for manufacturing and office equipment was \$21,830. At September 28, 2008, the minimum lease payments under non-cancelable operating leases for equipment, office and facility space are as follows:

	Operating Leases
Years ended December 31,	
2009	\$ 364,260
2010	79,867
2011	16,753
2012	-
2013	-
Thereafter	-
Total minimum lease payments	\$ 460,880

Note 7 - Transactions with a Related Party

Corporate Cost Allocations: In accordance with government contracting regulations, IRSN (the Company's owner for years 2007 and 2008) was required to allocate some portion of its corporate general and administrative expense to its operating subsidiaries, such as Optex Systems. IRSN elected to use a recognized government contract allocation method to satisfy this requirement in which the proportional contribution of Optex to the IRSN total revenues, payroll expense and net book value of tangible assets serves as the basis for determination of the percentage of corporate general and administrative expense for the Optex allocation. The total IRSN Corporate Cost Allocations for 2008 and 2007 were \$2,076,184 and \$2,010,027 respectively. Due to the transfer of ownership from IRSN on October 14, 2008, there will be no future IRSN Corporate Cost Allocations.

Due to IRSN (Parent): Due to Parent relate to expenses of Optex Systems, incurred by or shared with IRSN and pushed down to Optex Systems through an intercompany payable account “Due to Parent”. The ending amounts reflected as of September 28, 2008 and September 30, represent the cumulative amount of expenses incurred, net of any cash transfers made to/from IRSN since inception at January 2006. Significant amounts charged through this account include IRSN corporate cost allocations, legal expenses, accounting and audit fees, travel expenses, consulting fees, and insurance costs. Future expenses for these items with the exception of IRSN related cost allocations, consulting fees and travel expenses will be paid from Optex Systems’ working capital.

Note 8 - Debt Financing

Related Parties

Note Payable/Timothy Looney - In January 2007, IRSN amended its earn-out agreement with Timothy Looney in consideration for Mr. Looney providing Optex Texas with a secured subordinated term note providing for advances of up to \$2 million, bearing interest at 10% per annum and maturing on the earlier of February 2009 or sixty days after retirement of IRSN’s senior debt. Aggregate advances of \$2 million were provided to Optex Texas in January 2007 pursuant to the secured subordinated term note, and the advances and accrued interest were outstanding at September 28, 2008 and September 30, 2007. This Note is secured by the assets of Optex Texas, but subordinated to the liens of Alpha and Longview. Following the public sale of the assets of the Company to Optex Delaware on October 14, 2008, the entire \$2,000,000 Note Payable with accrued interest of \$345,648 remained a liability of Optex Texas.

Non-Related Parties

Short Term Note Payable/Longview Fund - - On September 23, 2008 Optex Delaware borrowed \$146,709 from Longview and issued a promissory note dated September 23, 2008, to Longview in connection therewith. The September 23, 2008 Note bears interest at the rate of 10% per annum with interest accruing until the maturity date of the September 23, 2008 Note, which was originally set as November 7, 2008 (“Maturity Date”). Pursuant to an Allonge No. 1 to Promissory Note, dated January 20, 2009, the Maturity Date was extended until March 31, 2009 and is to be exchanged for Series A Preferred Stock of Optex Delaware (See Note 14).

Short term note payable (Qioptic) - On November 20, 2008, Optex Delaware issued a promissory note (“Note”) to Qioptic Limited (“Qioptic”) in the amount of \$117,780. The Note originated as a trade payable and as of September 28, 2008 had an outstanding balance of \$227,235. The note has been recorded, as such, retroactively to Notes Payable in the accompanying financial statements at September 28, 2008. The Note bears interest at the rate of six percent per annum and had a maturity date of February 13, 2009 (and was repaid in full as of that date) (“Maturity Date”). The terms of the Note call for weekly payments of \$10,000 each on the last business day of every week commencing on the last business day of the first week after November 20, 2008 and continuing thereafter until the Maturity Date, on which date the remaining principal amount of the Note and all accrued and unpaid interest thereon shall become immediately due and payable.

Note 9 – Intangible Assets and Goodwill

On December 30, 2005, IRSN entered into an agreement with Optex Texas pursuant to which IRSN purchased 70% of the issued and outstanding common stock of Optex Texas, thereby becoming its majority shareholder. On December 29, 2006, IRSN exercised a buyer option to acquire the remaining 30% ownership interest in Optex Texas.

Optex Texas has allocated the purchase consideration for the purchase to tangible and intangible assets acquired and liabilities assumed based on the valuation determinations made in connection with the Initial Acquisition of Optex Texas in December 2005 as shown in the following table, which sets forth the estimated amounts related to the full Optex Texas acquisition. The excess of the purchase price over such values is presented as goodwill in the accompanying consolidated balance sheet at September 30, 2007.

The goodwill resulting from the IRSN acquisition was recorded under the push down basis of accounting and accordingly has been recorded on the financial statements of the subsidiary.

Assets:	
Current assets, consisting primarily of inventory of \$5,734,500 and accounts receivable of \$2,191,800	\$ 8,070,300
Identifiable intangible assets	3,180,000
Other non-current assets, principally property and equipment	455,100
Total assets	<u>11,705,400</u>
Liabilities:	
Current liabilities, consisting of accounts payable of \$1,638,600, tax liabilities of \$112,800 and accrued liabilities of \$682,100	2,433,481
Acquired net assets	<u>9,271,919</u>
Purchase price	
Total consideration to seller	\$ 19,865,400
Direct acquisition costs	<u>1,040,000</u>
	<u>20,905,400</u>
Excess purchase price reported as goodwill	<u><u>\$11,633,481</u></u>

Goodwill related to the IRSN acquisition of Optex Texas was reviewed as of September 30, 2008 and it was determined that an impairment charge of \$1,586,416 was required. The fair values assigned to the assets of the Company and the goodwill was based upon the most recent value of the company as determined by the sale to third party purchasers on October 14, 2008.

Identifiable intangible assets included non-competition agreements and customer backlog, and is amortized over the respective estimated useful lives as follows:

	<u>Useful Life in Years</u>	<u>Acquired Fair Value</u>
Non-competition agreement	2	\$ 80,000
Contractual backlog	2	\$ 1,570,000
Program backlog	8	\$ 1,530,000

The amortization of identifiable intangible assets associated with the Optex Texas acquisition in fiscal 2008 and fiscal 2007 was \$596,367 and, \$949,962 respectively. The identifiable intangible assets and recorded goodwill are not deductible for income tax purposes. As of the year ended September 28, 2008 the total unamortized balance of intangible assets was \$1,100,140. As of the year ended September 30, 2007 the total unamortized balance of intangible assets was \$1,696,507.

The September 28, 2008 unamortized balance of intangible assets is estimated to be amortized as follows:

	Year	Annual Amortization
	2009	266,365
	2010	204,490
	2011	204,490
	2012	204,490
	2013	186,837
	2014	33,468
	Total	\$ 1,100,140

Note 10 – Stockholders Equity

Common Stock: The Company is authorized to issue 100,000 shares of no par common stock. At September 28, 2008 and 2007 there were 18,870 and 10,000 shares issued and outstanding, respectively.

The common stock, treasury stock and additional paid in Capital accounts have been presented to reflect the ownership structure of the Company as it existed prior to the acquisition by IRSN, since the Company is presenting its financial statements as a separate entity.

Note 11 - Equity Compensation

Total stock-based compensation expense of Optex Systems associated with IRSN stock grants during fiscal years 2008 and 2007 was \$378,716 and \$388,756 respectively. These amounts were pushed down by IRSN and charged to general and administrative expense for each of the periods. There were no stock options issued to Optex Texas employees or equity instruments issued to consultants and vendors in either 2007 or 2008.

Note 12 - Income Taxes

As of September 28, 2008, and September 30, 2007, the Company had generated net losses for financial accounting purposes in the amounts of approximately \$4,831,952 and \$6,810,854, respectively. During these periods the Company was a member of a consolidated entity for tax reporting purposes. As such, any losses that would have qualified as Net Operating Losses for Federal Income Taxes purposes as potential deductions were available to the consolidated entity. Such losses may have been utilized by the consolidated entity and are not available to Optex Delaware to offset its future taxable income. Additionally, since the Company was acquired in a transaction effected as an asset purchase, Optex Delaware would only be entitled to tax deductions generated after the date of the acquisition. Accordingly, no deferred tax assets have been recorded in the accompanying financial statements for net operating losses generated by the Company.

No current provision for income taxes for the fiscal years ended September 28, 2008 is required, except for minimum state taxes, since the Company incurred losses during each year. There was no provision for income taxes in fiscal 2008 or 2007.

Prior to January 2006, the Company had elected to be a "S" corporation. "S" corporations pass through all items of profits, losses and tax credits to the stockholders of the Company who are responsible for taxes other than annual state franchise taxes. Effective December 30, 2005, concurrent with the Sale of the Company to Irvine Sensors Corp., the Company terminated their "S" corporation election and, as a result, is now treated as a "C" corporation for both Federal and State corporation income tax purposes. Profits, losses, and tax credits are reported by the corporation on its tax return and the Corporation pays taxes accordingly. "S" corporation retained earnings were \$6,711,750. The "C" corporation retained deficit is \$7,790,534.

Note 13—Earnings/Loss Per Share

Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. Diluted earnings per share is computed by assuming that any dilutive convertible securities outstanding were converted, with related preferred stock dividend requirements and outstanding common shares adjusted accordingly. For all periods presented herein, there are no dilutive convertible securities.

The following table sets forth the computation of basic and diluted net loss attributable to common stockholders per share for the years ended September 28, 2008, and September 30, 2007.

	<u>2008</u>	<u>2007</u>
Numerator:		
Net loss	\$ (4,831,952)	\$ (6,810,854)
Denominator:		
Weighted average shares	10,000	10,000
Basic and diluted net loss per share	<u>\$ (483.20)</u>	<u>\$ (681.09)</u>

Note 14 — Subsequent Events

Acquisition by Longview Fund, LP 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 for substantially all of the assets of Optex Texas. The \$15 million of IRSN debt was contributed by Longview Fund and Alpha to Optex Delaware in exchange for a \$6 million note payable from Optex Delaware and a \$9 million equity interest in Optex Delaware. There is 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 Corp, as discussed in the following paragraph.

Among other assets, Optex Delaware purchased the following categories of assets from Optex Texas: intellectual property, production processes and know how, and outstanding contracts and customer relationships. Optex Delaware's management intends to improve the business's ability to serve its existing customers and to attract new customers through quality product and service that will be enabled by improved working capital availability as compared to the working capital available during the time period in which the assets were owned by IRSN.

Optex Systems 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	<u>343,898</u>
Total assets	18,822,013

Liabilities:

Current liabilities, consisting of accounts payable of \$1,953,833 and accrued liabilities of \$1,868,180	<u>\$ 3,822,013</u>
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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	<u>\$ 1,273,222</u>
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.

Proforma revenue and earnings per share information is presented cumulatively in the following section regarding the subsequent acquisition of Optex Delaware by Sileas Corporation."

Other Transaction in connection with Purchase by Optex Delaware

Secured Promissory Note Due September 19, 2011/Longview Fund and Alpha - In connection with the public sale of the Optex Texas assets to Optex Delaware, Optex Delaware delivered to each of Longview Fund and Alpha a Secured Promissory Note due September 19, 2011 in the principal amounts of \$5,409,762 and \$540,976, respectively. Each Note bears simple interest at the rate of 6% per annum, and the interest rate upon an event of default increases to 8% per annum. After 180 days from the Issue Date, the principal amount of the Notes and accrued and unpaid interest thereon may be converted into Optex common stock at a conversion price of \$1.80 per share. The Notes may be redeemed prior to maturity at a price of 120% of the then outstanding principal amount plus all accrued and unpaid interest thereon. The obligations of Optex under the Notes are secured by a lien of all of the assets of Optex in favor of Longview and Alpha. On March 27 2009, Sileas and Alpha exchanged their Notes plus accrued and unpaid interest for one thousand twenty seven (1,027) shares of Optex Delaware Series A Preferred Stock

Acquisition by Sileas Corp on February 20, 2009

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

The Primary reasons for the Acquisition by Sileas was to effect synergies that the management of Sileas and the corporate structure of Sileas would produce in achieving competitive advantages in the contract bidding process. Additional operating efficiencies were expected to result from the ownership by present members of management who are active in the daily operations of the Company.

The Acquisition was accounted in accordance with “Statement of Financial Accounting Standards No. 141R” Business Combinations” effective for transactions after December 15, 2008.

The purchase price (“Purchase Price”) for the Acquisition was \$13,524,405. Sileas issued a note to the Longview Fund LP for the full amount of the Purchase Price in exchange for 45,081,350 shares of common stock (the “Common Stock”) issued by the Company (representing 90% of the outstanding shares) and a note dated December 2, 2008, issued by the Company to Longview in the principal amount of \$5,409,762 (the “Optex Note”). No contingent consideration is due the seller in the transaction.. The Note is secured by the assets of Sileas Corp. and a pledge of the outstanding stock of Sileas Corp.

Sileas has no operations or business activities other than holding the Purchased Assets and has no revenues.

The fair value of the 10% non-controlling interest at the date of acquisition is estimated to be approximately \$1,500,000. The fair value was derived by computing 10% of the value of the Company as a whole based on the value of the consideration given by Sileas for its 90% acquisition. The fair value of the Company as a whole was established by the consideration of \$15,000,000 given in the previous transaction whereby Longview and Alpha Capital acquired the Company in a public auction on October 14, 2008. Based the stability of the nature of the company operations in the current marketplace, the fair value of the prior consideration was deemed to be representative of the current market value.

Sileas 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 excess of the purchase price over the fair values of the identifiable tangible assets, intangibles assets and the fair value of the non controlling interest is recognized as goodwill in the accompanying balance sheet in the amount of \$1,012,058. Goodwill is not amortized for financial reporting purposes but measured at least annually for impairment.

The Purchase Price was assigned to the acquired interest in the assets and liabilities of the Company as of February 20, 2009 as follows:

Assets:

Current assets, consisting primarily of inventory of \$5,327,438 and accounts receivable of \$2,897,583	\$ 8,687,102
Identifiable intangible assets	<u>3,173,793</u>
Purchased Goodwill	7,110,415
Other non-current assets, principally property and equipment	316,923
Total assets	\$19,288,233

Liabilities:

Current liabilities, consisting primarily of accounts payable of \$2,068,653 and accrued liabilities of \$2,039,663	<u>\$ 5,275,886</u>
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Acquired net assets	<u>\$14,012,347</u>
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Purchase price

Total consideration to seller (Sileas 90% interests)	\$ 13,524,405
Fair Value minority interest under FAS 141R	<u>1,500,000</u>
	<u>\$15,024,405</u>

Excess purchase price reported as goodwill	\$ 1,012,058
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Accounts receivable represent the amounts due from customers in the ordinary course of business. The carrying amounts approximate their fair value and the Company expects to collect the receivables subject to their normal historical experiences.

Qualitative factors that result in the recognition of goodwill exist from the synergies expected to be achieved by combining the existing operations and the business relationships of Sileas Corp as well as intangible assets that exist that do not meet the criteria for separate recognition apart from goodwill such as the intellectual capital inherent in its existing workforce, production methods and its overall customer base. The identifiable intangible assets and recorded goodwill are not deductible for income tax purposes.

As of the February 20, 2009 change in ownership, it was determined that there was no significant impact to the unamortized intangible assets since the original determination on October 14, 2008.

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.

The accompanying unaudited pro forma financial information for fiscal 2008 and 2007 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 years ended September 28, 2008 and September 30, 2007 as if the acquisition of Optex had occurred on the first day of each of the fiscal years.

	2008	2007
Revenues	20,017,209	15,406,186
Net Loss	(4,021,601)	(5,776,875)
Diluted earnings per share	\$ (0.03)	\$ (0.04)
<i>Weighted Average Shares Outstanding</i>	<i>141,464,940</i>	<i>141,464,940</i>

The pro forma statements depicted above reflect the impacts of reduced interest costs of \$200,000 and \$136,148, increased intangible amortization expenses of \$1,474,829, and \$1,121,232, the elimination of corporate allocation costs from IRSN of \$2,076,184 and \$2,010,027, and the elimination for employee stock bonus compensation (ESBP) pushed down from IRSN of \$378,716 and \$388,756 for years ended September 28, 2008 and September 30, 2007 respectively. There is no expected impact on Federal Income taxes as the Company had a cumulative retained deficit as of the end of each year.

Other Transactions in connection with Purchase by Sileas

Secured Promissory Note Due February 20, 2012/Longview Fund, LP - As a result of the transaction described above between Sileas on Longview fund described in note 7 and in note 14, on February 20, 2009 and effective as of February 20, 2009 (the "Issue Date"), Sileas, the new majority owner of Optex Systems, executed and delivered to Longview LP, 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 Optex sells or conveys all or substantially all its assets to a third party entity for more than nominal consideration, other than a merger into its parent company ("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, Optex ("Sileas") shall also pay an amount equal to 90% of the Optex Consideration. The obligations of Optex under the Note are secured by a security interest granted to Longview Fund pursuant to a Stock Pledge Agreement delivered by Sileas to Longview.

The note payable has been accounted for on the basis of push-down accounting upon the acquisition since Sileas acquired a 90% controlling interest and as such the note payable by Sileas (Parent) will be recorded on the financial statements of Optex Delaware (Subsidiary) as of February 20, 2009. Concurrent with the planned reverse merger with a publicly-traded shell entity, Sileas' ownership will be diluted to a percentage less than that under which push-down accounting applies. Accordingly, the note payable owned by Sileas to Longview will be reflected solely on the financial statements of Sileas (Parent) and will no longer be reflected as a liability in the financial statements of Optex Delaware.

Reorganization/Share Exchange

On March 30, 2009, a reorganization/share exchange occurred whereby the then existing shareholders of the Company exchanged their shares of Company Common Stock with the shares of Common Stock of Sustut Exploration, Inc. ("Registrant") as follows: (i) the outstanding 85,000,000 shares of Company Common Stock be exchanged by Registrant for 113,333,282 shares of Registrant Common Stock, (ii) the outstanding 1,027 shares of Company Series A Preferred Stock be exchanged by Registrant for 1,027 shares of Registrant Series A Preferred Stock and such additional items as more fully described in the Agreement and (iii) the 8,131,667 shares of Company Common Stock purchased in the private placement will be exchanged by Registrant for 8,131,667 shares of Registrant Common Stock, as acknowledged by Registrant. The Company shall remain a wholly owned subsidiary of Registrant, and the Company's shareholders are now shareholders of Registrant.

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 units (the "Units"), for \$45,000 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 a finders fee of \$139,555 which was payable in cash, and non-cash consideration of forgiveness of indebtedness owed to an investor of \$146,250, net proceeds were \$933,945. The finder also received five year warrants to purchase 2.7 Units, at an exercise price of \$49,500 per unit.

Series A Preferred Stock

On March 24, 2009, the Company filed a Certificate of Designation with the Secretary of State of the State of Delaware authorizing a series of preferred stock, under its articles of incorporation, known as "Series A Preferred Stock". This Certificate of Designation was approved by the Registrant's Board of Directors and Shareholders at a Board Meeting and Shareholders Meeting held on February 25, 2009. The Certificate of Designation sets forth the following terms for the Series A Preferred Stock: (i) Number of authorized shares: 1,027; (ii) per share stated value: \$6,000; (iii) liquidation preference per share: stated value; (iv) conversion price: \$0.15 per share as adjusted from time to time; and (v) voting rights: votes along with the Common Stock on an as converted basis with one vote per share.

The Series A Preferred Shares entitle the holders to receive cumulative dividends at the rate of 6% per annum payable in cash at the discretion of Board of Directors. Each share of preferred stock is immediately convertible into common shares at the option of the holder which entitles the holder to receive the equivalent number of common shares equal to the stated value of the preferred shares divided by the conversion price initially set at \$0.15 per share.

Holders of preferred shares receive preferential rights in the event of liquidation. Additionally the preferred stock shareholders are entitled to vote together with the common stock on an "as-converted" basis.

On March 27, 2009, Sileas and Alpha Capital Anstalt exchanged their promissory notes in the total amount of \$6,000,000 plus accrued and unpaid interest thereon into 1,027 shares of Series A Preferred Stock.

Stock Split

On March 26, 2009, the Company's Board of Directors reconfirmed a 1.7:1 forward split of its Common Stock to holders of record as of February 23, 2009. Accordingly, as a result of the forward split, the 45,081,350 shares of Common Stock held by Sileas Corp. was split into 76,638,295 shares, and the 4,918,650 shares of Common Stock held by Arland Holdings, Ltd. was split into 8,361,705 shares.

OPTEx SYSTEMS, INC. UNAUDITED
INTERIM FINANCIAL STATEMENTS
FOR THE QUARTER ENDED DECEMBER 28, 2008

Optex Systems, Inc.
Balance Sheets

	<u>Unaudited 12/28/08</u>	<u>Year End as of 09/28/08</u>
ASSETS		
Current Assets		
Cash	497,152	170,183
Accounts Receivable	2,124,827	2,454,235
Net Inventory	5,848,508	4,547,726
Prepaid Expenses	<u>46,811</u>	<u>307,507</u>
	-	-
Total Current Assets	8,517,298	7,479,651
Property and Equipment		
Property Plant and Equipment	1,339,636	1,314,109
Accumulated Depreciation	<u>(1,030,984)</u>	<u>(994,542)</u>
Total Property and Equipment	308,652	319,567
Other Assets		
Security Deposits	20,684	20,684
Intangibles	3,518,992	1,100,140
Goodwill	<u>7,110,415</u>	<u>10,047,065</u>
Total Other Assets	10,650,091	11,167,889
Total Assets	<u>19,476,041</u>	<u>18,967,107</u>

The accompanying notes are an integral part of these financial statements

Optex Systems, Inc.
Balance Sheets - Continued

	<u>Unaudited</u> <u>Quarter End as of</u> <u>12/28/08</u>	<u>Year End as of</u> <u>09/28/08</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts Payable	1,964,795	1,821,534
Accrued Expenses	1,044,075	798,974
Accrued Warranties	256,397	227,000
Accrued Contract Losses	743,319	821,885
Loans Payable	214,490	373,974
Interest on Loans Payable	6,798	
Income Tax Payable	263,654	4,425
Total Current Liabilities	4,493,528	4,047,792
Other Liabilities		
Note Payable	-	2,000,000
Accrued Interest on Note	-	336,148
Long Term Debt	6,000,000	-
Accrued Interest on Debt	76,000	-
Due to Parent	-	4,300,151
Total Other Liabilities	6,076,000	6,636,299
Total Liabilities	10,569,528	10,684,091
Stockholders' Equity		
Optex Systems, Inc. – Delaware Common Stock (par \$0.001, 300,000,000 authorized, 50,000,000 shares issued and outstanding as of December 28, 2008)	50,000	
Optex Systems, Inc. – Texas Common Stock (no par 100,000 authorized, 18,870 shares issued and 10,000 shares outstanding)		164,834
Optex Systems, Inc. – Texas Treasury Stock (8,870 shares at cost)	-	(1,217,400)
Additional Paid-in-capital	14,795,368	15,246,282
Retained Earnings (Deficit)	(5,938,855)	(5,910,700)
Total Stockholders' Equity	8,906,513	8,283,016
Total Liabilities and Stockholders' Equity	19,476,041	18,967,107

The accompanying notes are an integral part of these financial statements

Optex Systems, Inc.
Statements of Operations

	<u>Unaudited Quarter Ended December 28, 2008</u>	<u>Unaudited Quarter Ended December 30, 2007</u>
Revenues	7,264,084	4,415,905
Total Cost of Sales	6,305,050	3,839,494
Gross Margin	959,034	576,411
General and Administrative		
Salaries and Wages	158,876	173,688
Employee Benefits	83,420	59,264
Employee Stock Bonus Plan	-	101,766
Amortization of Intangible	101,158	61,122
Rent, Utilities and Building Maintenance	55,332	58,150
Legal and Accounting Fees	76,219	67,296
Consulting and Contract Service Fees	79,323	120,439
Corporate Allocations	-	433,934
Other Expenses	77,345	144,775
Total General and Administrative	631,673	1,220,434
Earnings (Loss) before Other Expenses and Taxes	327,361	(644,023)
Other Expenses		
Other Income and Expense	(436)	
Interest (Income) Expense - Net	92,298	49,640
Total Other	91,862	49,640
Income (Loss) Before Taxes	235,499	(693,663)
Income Taxes (Benefit)	263,654	
Net Income (Loss) After Taxes	(28,155)	(693,663)
Basic and diluted loss per share (1)	\$ (0.00)	\$ (0.01)
Weighted Average Common Shares Outstanding	50,000,000	50,000,000

1. Quarter ended December 30, 2007 is shown depicting recapitalization of the entity

The accompanying notes are an integral part of these financial statements

Optex Systems, Inc.

Statements of Cash Flows

	Unaudited Quarter End December 28, 2008	Unaudited Quarter End December 30, 2007
Cash flows from operating activities:		
Net Loss	(28,155)	(693,663)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	554,240	289,382
Provision for (use of) allowance for inventory valuation	60,636	-
Noncash interest expense	92,298	49,863
(Increase) decrease in accounts receivable	329,408	(78,304)
(Increase) decrease in inventory (net of progress billed)	(1,361,418)	(960,085)
(Increase) decrease in other current assets	260,695	15,666
Increase (decrease) in accounts payable and accrued expenses	388,364	975,532
Increase (decrease) in accrued warranty costs	29,397	-
Increase (decrease) in due to parent	1,428	386,008
Increase (decrease) in accrued estimated loss on contracts	(78,567)	(312,480)
Increase (decrease) in income taxes payable	263,654	-
Total adjustments	540,135	365,582
Net cash (used)/provided by operating activities	511,980	(328,081)
Cash flows from investing activities:		
Purchased of property and equipment	(25,527)	(38,127)
Net cash used in investing activities	(25,527)	(38,127)
Cash flows from financing activities:		
Proceeds from Loans Payable	(159,484)	-
Net cash provided by financing activities	(159,484)	-
Net increase (decrease) in cash and cash equivalents	326,969	(366,208)
Cash and cash equivalents at beginning of period	170,183	504,753
Cash and cash equivalents at end of period	497,152	138,545
Noncash investing and financing activities:		
Optex Delaware purchase of Optex Systems from Irvine Sensors		
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 (Irvine Sensors)	4,301,579	
Total liabilities not assumed	6,651,652	
Debt Incurred for Purchase	(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)	
Supplemental cash flow information:		
Cash paid for interest	-	-
Cash paid for taxes	-	-

The accompanying notes are an integral part of these financial statements

Optex Systems, Inc.

Statement of Stockholders' Equity and Comprehensive Income/(Loss)

	<u>Outstanding Shares (Optex-Texas)</u>	<u>Outstanding Shares Optex Systems, Inc.</u>	<u>Common Stock (Optex - Texas)</u>	<u>Common Stock (Optex Systems, Inc.)</u>	<u>Treasury Stock (Optex- Texas)</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders Equity</u>
Balance at September 28, 2008	10,000		164,834		(1,217,400)	15,246,282	(5,910,700)	8,283,016
Optex Delaware Acquisition	(10,000)		(164,834)		1,217,400	(450,914)		- 601,652
Issuance of 50,000,000 Optex Delaware shares		50,000,000		50,000				50,000-
Net Earnings (Loss) from continuing operations							(28,155)	(28,155)
Balance at December 28, 2008		<u>50,000,000</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>14,795,368</u>	<u>(5,938,855)</u>	<u>8,906,513</u>

The accompanying notes are an integral part of these financial statements

Note 1 - Organization and Operations

Optex Systems, Inc. ("Optex Texas") was a privately held Texas Subchapter "S" Corporation from inception in 1987 until December 30, 2005 when 70% of the issued and outstanding stock was acquired by Irvine Sensors Corp. ("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 October 14, 2008, certain senior secured creditors of IRSN, Longview Fund, L.P. ("Longview Fund") and Alpha Capital Anstalt ("Alpha") formed Optex Systems, Inc., a Delaware Corporation, ("Optex Delaware"), which acquired substantially all of the assets and assumed certain liabilities of Optex Texas in a transaction that was consummated via purchase at a public auction. Longview and Alpha owned Optex Delaware until February 20, 2009, when Longview sold 100% of its equity interests in Optex Delaware to Sileas Corp, as discussed in the following paragraph. 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. Accordingly, in subsequent periods the financial statements presented will be those of the accounting acquirer.

On February 20, 2009, Sileas Corp. ("Sileas"), a newly-formed Delaware corporation, owned by present members of the company's management, purchased 100% of the equity interest held by Longview, representing 90% of Optex Delaware in a private transaction (the "Acquisition"). See Note 9.

Optex's operations are based in Richardson, Texas in a leased facility comprising 49,100 square feet. As of the three months ended December 28, 2008 the company operated with 117 full-time equivalent employees.

Optex Systems manufactures optical sighting systems and assemblies primarily for Department of Defense (DOD) 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 Future Combat Systems (FCS) Stryker vehicle. Optex also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. The Company products consist primarily of build to customer print products that are delivered both directly to the military services and to other defense prime contractors.

In May 2008, Optex Systems was awarded ISO9001:2000 certification.

Note 2 - Accounting Policies

Basis of Presentation

The accompanying financial statements include the historical accounts of Optex Systems, Inc the Texas Corporation. The financial statements have been presented as the subsidiary-only financial statements reflecting the balance sheets, results of operations and cash flows of the subsidiary as separate entity.

Although, the Company 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 financial statements have been presented on the basis of push down accounting in accordance with Staff Accounting Bulletin No. 54 (SAB 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 are that 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 purchase transaction such as goodwill, debt incurred by the parent to acquire the subsidiary and other cost related to the purchase have been recorded on the financial statements of the Company.

The condensed financial statements of Optex Systems Inc., (the "Company") included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (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 Form 8k 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.

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. There were no dilutive stock options during the three months ended December 28, 2008 or December 30, 2007.

Note 3 - Recent Accounting Pronouncements

In June 2006, The FASB issued Interpretation No. 48 “*Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*” (“FIN 48”). 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 No. 157, “*Fair Value Measurements*” which establishes a framework for measuring fair value, and expands disclosures about fair value measurements. While FASB No. 157 does not apply to transactions involving share-based payment covered by FASB No. 123, it establishes a theoretical framework for analyzing fair value measurements that is absent from FASB No. 123. We have relied on the theoretical framework established by FASB No. 157 in connection with certain valuation measurements that were made in the preparation of these financial statements. FASB No. 157 is effective for years beginning after November 15, 2007. Subsequent to the Standard’s issuance, the FASB issued an exposure draft that provides a one year deferral for implementation of the Standard for non-financial assets and liabilities. 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;*” (FASB 159), 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, the Financial Accounting Standards Board ratified Emerging Issues Task Force (“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, the 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”). 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, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“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, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (“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 generally accepted accounting principles (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, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 163, *“Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60”* (“SFAS 163”). 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 Optex Systems, Inc. Delaware

Acquisition by Longview Fund, LP on October 14, 2009

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 for substantially all of the assets of Optex Texas. The \$15 million of IRSN debt was contributed by Longview Fund and Alpha to Optex Delaware in exchange for a \$6 million note payable from Optex Delaware and a \$9 million equity interest in Optex Delaware. There is 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 Corp, as discussed in Note 9.

Among other assets, Optex Delaware purchased the following categories of assets from Optex Texas: intellectual property, production processes and know how, and outstanding contracts and customer relationships. Optex Delaware's management intends to improve the business's ability to serve its existing customers and to attract new customers through quality product and service which will be enabled by improved working capital availability as opposed to working capital available during the time period in which the assets were owned by IRSN.

Optex Systems 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	<u>343,898</u>
Total assets	18,822,013
Liabilities:	
Current liabilities, consisting of accounts payable of \$1,953,833 and accrued liabilities of \$1,868,180	<u>\$ 3,822,013</u>
Acquired net assets	<u>\$15,000,000</u>

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	<u>\$ 1,273,222</u>
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.

Pro forma revenue and earnings per share information is presented cumulatively in Note 9 regarding the subsequent acquisition of Optex Delaware by Sileas Corporation.

The accompanying financial statements present the combined accounts of Optex Texas and Optex Delaware from the date of the business combination which was October 14, 2008.

Other Transaction in connection with Purchase by Optex Delaware

Secured Promissory Note Due September 19, 2011/Longview Fund and Alpha - In connection with the public sale of the Optex Texas assets to Optex Delaware, Optex Delaware delivered to each of Longview Fund and Alpha a Secured Promissory Note due September 19, 2011 in the principal amounts of \$5,409,762 and \$540,976, respectively. Each Note bears simple interest at the rate of 6% per annum, and the interest rate upon an event of default increases to 8% per annum. After 180 days from the Issue Date, the principal amount of the Notes and accrued and unpaid interest thereon may be converted into Optex common stock at a conversion price of \$1.80 per share. The Notes may be redeemed prior to maturity at a price of 120% of the then outstanding principal amount plus all accrued and unpaid interest thereon. The obligations of Optex under the Notes are secured by a lien of all of the assets of Optex in favor of Longview and Alpha. On March 27 2009, Sileas and Alpha exchanged their Notes plus accrued and unpaid interest for one thousand twenty seven (1,027) shares of Optex Delaware Series A Preferred Stock

Note 5 - 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 year ended September 28, 2008 was \$313,032 and total expenses for manufacturing and office equipment was \$21,830. At September 28, 2008, the minimum lease payments under non-cancelable operating leases for equipment, office and facility space are as follows:

	Operating Leases
Years ended December 31,	
2009	\$ 364,260
2010	79,867
2011	16,753
2012	-
2013	-
Thereafter	-
Total minimum lease payments	<u><u>\$ 460,880</u></u>

Note 6 - Debt Financing

Non-Related parties

Short Term Note Payable/Longview Fund - - On September 23, 2008 Optex Delaware borrowed \$146,709 from Longview and issued a promissory note dated September 23, 2008, to Longview in connection therewith. The September 23, 2008 Note bears interest at the rate of 10% per annum with interest accruing until the maturity date of the September 23, 2008 Note, which was originally set as November 7, 2008 ("Maturity Date"). Pursuant to an Allonge No. 1 to Promissory Note, dated January 20, 2009, the Maturity Date was extended until March 31, 2009 and is to be exchanged for Series A Preferred Stock of Optex Delaware (See Note 9).

Short term note payable (Qioptic) - On November 20, 2008, Optex Delaware issued a promissory note (“Note”) to Qioptic Limited (“Qioptic”) in the amount of \$117,780. The Note originated as a trade payable and as of December 28, 2008 had an outstanding balance of \$67,781. The Note bears interest at the rate of six percent per annum and had a maturity date of February 13, 2009 (and was repaid in full as of that date) (“Maturity Date”). The terms of the Note call for weekly payments of \$10,000 each on the last business day of every week commencing on the last business day of the first week after November 20, 2008 and continuing thereafter until the Maturity Date, on which date the remaining principal amount of the Note and all accrued and unpaid interest thereon shall become immediately due and payable

Note 7 – Stockholders Equity

Common Stock:

As of December 28, 2008, the Company was authorized to issue 300,000,000 shares of \$.001 par value common stock, of which 50,000,000 shares were issued and outstanding as follows:

Longview Fund, LP	45,081,350
Arnold Holding, LTD	4,918,650
Total Outstanding	<u>50,000,000</u>

Each share of stock entitles the holder to one vote

The outstanding shares as of December 30, 2007 have been restated to reflect the recapitalization of Optex Delaware above.

Note 8—Earnings/Loss Per Share

Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. Diluted earnings per share is computed by assuming that any dilutive convertible securities outstanding were converted, with related preferred stock dividend requirements and outstanding common shares adjusted accordingly. For all periods presented herein, there are no dilutive convertible securities.

The following table sets forth the computation of basic and diluted net loss attributable to common stockholders per share for the three months ended December 28, 2008, and December 30, 2007.

	Three months ended December 28, 2008	Three months ended December 30, 2007
Numerator:		
Net loss	\$ (28,155)	\$ (693,663)
Denominator:		
Weighted average shares	50,000,000	50,000,000
Basic and diluted net loss per share	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>

Quarter ended December 30, 2007 is shown depicting recapitalization of the entity

Note 9 — Subsequent Events

Acquisition by Sileas Corp on February 20, 2009

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

The Primary reasons for the Acquisition by Sileas was to effect synergies that the management of Sileas and the corporate structure of Sileas would produce in achieving competitive advantages in the contract bidding process. Additional operating efficiencies were expected to result from the ownership by present members of management who are active in the daily operations of the Company.

The Acquisition was accounted in accordance with “Statement of Financial Accounting Standards No. 141R” Business Combinations” effective for transactions after December 15, 2008.

The purchase price (“Purchase Price”) for the Acquisition was \$13,524,405. Sileas issued a note to the Longview Fund LP for the full amount of the Purchase Price in exchange for 45,081,350 shares of common stock (the “Common Stock”) issued by the Company (representing 90% of the outstanding shares) and a note dated December 2, 2008, issued by the Company to Longview in the principal amount of \$5,409,762 (the “Optex Note”). No contingent consideration is due the seller in the transaction.. The Note is secured by the assets of Sileas Corp. and a pledge of the outstanding stock of Sileas Corp.

Sileas has no operations or business activities other than holding the Purchased Assets and has no revenues.

The fair value of the 10% non-controlling interest at the date of acquisition is estimated to be approximately \$1,500,000. The fair value was derived by computing 10% of the value of the Company as a whole based on the value of the consideration given by Sileas for its 90% acquisition. The fair value of the Company as a whole was established by the consideration of \$15,000,000 given in the previous transaction whereby Longview and Alpha Capital acquired the Company in a public auction on October 14, 2008. Based the stability of the nature of the company operations in the current marketplace, the fair value of the prior consideration was deemed to be representative of the current market value.

Sileas 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 excess of the purchase price over the fair values of the identifiable tangible assets, intangibles assets and the fair value of the non controlling interest is recognized as goodwill in the accompanying balance sheet in the amount of \$1,012,058. Goodwill is not amortized for financial reporting purposes but measured at least annually for impairment.

The Purchase Price was assigned to the acquired interest in the assets and liabilities of the Company as of February 20, 2009 as follows:

Assets:	
Current assets, consisting primarily of inventory of \$5,327,438 and accounts receivable of \$2,897,583	\$ 8,687,102
Identifiable intangible assets	3,173,793
Purchased Goodwill	7,110,415
Other non-current assets, principally property and equipment	<u>316,923</u>
Total assets	\$19,288,233
Liabilities:	
Current liabilities, consisting primarily of accounts payable of \$2,068,653 and accrued liabilities of \$2,039,663	<u>\$ 5,275,886</u>
Acquired net assets	<u>\$14,012,347</u>
Purchase price	
Total consideration to seller (Sileas 90% interests)	\$13,524,405
Fair Value minority interest under FAS 141R	<u>1,500,000</u>
	<u>\$15,024,405</u>
Excess purchase price reported as goodwill	\$ 1,012,058

Accounts receivable represent the amounts due from customers in the ordinary course of business. The carrying amounts approximate their fair value and the Company expects to collect the receivables subject to their normal historical experiences.

Qualitative factors that result in the recognition of goodwill exist from the synergies expected to be achieved by combining the existing operations and the business relationships of Sileas Corp as well as intangible assets that exist that do not meet the criteria for separate recognition apart from goodwill such as the intellectual capital inherent in its existing workforce, production methods and its overall customer base. The identifiable intangible assets and recorded goodwill are not deductible for income tax purposes.

As of the February 20, 2009 change in ownership, it was determined that there was no significant impact to the unamortized intangible assets since the original determination on October 14, 2008.

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.

The accompanying unaudited pro forma financial information for the three months ended December 28, 2008 and December 30, 2007 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 months ended December 28, 2008 and December 30, 2007 as if the acquisition of Optex had occurred on the first day of each of the quarters.

	Unaudited Quarter Ended December 28, 2008	Unaudited Quarter Ended December 30, 2007
Revenues	7,264,084	4,415,905
Net Loss	(65,010)	(481,062)
Diluted earnings per share	\$ (0.00)	\$ (0.00)
<i>Weighted Average Shares Outstanding</i>	<i>141,464,940</i>	<i>141,464,940</i>

The pro forma information depicted above reflect the impacts of reduced interest expense of \$85,500 and \$49,640 for three months ended December 28, 2008 and December 30, 2007 respectively, the increased intangible amortization expenses of \$280,308, the elimination of corporate allocation costs from IRSN of \$ 433,934, the elimination employee stock bonus compensation pushed down from IRSN of \$ 101,766 for the three months ended December 30, 2007, and the tax increase of \$29,925 for three months ended December 28, 2008 resulting from lower interest expense. There is no expected tax effect for the three months ended December 30, 2007 as the company had an accumulated retained deficit.

Other Transactions in connection with Purchase by Sileas

Secured Promissory Note Due February 20, 2012/Longview Fund, LP -- As a result of the transaction described above between Sileas on Longview fund described in note 7 and in note 14, on February 20, 2009 and effective as of February 20, 2009 (the "Issue Date"), Sileas, the new majority owner of Optex Systems, executed and delivered to Longview LP, 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 Optex sells or conveys all or substantially all its assets to a third party entity for more than nominal consideration, other than a merger into its parent company ("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, Optex ("Sileas") shall also pay an amount equal to 90% of the Optex Consideration. The obligations of Optex under the Note are secured by a security interest granted to Longview Fund pursuant to a Stock Pledge Agreement delivered by Sileas to Longview.

The note payable has been accounted for on the basis of push-down accounting upon the acquisition since Sileas acquired a 90% controlling interest and as such the note payable by Sileas (Parent) will be recorded on the financial statements of Optex Delaware (Subsidiary) as of February 20, 2009. Concurrent with the planned reverse merger with a publicly-traded shell entity, Sileas' ownership will be diluted to a percentage less than that under which push-down accounting applies. Accordingly, the note payable owned by Sileas to Longview will be reflected solely on the financial statements of Sileas (Parent) and will no longer be reflected as a liability in the financial statements of Optex Delaware.

Reorganization/Share Exchange

On March 30, 2009, a reorganization/share exchange occurred whereby the then existing shareholders of the Company exchanged their shares of Company Common Stock with the shares of Common Stock of Sustut Exploration, Inc. ("Registrant") as follows: (i) the outstanding 85,000,000 shares of Company Common Stock be exchanged by Registrant for 113,333,282 shares of Registrant Common Stock, (ii) the outstanding 1,027 shares of Company Series A Preferred Stock be exchanged by Registrant for 1,027 shares of Registrant Series A Preferred Stock and such additional items as more fully described in the Agreement and (iii) the 8,131,667 shares of Company Common Stock purchased in the private placement will be exchanged by Registrant for 8,131,667 shares of Registrant Common Stock, as acknowledged by Registrant. The Company shall remain a wholly owned subsidiary of Registrant, and the Company's shareholders are now shareholders of Registrant.

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 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 a finders fee of \$139,555 which was payable in cash, and non-cash consideration of forgiveness of indebtedness owed to an investor of \$146,250, net proceeds were \$933,945. The finder also received five year warrants to purchase 2.7 Units, at an exercise price of \$49,500 per unit.

Series A Preferred Stock

On March 24, 2009, the Company filed a Certificate of Designation with the Secretary of State of the State of Delaware authorizing a series of preferred stock, under its articles of incorporation, known as "Series A Preferred Stock". This Certificate of Designation was approved by the Registrant's Board of Directors and Shareholders at a Board Meeting and Shareholders Meeting held on February 25, 2009. The Certificate of Designation sets forth the following terms for the Series A Preferred Stock: (i) Number of authorized shares: 1,027; (ii) per share stated value: \$6,000; (iii) liquidation preference per share: stated value; (iv) conversion price: \$0.15 per share as adjusted from time to time; and (v) voting rights: votes along with the Common Stock on an as converted basis with one vote per share.

The Series A Preferred Shares entitle the holders to receive cumulative dividends at the rate of 6% per annum payable in cash at the discretion of Board of Directors. Each share of preferred stock is immediately convertible into common shares at the option of the holder which entitles the holder to receive the equivalent number of common shares equal to the stated value of the preferred shares divided by the conversion price initially set at \$0.15 per share.

Holders of preferred shares receive preferential rights in the event of liquidation. Additionally the preferred stock shareholders are entitled to vote together with the common stock on an "as-converted" basis.

On March 27, 2009, Sileas and Alpha Capital Anstalt exchanged their promissory notes in the total amount of \$6,000,000 plus accrued and unpaid interest thereon into 1,027 shares of Series A Preferred Stock.

Stock Split

On March 26, 2009, the Company's Board of Directors reconfirmed a 1.7:1 forward split of its Common Stock to holders of record as of February 23, 2009. Accordingly, as a result of the forward split, the 45,081,350 shares of Common Stock held by Sileas Corp. was split into 76,638,295 shares, and the 4,918,650 shares of Common Stock held by Arland Holdings, Ltd. was split into 8,361,705 shares.

PROFORMA CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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 for substantially all of the assets of Optex Texas. The \$15 million of IRSN debt was contributed by Longview Fund and Alpha (secured creditors of IRSN) to Optex Delaware in exchange for a six percent (6%) \$6 million note payable, \$5.4 million and \$0.6 million respectively, and \$9 million equity interest in Optex Delaware of 45,081,350 and 4,918,650 shares respectively. There is no contingent consideration associated with the purchase. On October 30, 2008 Alpha Capital Anstalt sold their common stock interest to Arland Holding, Ltd. On February 20, 2009 Longview sold 100% of its equity interests in Optex Delaware to Sileas Corp.

On February 20, 2009, Sileas Corp. ("Sileas"), a newly-formed Delaware corporation owned by present members of the Company's management, purchased 45,081,350 shares of Optex Delaware common stock held by Longview Fund, LP (representing 90% of the outstanding shares of Optex Delaware) and the note issued to Longview in the principal amount of \$5,409,762.

The purchase price for the Sileas acquisition was \$13,524,405. The purchase was paid by a note made by Sileas, payable to Longview in the principal amount of the purchase price carrying four percent (4%) annual interest, and maturing on February 20, 2012 and secured by a pledge of the purchased assets.

Sileas has no operations or business activities other than holding the Purchased Assets and has no revenues.

On March 26, 2009, the Company's Board of Directors approved a 1.7:1 forward split of its Common Stock to holders of record as of February 23, 2009. Accordingly, as a result of the forward split, the 45,081,350 shares of Common Stock held by Sileas Corp. were split into 76,638,295 shares, and the 4,918,650 shares of Common Stock held by Arland Holdings, Ltd. were split into 8,361,705 shares.

On March 27, 2009, Sileas and Alpha Capital Anstalt exchanged their promissory notes in the total amount of \$6,000,000 plus accrued and unpaid interest thereon into 1,027 shares of Series A Preferred Stock. The Series A Preferred Shares entitle the holders to receive cumulative dividends at the rate of 6% per annum payable in cash at the discretion of Board of Directors.

On March 30, 2009, a reorganization/share exchange occurred whereby the then existing shareholders of the Company exchanged their shares of Company Common Stock with the shares of Common Stock of Sustut Exploration, Inc. ("Sustut"). For each share of Optex Common Stock tendered, the shareholder received 1.33 shares of Sustut Common Stock. For each share of Series A Preferred Stock of the Company tendered, the shareholder received 1 share of Sustut Series A Preferred Stock. The Company shall remain a wholly owned subsidiary of Sustut, and the Company's shareholders are now shareholders of Sustut.

As of March 30, 2009, the Company accepted subscriptions from accredited investors for a total of 27 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 a finders fee of \$139,555 which was payable in cash, and non-cash consideration of forgiveness of indebtedness owed to an investor of \$146,250, net proceeds were \$933,945. The finder also received five year warrants to purchase 2.7 Units, at an exercise price of \$49,500 per unit.

The unaudited pro forma statements of operations of Optex Systems, Inc. for the year ended September 28, 2008 and three months ended December 28, 2008, give effect to (i) both the Optex Delaware acquisition as of October 14, 2008 and subsequent Sileas acquisition as of February 20, 2009 by applying the purchase method of accounting, (ii) certain adjustments that are directly attributable to the change in ownership from Irvine Sensors Corporation, (iii) certain adjustments related to the issuance of notes payable to Longview Fund, LP and Alpha Capital Anstalt as if the transactions were consummated as of October 1, 2007 and September 29, 2008.

The unaudited pro forma condensed balance sheets as of year ended September 28, 2008 and three months ended December 28, 2008 are presented as if both the Optex Delaware and Sileas acquisitions including the issuance of Optex Delaware common stock and notes payable had occurred on September 28, 2008 and December 28, 2008, respectively.

The fair value of the net assets acquired, in both transactions have been estimated based on the final offering price at the public auction held on October 14, 2008.

In the opinion of Optex System, Inc. all adjustments and/or disclosures necessary for a fair presentation of the pro forma data have been made. These pro forma financial statements are presented for illustrative purposes only and are not necessarily indicative of the operating results or the financial position that would have been achieved had the acquisitions been consummated as of the dates indicated or of the results that may be obtained in the future.

These pro forma financial statements and notes thereto should be read in conjunction with Optex System, Inc. financial statements and the notes thereto as of and for the year ended September 28, 2008 and three months ended December 28, 2008.

2008 Annual Balance Sheets 1

Optex Systems, Inc.
Proforma Balance Sheets (Unaudited)
Year Ended September 28, 2008

	<u>Optex-Texas</u>	<u>Optex Delaware Proforma Adjustments (10/14/09)</u>	<u>Sileas Proforma Adjustments (2/20/09)</u>	<u>Subtotal</u>	<u>Sustut Exploration, Inc.</u>	<u>Reorganization/share exchange (3/30/09)</u>	<u>Proforma</u>
ASSETS							
Current Assets							
Cash	170,183			170,183		933,945(12)	1,104,128
Accounts Receivable	2,454,235			2,454,235			2,454,235
Net Inventory	4,547,726			4,547,726			4,547,726
Prepaid Expenses	307,507			307,507			307,507
Total Current Assets	7,479,651	-	-	7,479,651	-	933,945	8,413,596
Property and Equipment							
Property and Equipment	1,314,109			1,314,109			1,314,109
Accumulated Depreciation	(994,542)			(994,542)			(994,542)
Total Property and Equipment	319,567	-	-	319,567	-	-	319,567
Other Assets							
Security Deposits	20,684			20,684			20,684
Intangibles	1,100,140	2,936,650(2)		4,036,790			4,036,790
Goodwill	10,047,065	(2,936,650)(2)	1,012,058(3)	8,122,473		(1,012,058)(13)	7,110,415
Total Other Assets	11,167,889	-	1,012,058	12,179,947	-	(1,012,058)	11,167,889
Total Assets	18,967,107	-	1,012,058	19,979,165	-	(78,113)	19,901,052

See accompanying notes to pro forma financial statements

Optex Systems, Inc.
Proforma Balance Sheets (Unaudited) - Continued
Year Ended September 28, 2008

	Optex-Texas	Optex Delaware Proforma Adjustments (10/14/09)	Sileas Proforma Adjustments (2/20/09)	Subtotal	Sustut Exploration, Inc.	Reorganization/share exchange (3/30/09)	Proforma
LIABILITIES AND EQUITY							
Current Liabilities							
Accounts Payable	1,821,534			1,821,534	1,950(10)		1,823,484
Accrued Expenses	798,974			798,974		65,000(12)	863,974
Accrued Warranties	227,000			227,000			227,000
Accrued Contract Losses	821,885			821,885			821,885
Loans Payable	373,974			373,974		(146,250)(12)	227,724
Income Tax Payable	4,425	(4,425)(1)		-			-
Total Current Liabilities	4,047,792	(4,425)	-	4,043,367	1,950	(81,250)	3,964,067
Other Liabilities							
Note Payable	2,000,000	(2,000,000)(1)		-			-
Accrued Interest on Note	336,148	(345,648)(1)		-			-
		9,500		-			-
Long Term Debt - Longview Fund LP	-	5,409,762(1)	8,114,643(3)	13,524,405		(5,409,762)(11)	-
						(8,114,643)(13)	-
Long Term Debt - Alpha Capital Anstalt		590,238(1)		590,238		(590,238)(11)	-
Accrued Interest on Notes						159,781(11)	-
						(159,781)(11)	-
Due to Parent	4,300,151	(4,301,579)(1)		-			-
	-	1,428		-			-
Total Other Liabilities	6,636,299	(636,299)	8,114,643	14,114,643	-	(14,114,643)	-
Total Liabilities	10,684,091	(640,724)	8,114,643	18,158,010	1,950	(14,195,893)	3,964,067
Equity							
Optex Systems, Inc. Stockholders' Equity							
Sustut - Preferred Stock (.001 par 5,000 authorized, 1027 series A preferred issued and outstanding)						1(14)	1
Sustut - Common Stock (.001 par 200,000,000 authorized, 19,999,991 shares issued and outstanding)					20,000(10)	121,465(14)	141,465
Preferred Stock (.001 par 1,027 authorized, 1,027 shares issued and outstanding)						1(11)	-
						(1)(14)	-
Optex Systems, Inc. Deleware - Common Stock (par \$0.001, 300,000,000 authorized, 85,000,000 shares issued and outstanding)		50,000(1)		85,000			-
		35,000(9)				8,132(12)	-
						(93,132)(14)	-
Optex Systems, Inc. Texas - Common Stock (no par 100,000 authorized, 18,870 shares issued and 10,000 shares outstanding)	164,834	(164,834)(1)		-			-
Optex Systems, Inc. Texas - Treasury Stock (8,870 shares at cost)	(1,217,400)	1,217,400(1)		-			-
Additional Paid-in- capital	15,246,282	(450,914)(1)	(8,602,585)(3)				-
		(35,000)(9)		6,157,783	467,700(10)		-
						552,646(12)	-
						454,417(12)	-
						(517,983)(14)	-
						8,602,585(13)	-
						6,159,780(11)	21,876,928
Retained Earnings (Deficit)	(5,910,700)	(10,928)		(5,921,628)	(489,650)(10)		-
						(159,781)(11)	-
						489,650(14)	(6,081,409)

Total Optex Systems, Inc. Stockholders' Equity	8,283,016	640,724	(8,602,585)	321,155	(1,950)	15,617,780	15,936,985
Non Controlling Interest			1,500,000(3)	1,500,000		(1,500,000)(13)	-
Total Liabilities and Equity	18,967,107	-	1,012,058	19,979,165	-	(78,113)	19,901,052

See accompanying notes to pro forma financial statements

2008 Annual Income Statement 1

Optex Systems, Inc.
Pro Forma Statements of Operations (Unaudited)
Year Ended September 28, 2008

	<u>Optex - Texas</u>	<u>Pro forma Adjustments</u>	<u>Proforma</u>
Revenues	20,017,209		20,017,209
Total Cost of Sales	<u>18,145,211</u>	<u>1,327,346(4)</u>	<u>19,472,557</u>
Gross Margin	1,871,998	(1,327,346)	544,651
General and Administrative			
Salaries and Wages	910,854		910,854
Employee Benefits	190,489		190,489
Employee Stock Bonus Plan	378,716	(378,716)(7)	-
Amortization of Intangible	223,491		223,491
Rent, Utilities and Building Maintenance	228,694		228,694
Legal and Accounting Fees	223,715		223,715
Consulting and Contract Service Fees	325,723		325,723
Corporate Allocations	2,076,184	(2,076,184)(6)	-
Other Expenses	<u>381,459</u>	<u>147,483(4)</u>	<u>528,942</u>
Total General and Administrative	4,939,325	(2,307,417)	2,631,908
Earnings (Loss) before Other Expenses and Taxes	(3,067,327)	980,071	(2,087,256)
Other Expenses			
Asset Impairment of Goodwill	1,586,416		1,586,416
Interest (Income) Expense - Net	<u>199,753</u>	<u>(200,000)(5)</u>	<u>(247)</u>
Total Other	1,786,169	(200,000)	1,586,169
Income (Loss) before Taxes	(4,853,496)	1,180,071	(3,673,425)
Federal Income Tax Expense (Benefit)	<u>(21,544)</u>		<u>(21,544)</u>
Net Income (Loss) After Taxes	(4,831,952)	1,180,071	(3,651,881)
Less preferred stock dividend	<u>-</u>	<u>(369,720)(15)</u>	<u>(369,720)</u>
Net loss applicable to common shareholders	<u>(4,831,952)</u>	<u>810,351</u>	<u>(4,021,601)</u>
Basic and diluted loss per share	<u>\$ (483.20)</u>		<u>\$ (0.03)</u>
Weighted Average Common Shares Outstanding	10,000		141,464,940(16)

See accompanying notes to pro forma financial statements

Qtr 1 Balance Sheets 1

Optex Systems, Inc.
Proforma Balance Sheets (Unaudited)
as of Three months ended December 28, 2008

	<u>Optex-Texas</u>	<u>Sileas Proforma Adjustments</u>	<u>Subtotal</u>	<u>Sustut Exploration, Inc</u>	<u>Reorganization/share exchange (3/30/09)</u>	<u>Proforma</u>
ASSETS						
Current Assets						
Cash	497,152		497,152		933,945(12)	1,431,097
Accounts Receivable	2,124,827		2,124,827			2,124,827
Net Inventory	5,848,508		5,848,508			5,848,508
Prepaid Expenses	46,811		46,811			46,811
Total Current Assets	8,517,298	-	8,517,298	-	933,945	9,451,243
Property and Equipment						
Property and Equipment	1,339,636		1,339,636			1,339,636
Accumulated Depreciation	(1,030,984)		(1,030,984)			(1,030,984)
Total Property and Equipment	308,652	-	308,652	-	-	308,652
Other Assets						
Security Deposits	20,684		20,684			20,684
Intangibles	3,518,992		3,518,992			3,518,992
Goodwill	7,110,415	1,012,058(3)	8,122,473		(1,012,058)(13)	7,110,415
Total Other Assets	10,650,091	1,012,058	11,662,149	-	(1,012,058)	10,650,091
Total Assets	19,476,041	1,012,058	20,488,099	-	(78,113)	20,409,986

See accompanying notes to pro forma financial statements

Optex Systems, Inc.
Proforma Balance Sheets (Unaudited) - Continued
as of Three months ended December 28, 2008

	<u>Optex-Texas</u>	<u>Sileas Proforma Adjustments</u>	<u>Subtotal</u>	<u>Sustut Exploration Inc.</u>	<u>Reorganization/share exchange (3/30/09)</u>	<u>Proforma</u>
LIABILITIES AND EQUITY						
Current Liabilities						
Accounts Payable	1,964,795		1,964,795	1,950(10)		1,966,745
Accrued Expenses	1,044,075		1,044,075		65,000(12)	1,109,075
Accrued Warranties	256,397		256,397			256,397
Accrued Contract Losses	743,319		743,319			743,319
Loans Payable	214,490		214,490		(146,250)(12)	68,240
Interest on Loans Payable	6,798		6,798			6,798
Income Tax Payable	263,654		263,654			263,654
Total Current Liabilities	4,493,528	-	4,493,528	1,950	(81,250)	4,414,228
Other Liabilities						
Long Term Debt - Longview Fund LP	5,409,762				(5,409,762)(11)	-
		8,114,643(3)	13,524,405		(8,114,643)(13)	-
Long Term Debt - Alpha Capital Anstalt	590,238		590,238		(590,238)(11)	-
Accrued Interest on Notes	76,000		76,000		83,781(11)	-
					(159,781)(11)	-
Total Other Liabilities	6,076,000	8,114,643	14,190,643	-	(14,190,643)	-
Total Liabilities	10,569,528	8,114,643	18,684,171	1,950	(14,271,893)	4,414,228
Equity						
Optex Systems, Inc. Stockholders' Equity						
Sustut - Preferred Stock (.001 par 5,000 authorized, 1027 series A preferred issued and outstanding)					1(14)	1
Sustut - Common Stock (.001 par 200,000,000 authorized, 19,999,991 shares issued and outstanding)				20,000(10)	121,465(14)	141,465
Preferred Stock (.001 par 1,027 authorized, 1,027 shares issued and outstanding)					1(11)	-
					(1)(14)	-
Optex Systems, Inc. Delaware - Common Stock (par \$0.001, 300,000,000 authorized, 85,000,000 shares issued and outstanding)	50,000					-
	35,000(9)		85,000			-
					8,132(12)	-
					(93,132)(14)	-
Additional Paid-in-capital	14,795,368	(8,602,585)(3)				-
	(35,000)(9)		6,157,783	467,700(10)		-
					552,646(12)	-
					454,417(12)	-
					(517,983)(14)	-
					8,602,585(13)	-
					6,159,780(11)	21,876,928
Retained Earnings (Deficit)	(5,938,855)		(5,938,855)	(489,650)(10)		-
					(83,781)(11)	-
					489,650(14)	(6,022,636)
Total Optex Systems, Inc. Stockholders' Equity	8,906,513	(8,602,585)	303,928	(1,950)	15,693,780	15,995,758
Non Controlling Interest		1,500,000(3)	1,500,000		(1,500,000)(13)	-
Total Liabilities and Equity	19,476,041	1,012,058	20,488,099	-	(78,113)	20,409,986

See accompanying notes to pro forma financial statements

Qtr 1 Income Statements 1

Optex Systems, Inc.
Pro Forma Statements of Operations (Unaudited)
Three months ended December 28, 2008

	<u>Optex - Texas</u>	<u>Pro forma Adjustments</u>	<u>Proforma</u>
Revenues	7,264,084		7,264,084
Total Cost of Sales	6,305,050		6,305,050
Gross Margin	959,034	-	959,034
General and Administrative			
Salaries and Wages	158,876		158,876
Employee Benefits	83,420		83,420
Employee Stock Bonus Plan	-	-	-
Amortization of Intangible	101,158		101,158
Rent, Utilities and Building Maintenance	55,332		55,332
Legal and Accounting Fees	76,219		76,219
Consulting and Contract Service Fees	79,323		79,323
Corporate Allocations	-	-	-
Other Expenses	77,345		77,345
Total General and Administrative	631,673	-	631,673
Earnings (Loss) before Other Expenses and Taxes	327,361	-	327,361
Other Expenses			
Other Income and Expense	(436)		(436)
Interest (Income) Expense - Net	92,298	(85,500)(5)	6,798
Total Other	91,862	(85,500)	6,362
Income (Loss) before Taxes	235,499	85,500	320,999
Federal Income Tax Expense (Benefit)	263,654	-(8)	263,654
Net Income (Loss) After Taxes	(28,155)	85,500	57,345
Less preferred stock dividend	-	(92,430)(15)	(92,430)
Net loss applicable to common shareholders	(28,155)	(6,930)	(35,085)
Basic and diluted loss per share	\$ (2.82)		\$ (0.00)
Weighted Average Common Shares Outstanding	10,000		141,464,940(16)

See accompanying notes to pro forma financial statements

(A.) BASIS OF PRESENTATION

The purchase method of accounting has been used in the preparation of the accompanying unaudited pro forma condensed financial statements. Under this method of accounting, the purchase consideration is allocated to tangible and intangible assets acquired and liabilities assumed based on their respective fair values. For purposes of the unaudited pro forma condensed consolidated financial statements, the fair values were established based on the final offering price at the public auction held on October 14, 2008.

The fair value of the ten percent (10%) non-controlling interest at the date of acquisition by Sileas on February 20, 2009 is estimated to be approximately \$1,500,000. The fair value was derived by computing 10% of the value of the company as a whole, based on the value of the consideration given by Sileas for its ninety (90%) acquisition. The fair value of the Company as a whole was established by the consideration of \$15,000,000 given in the previous transaction whereby Longview and Alpha Capital acquired the Company in a public auction on October 14, 2008. Based on the stability of the nature of the Company's operations in the current marketplace, the fair value of the October 14, 2008 consideration was deemed to be representative of the current market value

(B.) CONSIDERATION

The aggregate consideration for the transfer of the assets of Optex Texas via public sale on October 14, 2008 consisted of \$15 million of debt issued by IRSN and held by Optex Delaware and the assumption of approximately \$3.8 million of Optex Texas liabilities by Optex Delaware.

The aggregate consideration for the subsequent acquisition of Longview Fund, LP's 90% interest in Optex Delaware as of February 20, 2009 was fully funded by a \$13,524,405 Note issued to Longview Fund, LP by Sileas that bears annual interest of 4%. In exchange for the Note, Longview transferred 45,081,350 shares of Optex common stock and the Optex Note, dated December 2, 2008, issued to Longview in the principal amount of \$5,409,762.

(C.) DETAILS OF THE PRO FORMA ADJUSTMENTS RELATING TO THE LONGVIEW AND SILEAS ACQUISITIONS ARE AS FOLLOWS:

1. To record the acquisition of the net assets of Optex Systems, Inc. by Optex Delaware on October 14, 2008 for \$15,000,000 and the effects of the purchase on asset, liability, and equity accounts for the assets transferred, notes and common stock issued and impacts to goodwill.

The purchase price consisted of:

As of October 14, 2008	
Notes Payable	
Longview Fund, LP	\$ 5,409,762
Alpha Capital Anstalt	\$ 590,238
Fair Value of Common Stock Issued (50,000,000 shares at .001 par)	\$ 9,000,000
Total	<u>\$15,000,000</u>

The Optex Delaware purchase was allocated 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	<u>343,898</u>
Total assets	18,822,013
Liabilities:	
Current liabilities, consisting of accounts payable of \$1,953,833 and accrued liabilities of \$1,868,180	<u>\$ 3,822,013</u>
Acquired net assets	<u><u>\$15,000,000</u></u>

Liabilities not assumed by Optex Delaware as of the acquisition are summarized below:

Optex "Texas" Liabilities not assumed :	As of October 14, 2008
Income Tax Payable	\$ 4,425
Note Payable - Tim Looney	2,000,000
Accrued Interest on Looney Note	345,648
Intercompany Payable	4,301,579
Total Liabilities assumed by Irvine Sensors, Inc.	<u><u>\$ 6,651,652</u></u>

2. To record the effect of evaluation of intangible assets as of October 14, 2008 for the amortizable value as of the Optex Delaware acquisition. The unamortized balance of intangible assets as of September 28, 2008 and the acquisition date was \$1,100,140. The amortizable intangible assets determined as a result of the evaluation is \$4,036,790. The resultant difference of \$2,936,650 has been reflected as of the September 28, 2008 pro forma balance sheet. The intangible assets acquired by Optex Delaware consist primarily of customer and program backlog with an expected amortization period of 5 years based on customer delivery schedules (contract backlog) and expected benefit period (program backlog) of the acquired asset.

3. To record the Sileas acquisition of 90% interest in Optex Delaware as of February 20, 2009.

Assets:	
Current assets, consisting primarily of inventory of \$5,327,438 and accounts receivable of \$2,897,583	\$ 8,687,102
Identifiable intangible assets	3,173,793
Purchased Goodwill	7,110,415
Other non-current assets, principally property and equipment	<u>316,923</u>
Total assets	\$19,288,233
Liabilities:	
Current liabilities, consisting primarily of accounts payable of \$2,068,653 and accrued liabilities of \$2,039,663	<u>\$ 5,275,886</u>
Acquired net assets	<u>\$14,012,347</u>
Purchase price	
Total consideration to seller (Sileas 90% interests)	\$13,524,405
Fair Value minority interest under FAS 141R	<u>1,500,000</u>
	<u>\$15,024,405</u>
Excess purchase price reported as goodwill	\$ 1,012,058

The purchase of 90% interest by Sileas was fully funded by a Note issued in the amount of \$13,524,405.

The management believes the evaluation of intangible assets as of the October 14, 2008 acquisition by Optex Delaware to be a fair representation of the acquired asset as of February 20, 2009 as there has been no substantial change in customer or program backlog since the initial review. The intangible balance of \$3,173,793 represents the amount as of February 20, 2009, net of accumulated amortization of \$862,997 expensed through the Sileas acquisition date.

4. To record the total increased amortization expense of intangible assets of \$1,474,829 for the year ended September 28, 2008. This amount was based on the new amortization schedule amount as determined for the Optex Delaware acquisition of \$2,071,194, less the \$596,365 recorded for the respective year. The amounts of \$1,327,346 and \$147,483 were allocated between cost of sales and general and administrative expenses, respectively. The intangible amortization is not deductible for tax reporting purposes.
 5. To record the reduction in interest expense of \$200,000 for year ended September 28, 2008 for the \$2,000,000 Note to Tim Looney that was not assumed in the Optex Delaware acquisition. To record the reduction in interest expense of \$85,500 for the three months ended December 28, 2008 for the Tim Looney Note (\$9,500) and Alpha Capital and Longview Fund \$6,000,000 Notes (\$76,000).
 6. To record the reduction in general administrative expenses for the elimination of IRSN corporate cost allocations of \$2,076,184 for the year ended September 28, 2008.
 7. To record the reduction in employee stock bonus compensation for IRSN stock issues made to Optex employees of \$378,716 for year ended September 28, 2008.
 8. To record the federal income tax benefit of \$29,925 for the interest expense reduction during the three months ended December 28, 2008 based on an assumed tax rate of thirty-five percent (35%) of net income before intangible amortization. There are no federal income tax benefits for the year ended September 28, 2008 as the company had a cumulative retained deficit.
 9. To record the effect of the 1.7:1 Optex Delaware Stock split for the year ended September 28, 2008 and three months ended December 28, 2008.
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10. To record Sustut Exploration Company audited financial statement balances for December 31, 2008. The financials as presented reflect the Sustut 2.5:1 stock split and cancellation of 25,000,000 common stock shares as of March 30, 2009.
 11. To record the effect of the conversion of debt and associated accrued and unpaid interest by Sileas and Alpha Capital Anstalt into 1,027 shares of series A preferred stock
 12. To record the effect of the private placement on cash, loan payable and equity as of September 28, 2008 and December 28, 2008.
 13. To remove the impact of the Sileas purchase on the Note Payable to Longview, goodwill and non controlling interest from Optex Delaware as of September 28, 2008 and December 28, 2008. The Sileas ownership will have been diluted to a percentage less than that under which push-down accounting applies, and thus these amounts will be carried on the Sileas financial statements rather than Optex Delaware.
 14. To record the reorganization/share exchange between Optex and Sustut at a 1.16: 1 ratio of Sustut common shares for each Optex common share. Preferred shares are exchanged on a 1:1 ratio.
 15. To record effect of preferred stock dividend for year ended September 28, 2008 and three months ended December 28, 2008.
 16. To reflect new capitalized shares outstanding after reorganization for year ended September 28, 2008 and three months ended December 28, 2008.
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