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

FORM 10-Q

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

For the quarterly period ended January 1, 2012

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

For the transition period from ______to______.

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

Delaware	**000-54114**	**90-0609531**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

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

Registrant's telephone number, including area code: (972) 644-0722

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No ¨

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of February 15, 2012: 139,444,940 shares of common stock.

OPTEX SYSTEMS HOLDINGS, INC.
FORM 10-Q

For the period ended January 1, 2012

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Item 1. Financial Information

Item 1. Financial Information

OPTEX SYSTEMS HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JANUARY 1, 2012

Optex Systems Holdings, Inc.
Condensed Consolidated Balance Sheets

	(Thousands)	
	January 1, 2012 (Unaudited)	**October 2, 2011**
ASSETS		
Current Assets		
Cash	$ 1,299	$ 1,514
Accounts Receivable	2,010	2,392
Net Inventory	4,222	4,088
Prepaid Expenses	46	17
Total Current Assets	**$ 7,577**	**$ 8,011**
Property and Equipment		
Property Plant and Equipment	$ 1,488	$ 1,488
Accumulated Depreciation	(1,340)	(1,227)
Total Property and Equipment	**$ 148**	**$ 261**
Other Assets		
Deferred Tax Asset - Long Term	$ 1,140	$ 1,204
Security Deposits	21	21
Total Other Assets	**$ 1,161**	**$ 1,225**
Total Assets	**$ 8,886**	**$ 9,497**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$ 573	$ 716
Accrued Expenses	419	547
Accrued Warranties	25	25
Credit Facility	188	507
Total Current Liabilities	**$ 1,205**	**$ 1,795**
Total Liabilities	**$ 1,205**	**$ 1,795**
Stockholders' Equity		
Optex Systems Holdings, Inc. – (par $0.001, 2,000,000,000 authorized, 139,444,940 shares issued and outstanding)	$ 139	$ 139
Optex Systems Holdings, Inc. Preferred Stock ($0.001 par 5,000 authorized, 1,027 series A preferred issued and outstanding)	-	-
Additional Paid-in-capital	17,797	17,662
Retained Earnings (Deficit)	(10,255)	(10,099)
Total Stockholders' Equity	**$ 7,681**	**$ 7,702**
Total Liabilities and Stockholders' Equity	**$ 8,886**	**$ 9,497**

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

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

	(Thousands) Three months ended January 1, 2012		(Thousands) Three months ended January 2, 2011	
Revenues	$	**4,270**	$	**4,984**
Total Cost of Sales		3,568		4,321
Gross Margin	$	**702**	$	**663**
General and Administrative		676		560
Operating Income (Loss)	$	**26**	$	**103**
Other Expenses				
Interest (Income) Expense - Net		10		23
Total Other	$	**10**	$	**23**
Income (Loss) Before Taxes	$	**16**	$	**80**
Deferred Income Taxes (Benefit)		65		29
Net Income (Loss) After Taxes	$	**(49)**	$	**51**
Less preferred stock dividend	$	**(107)**	$	**(101)**
Net income (loss) applicable to common shareholders	$	**(156)**	$	**(50)**
Basic and diluted income (loss) per share	$	**(0.00)**	$	**(0.00)**
Weighted Average Common Shares Outstanding		**139,444,940**		**139,444,940**

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

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

	(Thousands)	
	Three months ended January 1, 2012	Three months ended January 2, 2011
Cash flows from operating activities:		
Net income (loss)	$ (49)	$ 51
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	113	18
Noncash interest expense	5	8
Stock option compensation expense	28	25
(Increase) decrease in accounts receivable	382	338
(Increase) decrease in inventory (net of progress billed)	(134)	224
(Increase) decrease in prepaid expenses	(29)	(33)
(Increase) decrease in deferred tax asset (net of valuation allowance)	65	29
Increase (decrease) in accounts payable and accrued expenses	(277)	88
Increase (decrease) in accrued estimated loss on contracts	-	(255)
Total adjustments	**$ 153**	**$ 442**
Net cash (used)/provided by operating activities	**$ 104**	**$ 493**
Cash flows from investing activities:		
Purchased of property and equipment	**-**	**(30)**
Net cash (used in) provided by investing activities	**$ -**	**$ (30)**
Cash flows from financing activities:		
Proceeds (to) from credit facility (net)	(319)	(390)
Net cash (used In) provided by financing activities	**$ (319)**	**$ (390)**
Net increase (decrease) in cash and cash equivalents	$ (215)	$ 73
Cash and cash equivalents at beginning of period	1,514	1,030
Cash and cash equivalents at end of period	**$ 1,299**	**$ 1,103**
Supplemental cash flow information:		
Cash paid for interest	$ 5	16

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

Note 1 - Organization and Operations

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

Optex Systems Holdings' operations are based in Richardson, Texas in a leased facility comprising 49,100 square feet. As of January 1, 2012, Optex Systems Holdings operated with 76 full-time equivalent employees.

Optex Systems Holdings manufactures optical sighting systems and assemblies, primarily for Department of Defense and foreign military applications. Its products are installed on a variety of U.S. military land vehicles, such as the Abrams and Bradley fighting vehicles, light armored and advanced security vehicles, and have been selected for installation on the Stryker family of vehicles. Optex Systems Holdings also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Optex Systems Holdings' products consist primarily of build to customer print products that are delivered both directly to the military and to other defense prime contractors.

In February 2009, Optex Systems Holdings' ISO certification status was upgraded from 9001:2000 to 9001:2008, bringing Optex Systems Holdings into compliance with the new ISO standards rewritten to align with ISO 14001.

Note 2 - Accounting Policies

Basis of Presentation

Principles of Consolidation: The consolidated financial statements include the accounts of Optex Systems Holdings and its wholly-owned subsidiary, Optex Systems, Inc. All significant inter-company balances and transactions have been eliminated in consolidation.

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

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

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

Inventory: Inventory is recorded at the lower of cost or market value, and adjusted, as necessary, for decreases in valuation and obsolescence. Adjustments to the valuation and obsolescence reserves are made after analyzing market conditions, current and projected sales activity, inventory costs and inventory balances to determine appropriate reserve levels. Cost is determined using the first-in first-out method. Under arrangements by which progress payments are received against certain contracts, the customer retains a security interest in the undelivered inventory identified with these contracts. Payments received for such undelivered inventory are classified as unliquidated progress payments and deducted from the gross inventory balance. As of January 1, 2012 and October 2, 2011, inventory included:

	(Thousands)	
	As of January 1, 2012 (unaudited)	As of October 2, 2011
Raw Materials	$ 2,746	$ 3,917
Work in Process	1,767	1,930
Finished Goods	409	176
Gross Inventory	$ 4,922	$ 6,023
Less:		
Unliquidated Progress Payments	(14)	(1,181)
Inventory Reserves	(754)	(754)
Net Inventory	$ 4,154	$ 4,088

Revenue Recognition:Optex Systems Holdings recognizes revenue based on the modified percentage of completion method utilizing the units-of-delivery method, in accordance with FASB ASC 605-35:

The units-of-delivery method recognizes as revenue the contract price of units of a basic production product delivered during a period and as the cost of earned revenue the costs allocable to the delivered units; costs allocable to undelivered units are reported in the balance sheet as inventory or work in progress. The method is used in circumstances in which an entity produces units of a basic product under production-type contracts in a continuous or sequential production process to buyers' specifications.

Optex Systems Holdings contracts are fixed price production type contracts whereby a defined order quantity is delivered to the customer during a continuous or sequential production process tailored to the buyer's specifications (build to print). Optex Systems Holdings' deliveries against these contracts generally occur in monthly increments across fixed delivery periods spanning from 3 to 36 months.

Optex Systems Holdings may at times have contracts that allow for invoicing based on achievement of milestone events. In such cases, Optex Systems Inc. recognizes revenue based on the milestone method in accordance with FASB ASC 605-28, as applicable.On October 24, 2011, Optex Systems Inc. was awarded a $7.8 million dollar contract which provided for milestone invoices up to a total of $3.7 million as outlined in the summarized contract table below. In accordance with FASB 605-28, Optex Systems, Inc. recognizes milestone payments as revenue upon completion of a substantive milestone as commensurate with the following guidelines: our performance to achieve the milestone, the milestone relates solely to past performance and is reasonable relative to all of the deliverables and payment terms within the arrangement. Milestones are not considered as substantive if any portion of the associated milestone consideration relates to the remaining deliverables in the unit of accounting. Non substantive milestone payments are reported as a liability on the balance sheet as Customer Advance Deposits.

Milestone Event	Estimated Completion / Invoice Date	Thousands Revenue	Thousands Customer Deposits / Liability
Start of Work Meeting			
System Functional Review			
Production Start of Work	Nov-11	$ 34.4	$ 552.9
Delivery of Two Prototypes	Nov-11	63.7	61.8
Preliminary Design Review			
PRM #1 (Meeting)			
Production Readiness Review	Nov-11	25.0	1,032.4
Placement of Long Lead Material (LLM)	Nov-11	25.0	100.4
Delivery of Two Engineering Development Units	Dec-11	55.0	100.0
Critical Design Review			
PRM #2 (Meeting)	Jan-12	25.0	150.0
Delivery of One Production Ready Unit	Feb-12	68.2	100.0
PRM #3 (Meeting)	Mar-12	69.3	570.0
Delivery of Two Final Production Ready Units	Jun-12	128.0	575.0
Total Milestones		**$ 493.6**	**$ 3,242.5**

In the three months ending January 1, 2012, Optex recognized $123 thousandof revenue as a result of achieving substantive milestone events. During the three months ending January 2, 2011, there were no existing contracts providing for milestone billing, and no revenue was recognized as a result of milestone events.

Customer Advance Deposits:Customer advance deposits represent amounts collected from customers in advance of shipment or revenue recognition which relate to undelivered product due to non substantive milestone payments or other cash in advance payment terms. As of January 1, 2012 Optex Systems, Inc. had invoiced $1.6 million in customer advance deposits related to non substantive milestone billings during November and December 2011. As the amounts were unpaid as of January 1, 2012, they are not reflected in the customer advance deposits.The terms of the contract extend through 2017 during which time we are required to purchase the necessary materials to fulfill the delivery of products required by the contract. As of October 2, 2011, there were no milestone or advance payment agreements; thus the customer advance deposit balance was zero.

Stock-Based Compensation: FASB ASC 718 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, but primarily focuses on transactions whereby an entity obtains employee services for share-based payments. FASB ASC 718 requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments or that may be settled by the issuance of those equity instruments.

The Company’s accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of FASB ASC 505-50. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor’s performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, whichever is more readily determinable in accordance with FASB ASC 718.

Income Tax/Deferred Tax: FASB ASC 740 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on differing treatment of items for financial reporting and income tax reporting purposes. The deferred tax balances are adjusted to reflect tax rates by tax jurisdiction, based on currently enacted tax laws, which will be in effect in the years in which the temporary differences are expected to reverse. Under FASB ASC 740, 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. Optex Systems Holdings has recognized deferred income tax benefits on net operating loss carry-forwards to the extent Optex Systems Holdings believes it will be able to utilize them in future tax filings. The difference between the statutory income tax expense and the accounting tax expense is primarily attributable to non-deductible expenses representing permanent timing differences between book income and taxable income during the three months ended January 1, 2012.

Earnings per Share: Basic earnings per share is computed by dividing income available for common shareholders (the numerator) by the weighted average number of common shares outstanding (the denominator) for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The potentially dilutive securities that Optex Systems Holdings has outstanding are convertible preferred stock, stock options and warrants. In computing the dilutive effect of convertible preferred stock, the numerator is adjusted to add back any convertible preferred dividends, and the denominator is increased to assume the conversion of the number of additional common shares. Optex Systems Holdings uses the Treasury Stock Method to compute the dilutive effect of stock options and warrants. Convertible preferred stock, stock options and warrants that are anti-dilutive are excluded from the calculation of diluted earnings per common share.

For the three months ended January 1, 2012, 1,027 shares of Series A preferred stock, 48,597,649 stock options and 9,948,667 warrants were excluded as anti-dilutive. For the three months ended January 2, 2011, 1,027 shares of Series A preferred stock, 2,697,649 stock options and 9,948,667 warrants were excluded as anti-dilutive.

Note 3 - Commitments and Contingencies

Leases

Pursuant to a lease amendment effective January 4, 2010, Optex Systems Holdings leases its office and manufacturing facilities under a non-cancellable operating lease expiring July 31, 2015, in addition to maintaining several non-cancellable operating leases for office and manufacturing equipment. Total expense under facility lease agreements as of the three months ended January 1, 2012 was $73 thousand, and total expense for manufacturing and office equipment was $4 thousand. Total expense under facility lease agreements for the three months ended January 2, 2011 was $71 thousand. Total expense for manufacturing and office equipment for the three months ended January 2, 2011 was $9 thousand.

As of January 1, 2012, the remaining minimum lease payments under the non-cancelable operating leases for equipment, office and facility space are as follows:

	Operating Leases (Thousands)
Fiscal Year	
2012	$ 175
2013	232
2014	242
2015	201

Total minimum lease payments	**$ 850**

Pursuant to the terms of the amendment to the facilities lease, there was no base rent payment due from January 1, 2010 through July 31, 2010, and the total value of this rent abatement was $134 thousand. The value of the deferred rent expense will be amortized monthly at a rate of $2 thousand per month over the life of the lease. The total unamortized deferred rent as of January 1, 2012 was $86 thousand. Commencing on August 1, 2010, the base rent payment was $19 thousand per month.

Note 4 - Debt Financing

Credit Facility – Avidbank

On March 22, 2011, the Company amended their revolving credit facility with Avidbank, which provides up to $1 million in financing against eligible receivables. The material terms of the amended revolving credit facility are as follows:

- The interest rate for all advances shall be the greater of 8.5% and the then in effect prime rate plus 3.5% and subject to a minimum semiannual interest payment of $20 thousand

- Interest shall be paid monthly in arrears.

- The expiration date of the facility is March 15, 2012, at which time any outstanding advances, and accrued and unpaid interest thereon, will be due and payable.

- The obligations of Optex Systems, Inc. to Avidbank are secured by a first lien on all of its assets (including intellectual property assets should it have any in the future) in favor of Avidbank.

- The facility contains customary events of default. Upon the occurrence of an event of default that remains uncured after any applicable cure period, Avidbank's commitment to make further advances may terminate, and Avidbank would also be entitled to pursue other remedies against Optex Systems, Inc. and the pledged collateral.

- Pursuant to a guaranty executed by Optex Systems Holdings in favor of Avidbank, Optex Systems Holdings has guaranteed all obligations of Optex Systems, Inc. toAvidbank.

  The facility contains a requirement for the Company to maintain a zero balance on the revolving line for a period of at least 30 consecutive days during the period from March 15, 2011 and March 15, 2012.

As of January 1, 2012, the outstanding balance on the line of credit is $188 thousand. For the period ended January 1, 2012, the total interest expense against the outstanding line of credit balance was $10 thousand. Optex Systems Holdings satisfied the 30 consecutive zero balance on the revolving line of credit between August 4, 2011 and September 4, 2011.

Note 5-Stock Based Compensation

On March 26, 2009, the Board of Directors adopted the 2009 Stock Option Plan providing for the issuance of up to 6,000,000 shares to Optex Systems Holdings officers, directors, employees and to independent contractors who provide services to Optex Systems Holdings

Options granted under the 2009 Stock Option Plan vest as determined by the Board of Directors of Optex Systems Holdings or a committee set up to act as a compensation committee of the Board of Directors and terminate after the earliest of the following events: (i) expiration of the option as provided in the option agreement, (ii) 90 days following the date of termination of the employee, or (iii) ten years from the date of grant (five years from the date of grant for incentive options granted to an employee who owns more than 10% of the total combined voting power of all classes of Optex Systems Holdings stock at the date of grant). In some instances, granted stock options are immediately exercisable into restricted shares of common stock, which vest in accordance with the original terms of the related options. Optex Systems Holdings recognizes compensation expense ratably over the requisite service period.

The option price of each share of common stock is determined by the Board of Directors or a committee set up to act as a compensation committee, provided that with respect to incentive stock options, the option price per share will in all cases be equal to or greater than 100% of the fair value of a share of common stock on the date of the grant, except an incentive option granted under the 2009 Stock Option Plan to a shareholder that owns more than 10% of the total combined voting power of all classes of Optex Systems Holdings' stock, will have an exercise price of not less than 110% of the fair value of a share of common stock on the date of grant. No participant may be granted incentive stock options, which would result in shares with an aggregate fair value of more than $100,000 first becoming exercisable in one calendar year.

Optex Systems Holdings adopted its 2009 Stock Option Plan on March 26, 2009. On December 9, 2011, Optex Systems Holdings Board of Directors authorized an amendment to its Stock Option Plan to increase the number of issuable shares from 6,000,000 to 50,000,000 and authorized the grant of 10,000,000 options to two board members and a total of 36,070,000 to Optex Systems Holdings employees including 20,000,000 options to executive officers, at an exercise price of $0.01per share with each grant to vest 25% per year over four years for each year with which the grantee is still employed by or serving as a director of Optex Systems Holdings (with all unvested options automatically expiring on the date of termination of employment by or service as a director of Optex Systems Holdings) and all unvested options immediately vesting upon a change of control due to a merger or acquisition of Optex Systems Holdings, with the options to be issued within 60 days of December 9, 2011.For shares granted as of December 9, 2011, Optex Systems Holdings anticipates an annualized employee turnover rate of 3% per year, and as such anticipates that only 42,716,864 of the 46,070,000 shares will vest as of the end of the contract term.

On March 30, 2009, 1,414,649 stock options with an exercise price of $0.15 were granted to an officer of Optex Systems Holdings which vest as follows: 34% after the first year, and 33% each after the second and third years. These options carry a grant expiration date of seven years after issuance. On May 14, 2009, 1,267,000 stock options were issued to other Optex Systems Holdings employees, including 250,000 shares to one officer. These stock options vest 25% per year after each year of employment and carry a grant expiration date of seven years after issuance. For shares granted as of May 14, 2009, Optex Systems Holdings anticipates an annualized employee turnover rate of 5% per year, and as such anticipates that only 1,113,000 of the 1,267,000 shares will vest as of the end of the contract term.

As of January 1, 2012, 1,504,315 of the awarded stock options had vested and 154,000 shares had been forfeited due to employee turnover. As of January 2, 2011, 776,731 of the awarded stock options had vested and 84,000 shares had been forfeited due to employee turnover.

Optex Systems Holdings recorded compensation costs for options and shares granted under the plan amounting to $28 thousand and $25 thousand for the quarters ended January 1, 2012 and January 2, 2011, respectively. The impact of this expense was immaterial to the basic and diluted net loss per share for the quarters ended January 1, 2012 and January 2, 2011, respectively. A deduction is not allowed for income tax purposes until nonqualified options are exercised. The amount of this deduction will be the difference between the fair value of Optex Systems Holdings' common stock and the exercise price at the date of exercise. For the quarters ended January 1, 2012 andJanuary 2, 2011, the estimated deferred tax assets related to option compensation costs were $9 thousand each of the respective quarters. These tax effects have been recorded in the financial statement expenses. No tax deduction is allowed for incentive stock options. Accordingly no deferred tax asset is recorded for GAAP expense related to these options.

The company records it's stock based compensation expense in accordance with ASC 718-10, "Compensation – Stock Compensation". In estimating the value of stock options issued, management has valued the options at their date of grant utilizing the Black-Scholes-Merton option pricing model. For options issued on December 9, 2011, the fair value of the underlying shares was determined based on the closing price of Optex Systems Holdings' publicly-traded shares as of December 9, 2011 Further, Optex used an expected volatility of 364.2% which was calculated using the historical Optex Systems Holdings stock prices over the prior 12 month trading period. Estimation of these equity instruments' fair value is affected by our stock price, as well as assumptions regarding subjective and complex variables such as employee exercise behavior and our expected stock price volatility over the term of the award. As our assumptions are based on historical information, judgment is required to determine if historical trends are fair indicators of future outcomes.

The risk-free interest ratesused of 1.5% to 2.2% were determined based on the implied yield available on U.S. Treasury issues with an equivalent term approximating the expected life of the options of 4.5 to 7 years depending on the date of the grant and expected life of the options. The expected life of options used was based on the contractual life of the option grant. Optex Systems Holdings determined the expected dividend rate based on the assumption and expectation that earnings generated from operations are not expected to be adequate to allow for the payment of dividends in the near future and the assumption that Optex Systems Holdings does not presently have any intention of paying cash dividends on its common stock

Optex Systems Holdings has granted stock options to officers and employees as follows:

Date of Grant	Shares Granted		Exercise Price	Shares Outstanding As of 01/01/12	Expiration Date	Vesting Date
03/30/09	480,981	$	0.15	480,981	03/29/2016	03/30/2010
03/30/09	466,834	$	0.15	466,834	03/29/2016	03/30/2011
03/30/09	466,834	$	0.15	466,834	03/29/2016	03/30/2012
05/14/09	316,750	$	0.15	278,250	05/13/2016	05/14/2010
05/14/09	316,750	$	0.15	278,250	05/13/2016	05/14/2011
05/14/09	316,750	$	0.15	278,250	05/13/2016	05/14/2012
05/14/09	316,750	$	0.15	278,250	05/13/2016	05/14/2013
12/09/11	11,517,500	$	0.01	11,517,500	12/08/2018	12/08/2012
12/09/11	11,517,500	$	0.01	11,517,500	12/08/2018	12/08/2013
12/09/11	11,517,500	$	0.01	11,517,500	12/08/2018	12/08/2014
12/09/11	11,517,500	$	0.01	11,517,500	12/08/2018	12/08/2015
Total	48,751,649			48,597,649		

The following table summarizes the status of Optex Systems Holdings' aggregate stock options granted under the incentive stock option plan:

Subject to Exercise	**Number of Shares Remaining Options**		**Weighted Average Intrinsic Price**	**Weighted Average Life (Years)**		**Aggregate Value**
Outstanding as of October 3, 2010	**2,598,649**	$	-	4.13		-
Granted – 2011	**—**	$	—	—		—
Forfeited – 2011	**(71,000)**	$	—	—		—
Exercised – 2011	**—**	$	—	—		—
Outstanding as of October 2, 2011	**2,527,649**	$	—	3.38		—
Granted – 2012	**46,070,000**	$	—	5.94		—
Forfeited – 2012	**—**	$	—	—		—
Exercised – 2012	**—**	$	—	—		—
Outstanding as of January 1, 2012	**48,597,649**	$	—	5.80		—
Exercisable as of October 2, 2011	**1,504,315**		—			—
Exercisable as of January 1, 2012	**1,504,315**	$	—	—	$	—

There were 46,070,000 new options granted and zero options exercised during quarter ended January 1, 2012. The total intrinsic value of options granted during the quarter ended January 1, 2012was $0.

The following table summarizes the status of Optex Systems Holdings' aggregate non-vested shares granted under the 2009 Stock Option Plan:

	Number of Non-vested Shares Subject to Options	Weighted-Average Grant-Date Fair Value
Non-vested as of October 3, 2010	**1,821,668**	$ 0.15
Non-vested granted — year ended October 2, 2011	—	$ 0.00
Vested — year ended October 2, 2011	(727,334)	$ 0.12
Forfeited — year ended October 2, 2011	(71,000)	$ 0.15
Non-vested as of October 2, 2011	**1,023,334**	$ 0.15
Non-vested granted — three months ended January 1, 2012	46,070,000	$ 0.01
Vested — three months ended January 1, 2012	—	$ —
Forfeited — three months ended January 1, 2012	—	$ —
Non-vested as of January 1, 2012	**47,093,334**	$ 0.01

As of October 2, 2011, the unrecognized compensation cost related to non-vested share based compensation arrangements granted under the plan was approximately $397 thousand. These costs are expected to be recognized on a straight line basis through December 8, 2018.

Warrant Agreements: Optex Systems Holdings calculates the fair value of warrants issued with debt or preferred stock using the Black-Scholes-Merton valuation method. The total proceeds received in the sale of debt or preferred stock and related warrants are allocated among these financial instruments based on their relative fair values. The discount arising from assigning a portion of the total proceeds to the warrants issued is recognized as interest expense for debt from the date of issuance to the earlier of the maturity date of the debt or the conversion dates using the effective yield method.

As of January 1, 2012, Optex Systems Holdings had the following warrants outstanding:

	Grant Date	Warrants Granted	Exercise Price	Outstanding as of 10/03/10	Expiration Date	Term
Private Placement Stock Holders	3/30/2009	8,131,667	$ 0.450	8,131,667	3/29/2014	5 years
Finder Fee on Private Placement	3/30/2009	717,000	$ 0.165	717,000	3/29/2014	5 years
Longview Fund Allonge Agreement	1/5/2010	100,000	$ 0.150	100,000	1/4/2013	3 years
Peninsula Bank Business Funding - Line of Credit	3/4/2010	1,000,000	$ 0.100	1,000,000	3/3/2016	6 years
Total Warrants		**9,948,667**		**9,948,667**		

During the periods ended January 1, 2012 and January 2, 2011, Optex Systems Holdings recorded a total of $0 thousand and $8 thousand in interest expense related to the outstanding warrants and has an unamortized interest balance of zero as of January 1, 2012. These warrants are not included in the computation of weighted average of shares as it would be anti-dilutive.

Note 6 Stockholder's Equity

Common stock:

During the quarters ended January 1, 2012 and January 2, 2011 there were no new issues of common or preferred stock.

On June 22, 2011, our shareholders approved an amendment to our articles of incorporation to increase our authorized shares of common stock to 2 billion. This amendment was the subject of a Definitive Information Statement on Scheduled 14C which was filed with the SEC on September 23, 2011 and filed with the Secretary of State of the State of Delaware on November 23, 2011.

On April 14, 2011 Optex filed a Registration Statement on Form S-1 which provides for the sale of up to 25,000,000 shares of our common stock at a fixed price (currently anticipated to be $0.01 per share), which will trigger the ratchet provision of the Series A preferred stock and reduce the conversion price to $0.01 per share. The S-1 also contemplates a reduction in the warrant exercise price to $0.01 per share for the 2009 private placement investors and a waiver of accrued dividends from the Series A preferred shareholders. The Registration Statement on Form S-1 is currently in the review process with the Commission.

Series A preferred stock

Optex Systems Holdings has 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”. 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 stock entitles 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, which was 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.

As of the three months ended January 1, 2012 and January 2, 2011, Optex Systems Holdings recorded preferred dividends payable of $107 and $101 thousand, respectively. As of July 3, 2011, the preferred shareholders agreed to waive the past dividends in arrears through July 3, 2011 of $884 thousand in exchange for an increase in the stated value to $6,830.64. According to the agreement, future dividends related to the preferred shares were also to be waived pending approval of the S1- filing.As of January 1, 2012 there was a total of$ 213 thousand of dividends in arrears on Series A preferred shares pending approval of the S-1 filing.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis or Plan of Operations

This management's discussion and analysis reflects information known to management as at January 1, 2012 and through the date of this filing. This MD&A is intended to supplement and complement our audited financial statements and notes thereto for the fiscal year ended October 2, 2011 and the quarter ended January 1, 2012, prepared in accordance with U.S. generally accepted accounting principles (GAAP). You are encouraged to review our financial statements in conjunction with your review of this MD&A. The financial information in this MD&A has been prepared in accordance with GAAP, unless otherwise indicated. In addition, we use non-GAAP financial measures as supplemental indicators of our operating performance and financial position. We use these non-GAAP financial measures internally for comparing actual results from one period to another, as well as for planning purposes. We will also report non-GAAP financial results as supplemental information, as we believe their use provides more insight into our performance. When non-GAAP measures are used in this MD&A, they are clearly identified as non-GAAP measures and reconciled to the most closely corresponding GAAP measure.

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.

Background

On March 30, 2009, a reorganization was consummated pursuant to which the then existing shareholders of Optex Systems, Inc. (Delaware) exchanged their shares of common stock for shares of common stock of Optex Systems Holdings as follows: (i) the outstanding 85,000,000 shares of Optex Systems, Inc. (Delaware) common stock were exchanged by Optex Systems Holdings for 113,333,282 shares of Optex Systems Holdings common stock, (ii) the outstanding 1,027 shares of Optex Systems, Inc. (Delaware) Series A preferred stock were exchanged by Optex Systems Holdings for 1,027 shares of Optex Systems Holdings Series A preferred stock, and (iii) the 8,131,667 shares of Optex Systems, Inc. (Delaware) common stock purchased in the private placement were exchanged by Optex Systems Holdings for 8,131,667 shares of Optex Systems Holdings common stock. Optex Systems, Inc. (Delaware) has remained a wholly-owned subsidiary of Optex Systems Holdings.

As a result of the reorganization, Optex Systems Holdings changed its name from Sustut Exploration Inc. to Optex Systems Holdings, Inc., and its year end from December 31 to a fiscal year ending on the Sunday nearest September 30.

Optex Systems, Inc. (Delaware) manufactures optical sighting systems and assemblies, primarily for Department of Defense applications. Its products are installed on various types of U.S. military land vehicles, such as the Abrams and Bradley fighting vehicles, light armored and armored security vehicles and have been selected for installation on the Stryker family of vehicles. Optex Systems, Inc. (Delaware) also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Optex Systems, Inc. (Delaware) products consist primarily of build-to-customer print products that are delivered both directly to the armed services and to other defense prime contractors. Less than 1% of today's revenue is related to the resale of products substantially manufactured by others. In this case, the product would likely be a simple replacement part of a larger system previously produced by Optex Systems, Inc. (Delaware).

By way of background, the Federal Acquisition Regulation is the principal set of regulations that govern the acquisition process of government agencies and contracts with the U.S. government. In general, parts of the Federal Acquisition Regulation are incorporated into government solicitations and contracts by reference as terms and conditions effecting contract awards and pricing solicitations.

Many of our contracts are prime or subcontracted directly with the Federal government and, as such, are subject to Federal Acquisition Regulation Subpart 49.5, "Contract Termination Clauses" and more specifically Federal Acquisition Regulation clauses 52.249-2 "Termination for Convenience of the Government Fixed-Price)", and 49.504 "Termination of fixed-price contracts for default". These clauses are standard clauses on our prime military contracts and generally apply to us as subcontractors. It has been our experience that the termination for convenience is rarely invoked, except where it is mutually beneficial for both parties. We are currently not aware of any pending terminations for convenience or for default on our existing contracts.

In the event a termination for convenience were to occur, Federal Acquisition Regulation clause 52.249-2 provides for full recovery of all contractual costs and profits reasonably occurred up to and as a result of the terminated contract. In the event a termination for default were to occur, we could be liable for any excess cost incurred by the government to acquire supplies from another supplier similar to those terminated from us. We would not be liable for any excess costs if the failure to perform the contract arises from causes beyond the control and without the fault or negligence of the company as defined by Federal Acquisition Regulation clause 52.249-8. In addition, the Government may require us to transfer title and deliver to the Government any completed supplies, partially completed supplies and materials, parts, tools, dies, jigs, fixtures, plans, drawings, information, and contract rights that we have specifically produced or acquired for the terminated portion of this contract. The Government shall pay contract price for completed supplies delivered and accepted, and we and the Government would negotiate an agreed upon amount of payment for manufacturing materials delivered and accepted and for the protection and preservation of the property. Failure to agree on an amount for manufacturing materials is subject to the Federal Acquisition Regulation Disputes clause 52.233-1.

Many of our contracts allow for government contract financing in the form of contract progress payments pursuant to Federal Acquisition Regulation 52.232-16, “Progress Payments”. As a small business, and subject to certain limitations, this clause provides for government payment of up to 90% of incurred program costs prior to product delivery. In addition, Optex has a significant contract that allows for milestone payments in advance of delivery, based on achieving significant milestone events in accordance with the contract schedule. To the extent our contracts allow for progress or milestonepayments, we intend to utilize these benefits, thereby minimizing the working capital impact on Optex Systems Holdings for materials and labor required to complete the contracts.

Our contracts allow for Federal Acquisition Regulation 52.243-1 which entitles the contractor to an “equitable adjustment" to the contract if the contract changes result in a change in contract costs or time of performance. In essence, an equitable price adjustment request is a request for a contract price modification (generally an increase) that allows for the contractor to be "made whole" for additional costs incurred which were necessitated by some modification of the contract effort. This modification may come from an overt change in Government requirements or scope, or it may come from a change in the conditions surrounding the contract (e.g., differing site conditions or late delivery of Government-furnished property) which result in statement of work additions, deletions, part substitutions, schedule or other changes to the contract which impact the contractor's overall cost to complete. Optex has submitted an equitable adjustment request on the Aiming Circle Howitzer program due to significant design issues impacting the manufacturability of the product. Discussions with the contracting agency are ongoing; however, as of January 1, 2012, we have not yet received resolution from the contracting officer regarding the status of our request.

Results of Operations

Backlog as of January 1, 2012 was $19.5 million as compared to a backlog of $16.6 million as of January 2, 2011, representing an increase of 17.5%. The following table depicts the current expected delivery by of all contracts awarded as of January 1, 2012.

Product Line	Qtr 2	Qtr 3	Qtr 4	2012	2013	2014	2015	2016	2017	Total
Howitzer	0.7	0	0	0.7	0	0	0	0	0	0.7
Periscopes	2.5	2.8	2.1	7.4	1.6	0.1	0	0	0	9.1
Sighting Systems	0.3	0.2	0.1	0.6	1.6	1.6	1.4	1.4	1.2	7.8
Other	0.1	0.2	1.3	1.6	0.1	0.1	0.1	0	0	1.9
Total	3.6	3.2	3.5	10.3	3.3	1.8	1.5	1.4	1.2	19.5

In the first fiscal quarter of 2012, Optex Systems Holdings received $12.3 million in new orders consisting of a $7.8 million M36 contract deliverable over 5 years from a major international defense contractor, a $1.2 million other product line award from the Defense Logistics Agency for a Gunner's Head Assembly on the M1 Abrams Tank deliverable in fiscal year 2012, and $3.3 million in additional orders from several customers primarily in support of our periscope and other product line which will be delivered in fiscal years 2012 and 2013. The $7.8 million M36 contract provides for milestone billings in the current fiscal year of $3.7 million of which approximately $3.2 million relates to customer advance deposits for future year deliverables.

Three Months Ended January 1, 2012 Compared to the Three Months Ended January 2, 2011

Revenues. In the three months ended January 1, 2012, revenues decreased by (14.0)% from the respective prior period in 2011 as set forth in the table below (dollar amounts in millions):

Product Line	(Millions, except for percentages) Three Months ended January 1, 2012		January 2, 2011	Change
Howitzer Programs	$	1.0	1.6	(0.6)
Periscope Programs		2.8	2.9	(0.1)
Sighting Systems		0.3	-	0.3
All Other		0.2	0.5	(0.3)
Total	$	4.3	5.0	(0.7)
Percent increase (decrease)				*(14.0)%*

Revenues decreased by $(0.1) million, or (3.4%), on our periscope line during the three months ended January 1, 2012 as compared to the three months ended January 2, 2011. Based on our current backlog demand and projected orders for the remaining three quarters of fiscal 2012, we expect the periscope product line revenues to approximatethe revenues in the same quarters in 2011. We continue to quote and receive awards for additional periscopes from multiple customers and are aggressively pursuing increased market share in the periscope market by drawing business away from our competitors; however, we cannot yet determine if we will be successful in gaining sufficient new additional periscope business to offset the downturn caused by the decline in new federal government orders.

Revenues from the Howitzer programs decreased $(0.6) million, or (37.5%), over the same three months in the prior year. The decline in revenue is primarily due to completion of two of our Howitzer programs in FY2011 with no current follow-on contracts. We expect the volume decline to continue as we ship the $0.7 million contract balance of the remaining Howitzer contract in the next quarter.

Sighting systems revenues increased $0.3 million, or 100%, over the same three months in the prior year, due to milestone invoices related to prototype development of M36 Day/Night vision units to a foreign customer, and M36 refurbishments and repair revenues to domestic customer, combined with the shipment of spare of back up sights to a domestic customer in the first quarter of fiscal year 2012. We expect deliveries on sighting systems to increase significantly throughout fiscal year 2012 and beyond due to the recent award of a significant $7.8 million 5 year M36 contract booked in November 2011. Fiscal year 2012 deliveries against the program are expected to be approximately $0.6 million,while full production for the contract is not expected to commence until the first quarter of fiscal year 2013 and will continue at a rate of approximately $1.5 million per year thereafter through contract completion.In addition, we continue to ship small sighting systems orders pursuant to other contracts to both federal government and non-U.S. government customers and continue to pursue business on several substantial programs for commander weapon sighting systems and M36 thermal sighting units.

Decreases in the other product lines of $(0.3) million, or (60.0%), for the three months ending January 1, 2012 compared to the prior year period are due to lower orders and production quantities from GDLS on collimator muzzle reference system assemblies as our current contracts for these units are winding down.We expect overall revenues for the other product lines to increase by approximately 45% in fiscal year 2012 as compared to fiscal year 2011, primarily in the fourth fiscal quarter due to the award of the Defense Logistics Agency Gunner's Head Assemblies of $1.2 million due later in the year.

We experienced losses in our Howitzer programs as a result of unanticipated manufacturing costs due to design and technical data package issues impacting the product manufacturability. These issues resulted in increased labor and material costs due to higher scrap and extensive engineering costs incurred during the initiation phase of the programs. Included in the total realized losses against these programs is $0.8 million related specifically to one of the contracts for which Optex has requested an equitable adjustment due to significant design issues impacting the manufacturability of the product. As there is no guarantee that the request will be granted in part or in full, Optex realized the entire loss in fiscal year 2010 and as of October 2, 2011,all of the loss Howitzer contracts were complete. Optex has been engaged in ongoing conversations with the contracting agency regarding the equitable adjustment claim and expects resolution sometime in the current fiscal year. In the event we are unsuccessful in obtaining an equitable adjustment settlement, there will be no future margin impact for on these programs as the losses have been previously recognized through the completion of the program.

Cost of Goods Sold. During the three months ended January 1, 2012, we recorded cost of goods sold of $3.6 million as opposed to $4.3 million during the three months ended January 2, 2011, a decrease of $0.7 million or 16.3%. This decrease in cost of goods sold was primarily associated with decreased revenues from the comparable three month period in the prior year, in addition to changes in revenue mix to more profitable product lines. The gross margin during the three months ended January 1, 2012 was $0.7 million or 16.3% of revenues as compared to a gross margin of $0.7 million or 14.0% for the three months ended January 2, 2011. The increase in gross margin percentage for the quarter as compared to the prior year is primarily due toa shift in product mix toward more profitable programs and completion of the Howitzer loss programs in 2011.

G&A Expenses. During the three months ended January 1, 2012, we recorded operating expenses of $0.7 million as opposed to $0.6 million, during the three months ended January 2, 2011, an increase of $0.1 million or 16.7%. Operating expenses increasedover prior year levels primarily due to increased sales and marketing expenses due to the direct hire of aVice President of Business Development $0.03 million, securing an advertising/public relations agreement $0.02 million, increased travel and exposition expenses $0.02 million, research and development costs $0.02 million and legal costs associated with patent research and filing fees, which were necessary to facilitate new product and customer growth into day and night thermal vision (M36) markets. We expect the increased general and administrative costs to continue throughout fiscal year 2012 with an overall increase of approximately 20% over the prior year level. We believe these investments in product development have contributed significantly to the new orders booked in the first quarter of fiscal year 2012 and expect these changes to increase our overall footprint in the optical vision market for tactical vehicles moving forward.

Operating Income (Loss). During the three months ended January 1, 2012, we recorded operating income of $0.03 million, as compared to operating income of $0.1 million during the three months ended January 2, 2011. The decline in operating income of $0.07 million is primarily due to increased spending in general and administrative costs in the current year over prior year levels.

Net Income (Loss) applicable to common shareholders. During the three months ended January 1, 2012, we recorded a net loss applicable to common shareholders of $(0.16) million, as compared to $(0.05) million for the three months ended January 2, 2011, representing anincreased loss of $(0.11) million. In the first three months of fiscal 2012, we recognized deferred tax expenses $0.07 million as compared to $0.03 in the same period of fiscal year 2011. The change in taxes is primarily due to the effect of temporary and permanent timing differences related to intangible amortization and goodwill.Interest expense decreased by $0.01 million in the current quarter as compared to the prior year quarter.

Liquidity and Capital Resources

Cash Flows for the Period from October 2, 2011 through January 1, 2012

Cash and Cash Equivalents. As of January 1, 2012, we had cash and cash equivalents of $1.3 million. During the period from October 3, 2011 through January 1, 2012, we decreased cash and cash equivalents by $0.2 million primarily attributable to payments made against the open line of credit.

Net Cash Provided by Operating Activities. Net cash provided by operating activities during the period from October 3, 2011 to January 1, 2012 totaled $0.1 million. The primary sources of cash during this period relate to decreases in accounts receivable of $0.4 million offset by increased accounts payable and accrued expenses of ($0.3) million. .

Net Cash (Used) by Investing Activities. In the three months ended January 1, 2012, there was no cash used by investing activities.

Net Cash (Used) by Financing Activities. Net cash used by financing activities totaled $0.3 million during the three months ended January 1, 2012 due to the repayment of $0.3 million of the outstanding balance of the revolving credit facility since October 2, 2011.

Critical Policies and Accounting Pronouncements

Our significant accounting policies are fundamental to understanding our results of operations and financial condition. Some accounting policies require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. These policies are described in "Critical Policies and Accounting Pronouncements" and Note 2 (Accounting Policies) to Financial Statements in our Annual Report on Form 10-K for the year ended October 2, 2011.

Cautionary Factors That May Affect Future Results

This Quarterly Report on Form 10-Q and other written reports and oral statements made from time to time by Optex Systems Holdings 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 Optex Systems Holdings' 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 Optex Systems Holdings' 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.

Optex Systems Holdings does not assume the obligation to update any forward-looking statement. You should carefully evaluate such statements in light of factors described in this Form 10-Q. In various filings Optex Systems Holdings 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.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by our Quarterly Report on Form 10-Q for the quarter ended January 1, 2012, management performed, with the participation of our Principal Executive Officer and Principal Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the report we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's forms, and that such information is accumulated and communicated to our management including our Principal Executive Officer and our Principal Financial Officer, to allow timely decisions regarding required disclosures. Based upon the evaluation described above, our Principal Executive Officer and our Principal Financial Officer concluded that, as of January 1, 2012, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the quarter ended January 1, 2012, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are not aware of any litigation pending or threatened by or against the Company.

Item 1A. Risk Factors

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 Form 10-Q, 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

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

Future general political and economic conditions, which cannot be accurately predicted, may directly and indirectly affect the quantity and allocation of expenditures by government 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 government budget could have a material adverse impact on our results of operations. Given the continued adverse economic conditions, the federal government has slowed its pace with regard to the release of orders for the U.S. and foreign military. Since we depend on orders for equipment for the U.S. and foreign military for a significant portion of our revenues, this slower release of orders will continue to have a material adverse impact on our results of 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 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. Some of those contracts are for products that are new to our business and are thus subject to 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 fixed contractual costs of our product contracts, we will not be able to recover the excess costs which could have a material adverse effect on our business and results of operations. We examine these contracts on a regular basis and accrue for anticipated losses on these contracts, if necessary. As of January 1, 2012, there were no loss contracts or associated loss provisions accrued for fixed price contracts.

Approximately 95% of our contracts contain contract termination clauses for convenience. In the event these clauses should be invoked by our customer, future revenues against these contracts could be affected, however these clauses allow for a full recovery of any incurred contract costs plus a reasonable fee up through and as a result of the contract termination. We are currently unaware of any pending terminations on our existing contracts. In some cases, contract awards may be issued that are subject to renegotiation at a date (up to 180 days) subsequent to the initial award date. Generally, these subsequent negotiations have had an immaterial impact (zero to 5%) on the contract price of the affected contracts. Currently, none of our awarded contracts are subject to renegotiation.

We have sought to mitigate the adverse impact on our results of operations from U.S. military orders by seeking to obtain foreign military orders. We are still engaged in this process and cannot yet determine if our efforts will result in securing sufficient additional orders to mitigate the adverse impact on our results of operations from the slower pace of U.S. military orders.

Item 6. Exhibits

Exhibit No.	Description
31.1 and 31.2	Certifications pursuant to Section 302 of Sarbanes Oxley Act of 2002
32.1 and 32.2	Certifications pursuant to Section 906 of Sarbanes Oxley Act of 2002
EX-101.INS	XBRL Instance Document
EX-101.SCH	XBRL Taxonomy Extension Schema Document
EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
EX-101.LAB	XBRL Taxonomy Extension Label Linkbase Document
EX-101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

OPTEX SYSTEMS HOLDINGS, INC.

Date: February 15, 2012

By: */s/ Stanley A. Hirschman*
Stanley A. Hirschman
Principal Executive Officer

OPTEX SYSTEMS HOLDINGS, INC.

Date: February 15, 2012

By: */s/ Karen Hawkins*
Karen Hawkins
Principal Financial Officer and Principal Accounting Officer

EXHIBIT 31.1
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Stanley A. Hirschman, certify that:

1. I have reviewed this Quarterly Report for the quarter ended January 1, 2012 of Optex Systems Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Stanley A. Hirschman
Stanley A. Hirschman
Principal Executive Officer
Dated: February 15, 2012

EXHIBIT 31.2
CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Karen Hawkins, certify that:

1. I have reviewed this Quarterly Report for the quarter ended January 1, 2012 of Optex Systems Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Karen Hawkins
Karen Hawkins
Principal Financial Officer
Dated: February 15, 2012

EXHIBIT 32.1
STATEMENT OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO SECTION 1350 OF TITLE 18 OF THE UNITED STATES CODE

Pursuant to Section 1350 of Title 18 of the United States Code, the undersigned, Stanley A. Hirschman, Principal Executive Officer of Optex Systems Holdings, Inc. (the "Company"), hereby certifies that:

The Company's Quarterly Report on Form 10-Q for the quarter ended January 1, 2012 (the "Report") fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stanley A Hirschman.
Stanley A. Hirschman, Principal Executive Officer
Dated: February 15, 2012

EXHIBIT 32.2

STATEMENT OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 1350 OF TITLE 18 OF THE UNITED STATES CODE

Pursuant to Section 1350 of Title 18 of the United States Code, the undersigned, Karen Hawkins, principal financial officer of Optex Systems Holdings, Inc. (the “Company”), hereby certifies that:

The Company’s Quarterly Report on Form 10-Q for the quarter ended January 1, 2012 (the “Report”) fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ *Karen Hawkins*
Karen Hawkins, Principal Financial Officer
Dated: February 15, 2012