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

AMENDMENT NO. 2 TO FORM 10-K

☒ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended October 2, 2016

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ___ until ___

Commission File Number 000-54114

OPTEX SYSTEMS HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation organization)	**33-143215** (I.R.S. 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) 764-5700**

Securities Registered under Section 12(b) of the Act
None

Securities Registered under Section 12(g) of the Act
Common Stock, par value $.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☒

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

The aggregate market value of the 227,610 shares of voting stock held by non-affiliates of the registrant based on the closing price on the OTC Markets on March 31, 2016 was $500,742.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Title of Class	Shares Outstanding February 20, 2017
Common Stock	8,190,101

DOCUMENTS INCORPORATED BY REFERENCE

None.

Explanatory Note: This Amendment No. 2 to Form 10-K is being filed to update the auditor's report for our audited financial statements for the year ended October 2, 2016, as previously reported in our Form 10-K for the year ended October 2, 2016 as filed with the SEC on December 23, 2016, as previously amended by that certain Amendment No. 1 to Form 10-K, filed with the United States Securities and Exchange Commission on February 21, 2017.

This Form 10-K/A amends only the auditor's report set forth in Item 8 in the previously filed Amendment No. 1 to Form 10-K and no other information in the original Form 10-K or the Amendment No. 1 to Form 10-K is amended hereby, including but not limited to the fact that no changes are made to the audited financial statements set forth in Item 8 of the Amendment No. 1 to Form 10-K, other than corrections to the actual auditor's report.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by Optex Systems Holdings, Inc.'s principal executive officer and principal financial officer are being filed with this Form 10-K/A as Exhibits 31.1, 31.2, 32.1 and 32.2. In addition, Item 8 has been amended to contain a currently-dated consent of independent registered public accounting firms.

Item 8 Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Richardson, Texas

We have audited the accompanying consolidated balance sheets of Optex Systems Holdings, Inc. (the Company) as of October 2, 2016 and September 27, 2015, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Optex Systems Holdings, Inc. as of October 2, 2016 and September 27, 2015, 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.

As discussed in Notes 16 and 17 to the financial statements, the Company restated certain amounts previously reported as of and for the year ended October 2, 2016.

/s/PMB Helin Donovan, LLP

PMB Helin Donovan, LLP

December 22, 2016 (February 21, 2017 as to Notes 16 and 17 and the effects of the restatement)

Dallas Texas

Optex Systems Holdings, Inc.
Condensed Consolidated Balance Sheets

	(Thousands, except share data)	
	October 2, 2016 (Restated)	September 27, 2015
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 2,568	$ 683
Accounts Receivable, Net	2,095	2,866
Net Inventory	6,214	5,713
Prepaid Expenses	120	170
Current Assets	**10,997**	**9,432**
Property and Equipment, Net	**1,651**	**1,971**
Other Assets		
Prepaid Royalties - Long Term	90	120
Security Deposits	23	23
Other Assets	**113**	**143**
Total Assets	**$ 12,761**	**$ 11,546**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$ 706	$ 575
Accrued Expenses	810	812
Accrued Warranties	28	28
Customer Advance Deposits - Short Term	559	1,091
Credit Facility	300	817
Current Liabilities	**2,403**	**3,323**
Warrant Liability	3,118	-
Customer Advance Deposits - Long Term	-	65
Total Liabilities	**5,521**	**3,388**
Stockholders' Equity		
Preferred Stock Series A ($0.001 par 5,000 authorized, 0 and 1,001 issued and outstanding, respectively)	-	-
Preferred Stock Series B ($0.001 par 1,010 authorized, 0 and 994 issued and outstanding, respectively)	-	-
Preferred Stock Series C ($0.001 par 400 authorized, 360 and 0 issued and outstanding, respectively)	-	-
Common Stock – ($0.001 par, 2,000,000,000 authorized, 8,266,601 and 314,867 shares issued and outstanding, respectively)	8	-
Additional Paid-in-capital	26,879	26,394
Accumulated Deficit	(19,647)	(18,236)
Stockholders' Equity	**7,240**	**8,158**
Total Liabilities and Stockholders' Equity	**$ 12,761**	**$ 11,546**

The accompanying notes are an integral part of these financial statements

Optex Systems Holdings, Inc.
Consolidated Statements of Operations

	(Thousands, except share data) Twelve months ended	
	October 2, 2016 (Restated)	**September 27, 2015**
Revenue	**$ 17,279**	**$ 13,003**
Cost of Sales	14,228	11,617
Gross Margin	**3,051**	**1,386**
General and Administrative Expense	3,962	2,826
Operating (Loss)	**(911)**	**(1,440)**
Gain on Purchased Asset	-	2,110
Gain on Change in Fair Value of Warrant Liability	739	-
Interest Income (Expense)	(36)	(179)
Other Income	**703**	**1,931**
Income (Loss) Before Taxes	**(208)**	**491**
Current Income Taxes (Benefit)	-	-
Deferred Income Taxes (Benefit)	-	-
Net Income (Loss) After Taxes	**(208)**	**491**
Preferred stock dividend/premium	(1,203)	(6,441)
Net (loss) applicable to common shareholders	**$ (1,411)**	**$ (5,950)**
Basic and diluted (loss) per share	**$ (0.91)**	**$ (19.06)**
Weighted Average Common Shares Outstanding - basic and fully diluted	**1,546,774**	**312,219**

The accompanying notes are an integral part of these financial statements

Optex Systems Holdings, Inc.
Consolidated Statements of Cash Flows

	(Thousands) Twelve months ended	
	October 2, 2016 (Restated)	**September 27, 2015**
Cash flows from operating activities:		
Net (loss) income	$ (208)	$ 491
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	345	334
Gain on change in fair value of warrant liability	(739)	-
Noncash interest expense	(17)	154
Stock compensation expense	192	140
Provision for inventory valuation	60	247
Loss on sale of fixed assets	5	-
(Increase) decrease in accounts receivable	771	(2,135)
(Increase) decrease in inventory (net of progress billed)	(562)	(49)
(Increase) decrease in prepaid expenses	51	(130)
(Increase) decrease in security deposits	-	3
Increase (decrease) in accounts payable and accrued expenses	130	622
Increase (decrease) in accrued warranty costs	-	3
Decrease in prepaid royalties - long term	30	30
Increase (decrease) in customer advance deposits	(597)	(898)
Total adjustments	**(331)**	**(1,679)**
Net cash (used in) operating activities	**(539)**	**(1,188)**
Cash flows from investing activities		
Purchases of property and equipment	(34)	(2,100)
Proceeds from sale of fixed assets	4	-
Net cash (used in) investing activities	**(30)**	**(2,100)**
Cash flows from financing activities		
Proceeds from sale of common stock	4,750	-
Redemption of preferred stock	(1,751)	-
Deferred public offering costs	(45)	-
Proceeds from convertible notes issued	-	1,560
Debt issuance fees	-	(74)
Proceeds (to) from credit facility (net)	(500)	800
Net cash provided by financing activities	**2,454**	**2,286**
Net increase (decrease) in cash and cash equivalents	1,885	(1,002)
Cash and cash equivalents at beginning of period	683	1,685
Cash and cash equivalents at end of period	**$ 2,568**	**$ 683**
Supplemental cash flow information:		
Cash paid for interest	$ 53	$ 25
Exchange of convertible note and accrued interest to series B preferred stock	-	1,629
Beneficial conversion features on preferred stock	1,203	6,441
Exchange of preferred stock for common stock	6,939	10
Fair value of warrants issued for underwriter expenses in public offering	156	-

The accompanying notes are an integral part of these financial statements

Optex Systems Holdings, Inc.
Consolidated Statement of Stockholders' Equity

(Thousands, except share data)

	Common Shares Outstanding	Series A Preferred Shares	Series B Preferred Shares	Series C Preferred Shares	Common Stock	Preferred Series A Stock	Preferred Series B Stock	Additional Paid in Capital	Retained Earnings	Total Stockholders Equity
Balance at September 28, 2014 (post split(1))	310,867	1,001	-	-	$ -	$ -	$ -	$ 18,184	$ (12,286)	$ 5,898
Stock Option Compensation Expense	-	-	-	-	-	-	-	140	-	140
Preferred Series B Issued in Exchange of Convertible Notes	-	-	1,000	-	-	-	-	1,629	-	1,629
Conversion of Preferred Series B	4,000	-	(6)	-	-	-	-	-	-	-
Beneficial Conversion Feature on Series A and Series B Preferred Stock - Dividend/Premium	-	-	-	-	-	-	-	6,441	(6,441)	-
Net Income	-	-	-	-	-	-	-	-	491	491
Balance at September 27, 2015	314,867	1,001	994	-	$ -	$ -	$ -	$ 26,394	$ (18,236)	$ 8,158
Stock Compensation Expense		-	-	-	-	-	-	192	-	192
Issue of Shares - DTC/CEDE fractional roundup correction for reverse split 12/8/15	247	-	-	-	-	-	-	-	-	-
Conversion of Preferred Series B (10/23/15)	16,031	-	(25)	-	-	-	-	-	-	-
Conversion of Preferred Series A (3/27/16)	1,250,000	(456)	-	-	2	-	-	(2)	-	-
Conversion of Preferred Series B (7/6/16)	109,291	-	(167)	-	-	-	-	-	-	-
Conversion of Preferred Series A (8/10/16)	25,000	(9)		-	-	-	-	-	-	-
Issue of Common Shares for Investor Relations	40,000							-	-	-
Issuance of Common Stock 8/26/2016	2,291,900	-	-	400	2	-	-	4,748	-	4,750
Fees on Share Offering paid by Optex	-	-	-	-	-	-	-	(45)	-	(45)
Redemption of Series A & Series B Preferred Shares 8/26/2016	-	(66)	(796)	-	-	-	-	(1,751)	-	(1,751)
Fair value of warrants issued in offering 8/26/2016	-	-	-	-	-	-	-	(3,856)	-	(3,856)
Conversion of Series A & Series B Preferred Shares 8/26/2016	2,698,431	(470)	(6)	-	3	-	-	(3)	-	-
Conversions of Series C Preferred Shares	166,667	-	-	(40)	-	-	-	-	-	-
Ratchet on Preferred Series A 3/27/16 Conversion (10/18/16)	1,354,167	-	-	-	1	-	-	(1)	-	-
Beneficial Conversion Feature on Preferred Stock - Dividend/Premium	-	-	-	-	-	-	-	1,203	(1,203)	-
Net (loss)	-	-	-	-	-	-	-	-	(208)	(208)
Balance at October 2, 2016 (Restated)	8,266,601	-	-	360	$ 8	$ -	$ -	$ 26,879	$ (19,647)	$ 7,240

(1) Reverse split effective on October 7, 2015 of 1000:1 shares, inclusive of round up lot quantity of 139,953 shares for holders of less than 100,000 shares, pre-split. Holders of less than 100,000 shares were rounded up to whole lots of 100 post split.

The accompanying notes are an integral part of these financial statements

Note 1 — Organization and Operations

Optex Systems Holdings, Inc. (The Company) is filing this Amendment No. 1 to its Annual Report on Form 10-K for the year ended October 2, 2016, which was originally filed with the Securities and Exchange Commission on December 23, 2016. The Company has restated its consolidated financial statements for the year ended October 2, 2016 to correct the manner in which the Company recorded 4,125,200 warrants that were issued in conjunction with common stock and Series C preferred shares pursuant to a public offering on August 26, 2016. These restatements have been reflected in the amended financial statements contained herein. The errors which were included in the December 23, 2016 Form 10-K Annual Report were incurred during the final month of the 2016 fiscal year and were subsequently identified in the following quarter prior to submission of any interim reports with the Securities and Exchange Commission. As such, restated balances are limited to the Annual Report on Form 10-K for fiscal year ending October 2, 2016. Please refer to Note 17 – Restatements for a complete summary of the restatement adjustments and an “As Reported” and “As Restated” comparison of the affected balances within the financial reports. As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by Optex Systems Holdings, Inc.’s principal executive officer and principal financial officer are being filed with this Form 10-K/A as Exhibits 31.1, 31.2, 32.1 and 32.2. In addition, Item 8 has been amended to contain a currently-dated consent of independent registered public accounting firms.

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.

On October 14, 2008, certain senior secured creditors of Irvine Sensors Corporation, Longview Fund, L.P. (Longview) and Alpha Capital Anstalt formed Optex Systems, Inc., which acquired all of the assets and assumed certain liabilities of Optex Systems, Inc., a Texas corporation (“Optex Systems, Inc. (Texas)”), and a wholly-owned subsidiary of Irvine Sensors Corporation, in a transaction that was consummated via purchase at a public auction. Following this asset purchase, Optex Systems, Inc. (Texas) remained a wholly-owned subsidiary of Irvine Sensors Corporation.

On February 20, 2009, Sileas Corporation (Sileas), a newly-formed Delaware corporation, owned by present members of Optex Systems Holdings’ management, purchased 100% of Longview’s equity and debt interest in Optex Systems, Inc. (Longview’s interest in Optex Systems, Inc. then representing 90% of the issued and outstanding common equity interests in Optex Systems, Inc.), in a private transaction.

Optex Systems, Inc. operated as a privately-held Delaware corporation until March 30, 2009, when, as a result of a reverse merger transaction consummated pursuant to a reorganization agreement dated March 30, 2009, it became a wholly-owned subsidiary of Optex Systems Holdings. Sileas is the majority owner (parent) of Optex Systems Holdings, owning approximately 46.9% of the issued and outstanding equity interests in Optex Systems Holdings. The financial statements of Optex Systems Holdings represent subsidiary statements and do not include the accounts of its majority owner.

Optex Systems Holdings’ operations are based in Dallas and Richardson, Texas in leased facilities comprising 93,967 square feet. As of October 2, 2016, Optex Systems Holdings operated with 91 full-time equivalent employees.

Optex Systems Holdings manufactures optical sighting systems and assemblies, for the U.S. Department of Defense, foreign military applications and commercial markets. 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 or commercial customers.

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.

On November 3, 2014, Optex Systems, Inc. entered into a Purchase Agreement with L-3 Communications, Inc. ("L-3") pursuant to which Optex purchased from L-3 the assets comprising L-3's Applied Optics Center (AOC) Products Line ("Purchased Assets"), which is engaged in the production and marketing and sales of precision optical assemblies utilizing thin film coating capabilities for optical systems and components primarily used for military purposes. See Note 4 Acquisition of L-3's Applied Optics Center.

U.S. military spending has been significantly reduced as a result of the Congressional sequestration cuts to defense spending, which began in fiscal year 2013. As a result of lower U.S. government spending, the Company has continued to explore other opportunities for manufacturing outside of our traditional product lines for products which could be manufactured using our existing lines in order to fully utilize our existing capacity. Further, we continue to look for additional strategic businesses to acquire that will strengthen our existing product line, expand our operations, and enter new markets.

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.

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: FASB ASC 280 requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments. Segments are determined based on differences in products, internal reporting and how operational decisions are made. Management has determined that the Optex Systems, Richardson plant, and the Applied Optics Center, Dallas plant, which was acquired on November 3, 2014, are separately managed, organized, and internally reported as separate business segments. The FASB ASC 280 requires that a public business enterprise report a measure of segment profit or loss, certain specific revenue and expense items, and segment assets. It requires reconciliations of total segment revenues, total segment profit or loss, total segment assets, and other amounts disclosed for segments to corresponding amounts in the enterprise's general-purpose financial statements.

Fiscal Year: Optex System Holdings' fiscal year ends on the Sunday nearest September 30. Fiscal year 2016 ended on October 2, 2016 and included 53 weeks. Fiscal year 2015 ended on September 27, 2015 and included 52 weeks.

Financial Instruments Indexed to and Potentially Settled in the Company's Common Stock: The Company evaluates all financial instruments issued in connection with its equity offerings when determining the proper accounting treatment for such instruments in the Company's financial statements. The Company considers a number of generally accepted accounting principles under U.S. GAAP to determine such treatment and evaluates the features of the instrument to determine the appropriate accounting treatment. For financial instruments either classified as a liabilities pursuant to ASC 480 "Distinguishing Liabilities from Equity" indexed to and potentially settled in the Company's common stock that are determined to be classified as liabilities on the consolidated balance sheet, changes in fair value are recorded as a gain or loss in the Company's consolidated statement of operations with the corresponding amount recorded as an adjustment to the liability on its consolidated balance sheets.

Fair Value of Financial Instruments: FASB ASC 825-10 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 October 2, 2016 and September 27, 2015.

The carrying value of the balance sheet cash and cash equivalents, accounts and notes receivable, accounts payable, accrued liabilities, and notes payable, are carried at, or approximate, fair value as of the reporting date because of their short-term nature. Fair values for the Company's warrant liabilities and derivatives are estimated by utilizing valuation models that consider current and expected stock prices, volatility, dividends, market interest rates, forward yield curves and discount rates. Such amounts and the recognition of such amounts are subject to significant estimates that may change in the future.

The accounting guidance FASB ASC 820-10, "*Fair Value Measurements and Disclosures"* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

The accounting guidance establishes a hierarchy which requires an entity to maximize the use of quoted market prices and minimize the use of unobservable inputs. An asset or liability's level is based on the lowest level of input that is significant to the fair value measurement. Fair value estimates are reviewed at the origination date and again at the each applicable measurement date and interim or annual financial reporting dates, as applicable for the financial instrument, and are based upon certain market assumptions and pertinent information available to management at those times.

The methods and significant inputs and assumptions utilized in estimating the fair value of the warrant liabilities are discussed further in Note 16 "Warrant Liabilities". Each of the measurements is considered a Level 3 measurement as a result of at least one unobservable input.

Cash and Cash Equivalents: For financial statement presentation purposes, Optex Systems Holdings considers those short-term, highly liquid investments with original maturities of three months or less to be cash or cash equivalents. Optex Systems Holdings' has $2,568 thousand in cash on deposit with our bank. Only a portion of the cash, currently $250 thousand, would be covered by federal deposit insurance and the uninsured balances are substantially greater than the insured amounts. We are exploring options to invest a portion of the excess cash into short term treasuries covered by federal deposit insurance in the near term.

Concentration of Credit Risk: Optex Systems Holdings' revenues and accounts receivables for fiscal year ended October 2, 2016 are derived from sales to U.S. government agencies (45%), General Dynamics (18%), Nightforce Optics, Inc. (15%) and all other contractors (22%). Optex Systems Holdings does not believe that this concentration results in undue credit risk because of the financial strength of the obligees.

Accounts Receivable: Optex Systems Holdings records its accounts receivable at the original sales invoice amount less 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, Optex Systems Holdings 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 of October 2, 2016 and September 27, 2015, Optex Systems Holdings had an allowance for doubtful accounts of $42 thousand and $8 thousand, for non U.S. government account balances greater than 120 days. As the customer base is primarily U.S. government and government prime contractors, Optex Systems Holdings allowance for doubtful accounts is minimal. Optex Systems Holdings charges uncollectible accounts to bad debt expense in the period as they are first deemed uncollectible. In the fiscal year 2016 there was $36 thousand, and in 2015, there was $5 thousand in bad debt expenses associated with uncollectable accounts.

Inventory: Inventory is recorded at the lower of cost or market, 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 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 October 2, 2016 and September 27, 2015 inventory included:

	(Thousands)	
	As of October 2, 2016	**As of September 27, 2015**
Raw Materials	$ 4,655	$ 4,545
Work in Process	2,830	2,456
Finished Goods	380	304
Gross Inventory	7,865	7,305
Less:		
Inventory Reserves	(1,651)	(1,592)
Net Inventory	**$ 6,214**	**$ 5,713**

Net inventory increased $501 thousand during the year ended October 2, 2016. The increase in net inventory is primarily in support of higher backlog and revenue in the current year over the prior year.

Warranty Costs: Some of Optex Systems Holdings' customers require that the company warrant the quality of its products to meet customer requirements and be free of defects for up to fifteen months subsequent to delivery. 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 warranty covered sales. Throughout the year, warranty costs are expensed as incurred, and as of each year end, Optex Systems Holdings reviews the prior 15 month warranty experience rate and may adjust the warranty accrual as required to cover any additional anticipated warranty costs related to prior shipments. As of October 2, 2016 and September 27, 2015, the existing warranty reserve balances of $28 thousand and $28 thousand, respectively, were reviewed and determined to be adequate to satisfy any future warranty claims that may have existed as of the end of each fiscal year for shipments occurring in the prior 15 months.

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.

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.

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 October 2, 2016, Optex Systems, Inc. had a balance of $559 thousand in customer advance deposits related to a 2011 customer contract. The terms of the contract extend through 2018 during which time we are required to purchase the necessary materials to fulfill the delivery of products required by the contract. Of the total collected customer advance deposits, $559 thousand related to short term customer advance deposits for deliveries to occur within the next twelve months.

Estimated Costs at Completion and Accrued Loss on Contracts: Optex Systems Holdings 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 at completion. Estimates at completion include Optex Systems Holdings' 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 estimate at completion indicates a potential overrun against budgeted resources for a fixed price contract/order, management first attempts to implement lower cost solutions that will 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 estimates at completion of the particular contract or product order. As of October 2, 2016 there was $0 in contract loss reserves. As of September 27, 2015 the contract loss reserves were $54 thousand.

During 2010, Optex Systems Holdings realized increased losses against the Howitzer programs of $1.1 million of which $0.8 million related specifically to production issues encountered on our Howitzer product line. Increased losses were primarily attributable to manufacturing issues on our U.S. government Howitzer Aiming Circles culminating in higher material scrap and labor hours, combined with a reduction in total production volume in 2010 which further impacted production efficiencies across all product lines. Optex Systems Holdings requested an equitable adjustment on this program due to significant design issues impacting the manufacturability of the product. As there was no guarantee that the request would be granted in part or in full, we realized the entire loss in fiscal year 2010. The initial equitable adjustment claim was formally rejected by the contracting agency on May 31, 2012; however, Optex Systems Holdings appealed the decision with the Armed Services Board of Contract Appeals (ASBCA). In September 2015, the U.S. Government agreed to an $850,000 settlement against the claim for the Aiming Circle contract number W52H09-06-D-0229. The settlement is the result of a negotiation and fact gathering process managed through the Armed Services Board of Contract Appeals (ASBCA). A contract modification was issued on September 23, 2015 increasing the total contract price by the agreed amount. As the respective units were shipped complete in 2011, the contract was essentially complete on execution of the modification and the entire amount was recorded as revenue for the twelve months ended September 27, 2015.

Government Contracts: Many of Optex Systems Holdings' contracts are prime or subcontracted directly with the Federal government and as such, are subject to Federal Acquisition Regulation (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 prime military contracts and are generally, "flowed down" to Optex Systems Holdings as subcontractors on other military business. It has been Optex Systems Holdings' experience that the termination for convenience is rarely invoked, except where it has been mutually beneficial for both parties. Optex Systems Holdings is not currently aware of any pending terminations for convenience or default on its existing contracts.

In the event a termination for convenience were to occur, these Federal Acquisition Regulation clause 52.249-2 provides for full recovery of all contractual costs and profits reasonably incurred up to and as a result of the terminated contract. In the event a termination for default were to occur, Optex Systems Holdings could be liable for any excess cost incurred by the government to acquire supplies from another supplier similar to those terminated from Optex Systems Holdings. Optex Systems Holdings would not be liable for any excess costs if the failure to perform the contract arises from causes beyond its control and without its fault or negligence as defined by Federal Acquisition Regulation clause 52.249-8. In addition, the government may require Optex Systems Holdings 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 Optex Systems Holdings has specifically produced or acquired for the terminated portion of this contract. The government shall pay contract price for completed supplies delivered and accepted, and Optex Systems Holdings 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.

In some cases, Optex Systems Holdings may receive orders subject to subsequent price negotiation on contracts exceeding the federal government simplified acquisition threshold of $750,000. These "undefinitized" contracts are considered firm contracts but as Cost Accounting Standards Board covered contracts, they are subject to the Truth in Negotiations Act disclosure requirements and downward only price negotiation. As of October 2, 2016 and September 27, 2015, Optex Systems had no booked orders that fell under this criterion.

Impairment or Disposal of Long-Lived Assets: Optex Systems Holdings follows the provisions of FASB ASC 360-10, "*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 cash flows are less than the carrying value of such assets, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to estimate future cash flows and the fair value of long-lived assets. No impairment of long-lived assets was recorded for the periods presented.

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.

Optex Systems Holdings' 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.

Beneficial Conversion Features of Convertible Securities: Conversion options that are not bifurcated as a derivative pursuant to ASC 815 and not accounted for as a separate equity component under the cash conversion guidance are evaluated to determine whether they are beneficial to the investor at inception (a beneficial conversion feature) or may become beneficial in the future due to potential adjustments. The beneficial conversion feature guidance in ASC 470-20 applies to convertible stock as well as convertible debt which are outside the scope of ASC 815. A beneficial conversion feature is defined as a nondetachable conversion feature that is in the money at the commitment date. In addition, some of our preferred stock shares contain conversion terms that may change upon the occurrence of a future event, such as antidilution adjustment provisions. The beneficial conversion feature guidance requires recognition of the conversion option's in-the-money portion, the intrinsic value of the option, in equity, with an offsetting reduction to the carrying amount of the instrument. The resulting discount is amortized as a dividend over either the life of the instrument, if a stated maturity date exists, or to the earliest conversion date, if there is no stated maturity date. If the earliest conversion date is immediately upon issuance, the dividend must be recognized at inception. When there is a subsequent change to the conversion ratio based on a future occurrence, the new conversion price may trigger the recognition of an additional beneficial conversion feature on occurrence.

Optex Systems Holdings has preferred stock, convertible into common shares, containing beneficial conversion features at inception as well as potential beneficial conversion features that could be triggered by future adjustments to the conversion price. Because our preferred stock is perpetual, with no stated maturity date, and the conversions may occur any time from inception, the dividend is recognized immediately when a beneficial conversion exists at issuance. During the twelve months ending September 27, 2015, Optex Systems Holdings recognized preferred stock dividends of $6.4 million on Series A and Series B preferred stock related to the beneficial conversion feature arising from a common stock conversion rate of $2.50 versus a current market price of $10.00 per common share (post-split). The August 26, 2016 public offering triggered a reset of the preferred stock conversion rate from $2.50 per common share to $1.20 per common share on our Series A and Series B preferred shares and resulted in a $0.8 million beneficial conversion feature. The public offering also included a beneficial conversion feature of $0.4 million at the August 26, 2016 commitment date of the 400 shares of Series C preferred stock issued in the offering, based on the effective conversion price of the shares, net of the allocated warrant proceeds. During the twelve months ending October 2, 2016, Optex Systems Holdings recognized a total preferred stock dividend of $1.2 million as a result of the beneficial conversion features triggered on the existing and new issues of preferred shares. See Note 13 "Stockholders Equity" and Note 16 "Warrant Liabilities".

Intangible Assets: Optex Systems Holdings has acquisition-related intangible assets which include the fair market value of customer order backlog as of the acquisition date. We determine the fair value of intangible assets using the income approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies, which requires some judgment by management. Amortization of acquisition-related intangible assets is expensed to total operating expenses as cost of sales and general and administrative expenses on a straight-line basis 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 residual values and useful lives are reviewed at each balance sheet date and adjusted, if appropriate. Optex Systems Holdings identified intangible assets of $342 thousand from the acquisition of the Applied Optics Center from L3 on November 3, 2014 which consisted primarily of customer backlog, with an initial useful life of less than one year. As of October 2, 2016 the unamortized balance of the intangible assets was zero. See Note 6.

Intangible assets with indefinite lives are tested annually for impairment, during the fiscal fourth quarter and between annual periods, if impairment indicators exist, and are written down to fair value as required.

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 Optex Systems Holdings will not realize tax assets through future operations. When assessing the recoverability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. Based on those estimates, management has determined that the deferred tax assets may not be realized and has established a valuation allowance against the deferred tax asset balance. As of October 2, 2016 Optex Systems Inc. has a deferred tax asset valuation allowance of ($4.7) million against deferred tax assets of $4.7 million.

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 twelve months ended October 2, 2016, 4,125,200 warrants, 360 Series C preferred stock and 52,840 stock options were excluded as anti-dilutive due to the net loss attributable to common shareholders during the years. For the twelve months ended September 27, 2015, 1,001 shares of Series A preferred stock, 994 shares of Series B preferred stock, 62,858 stock options and 1,000 warrants were excluded as anti-dilutive due to the net loss attributable to common shareholders during the years.

Note 3 — Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 reduces diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in ASU 2016-15 provide guidance on specific cash flow issues including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017. We are currently assessing the potential impact of ASU 2016-15 on our consolidated financial statements and results of operations.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (“ASU 2016-13”). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, held-to-maturity debt securities and loans, and requires entities to use a new forward-looking expected loss model that will result in the earlier recognition of allowance for losses. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for a fiscal year beginning after December 15, 2018, including interim periods within that fiscal year. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We are currently assessing the potential impact of ASU 2016-13 on our consolidated financial statements and results of operations.

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09 amending several aspects of share-based payment accounting. This guidance requires all excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled, with prospective application required. The guidance also changes the classification of such tax benefits or tax deficiencies on the statement of cash flows from a financing activity to an operating activity, with retrospective or prospective application allowed. Additionally, the guidance requires the classification of employee taxes paid when an employer withholds shares for tax-withholding purposes as a financing activity on the statement of cash flows, with retrospective application required. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (“ASU 2016-08”). ASU 2016-08 does not change the core principle of Topic 606 but clarifies the implementation guidance on principal versus agent considerations. ASU 2016-08 is effective for the annual and interim periods beginning after December 15, 2017. We are currently assessing the potential impact of ASU 2016-08 on our consolidated financial statements and results of operations.

In February 2016, FASB issued ASU 2016-02—*Leases (Topic 842).* The update is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in this update is permitted. Optex Systems Holdings is currently evaluating the impact of FASB ASU 2016-02 and expects the adoption thereof will have a material effect on Optex Systems Holdings' presentation of balance sheet assets and liabilities based on the present value of future lease payments, but does not expect a material effect on the presentation of expenses and cash flows

In July 2015, FASB issued ASU 2015-11—*Inventory (Topic 330): "Simplifying the Measurement of Inventory".* The update is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in this Update should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The update is part of FASB's Simplification Initiative, the objective of which is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced. Pursuant to the update, an entity should measure inventory at the lower of cost and net realizable value. The amendments in the update more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards (IFRS). Optex Systems Holdings is currently evaluating the impact of FASB ASU 2015-11 but does not expect the adoption thereof to have a material effect on Optex Systems Holdings' financial statements.

In August 2015, FASB Issued ASU 2015-14—"Revenue from Contracts with Customers (Topic 606): *Deferral of the Effective Date"* The amendments in this update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. See also ASU 2014-09 issued in May 2014.

In August 2014, FASB issued ASU 2014-15—Presentation of Financial Statements—Going Concern (ASC Subtopic 205-40): *"Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern".* The update requires management to assess a company's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. All entities are required to apply the new requirements in annual periods ending after December 15, 2016, and interim periods thereafter. Early application is permitted. As such, Optex Systems Holdings is required to adopt these provisions for the annual period ending October 1, 2017. Optex Systems Holdings is currently evaluating the impact of FASB ASU 2014-15 but does not expect the adoption thereof to have a material effect on Optex Systems Holdings' financial statements.

In May 2014, FASB issued ASU 2014-09—Revenue from Contracts with Customers (Topic 606): *"Section A—Summary and Amendments That Create Revenue from Contracts with Customers, (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40), Section B—Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables, Section C—Background Information and Basis for Conclusions".* The guidance in this update affects any entity that enters into contracts with customers to transfer goods or services and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition. The update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. As such, Optex Systems Holdings is required to adopt these provisions as of October 2, 2017, the beginning of the annual period ending September 30, 2018 and at the beginning of all interim periods ending after October 1, 2017. Optex Systems Holdings is currently evaluating the impact of FASB ASU 2014-09 but does not expect the adoption thereof to have a material effect on Optex Systems Holdings' financial statements. See also ASU 2015-14 issued in August, 2015.

Note 4 - Purchase of L-3's Applied Optics Products Center

On November 3, 2014, Optex Systems, Inc. entered into a Purchase Agreement with L-3 pursuant to which Optex Systems, Inc. purchased from L-3 the assets comprising L-3's Applied Optics Products Line ("Purchased Assets"). The Applied Optics Center is primarily engaged in the production, marketing and sales of precision optical assemblies utilizing thin film coating capabilities for optical systems and components primarily used for military purposes. The Purchased Assets consist of personal property, inventory, books and records, contracts, prepaid expenses and deposits, intellectual property, and governmental contracts and licenses utilized in the business comprised of the Purchased Assets.

The purchase price for the Purchased Assets was $1,013.1 thousand, which was paid in full at closing, plus the assumption of certain liabilities associated with the Purchased Assets in the amount of $270.7. The source of funds for the acquisition consisted of Optex Systems, Inc.'s working capital of $213.1 thousand and an advance of $800 thousand from accredited investors which was subsequently consummated on November 17, 2014 through the private placement of convertible notes issued by Optex Systems Holdings in a transaction exempt from registration under Section 4(2) of the Securities Act. See Note 11 "Issuance of Convertible Notes".

The asset acquisition met the definition of a business for business combinations under ASC 805-10-20. The following table reconciles the fair value of the acquired assets and assumed liabilities to the total purchase price of the Applied Optics Center Acquisition (in thousands):

		Fair Values as of November 3, 2014
Fixed Assets	$	2,064.7
Inventory		940.1
Prepaid Assets/Other		47.1
Liabilities		(270.7)
Net Assets Acquired		**2,781.2**
Intangible Asset:		
Customer Contracts/Backlog		342.2
Total Assets Acquired		**3,123.4**
Less: Cash Consideration		(1,013.1)
Gain on Bargain Purchase	**$**	**2,110.3**

The aggregate purchase consideration has been allocated to the assets and liabilities acquired, including identifiable intangible assets, based on their respective estimated fair values. The total assets acquired exceeded the total consideration paid, thus there is no goodwill associated with the asset purchase and the acquisition has been determined as a bargain purchase which requires immediate recognition of a gain on the purchased assets. The gain is reflected in earnings in Other Income on the Consolidated Statement of Operations as "Gain on Purchased Asset".

The intangible assets include finite-life intangibles associated with undelivered customer backlog as of the acquisition date and was valued using the income approach methodology that includes the discounted cash flow method as well as other generally accepted valuation methodologies, which requires significant judgment by management. The cash flow projections took into effect the expected net sales from the customer backlog as of November 3, 2014 and the corresponding expenses against those sales in the respective periods. The shipments against the customer backlog were delivered completed between January and June of 2015, and as such, the intangible amortization against those shipments was complete by June 28, 2015. As of October 2, 2016 the balance in unamortized intangible assets was zero.

The respective estimated fair values for property plant & equipment, and fixed assets were determined by an independent third-party appraisal firm. The appraisal methods employed by the firm in arriving at the final values on all of the equipment included a combination of the "Cost Approach" the "Market Data Approach" as well as "Income Approach" on specific high historical cost assets as presented by the seller. Certain assets which had very specific military manufacturing applications were operating at less than optimal capacity due to significantly reduced government spending from historical levels related to those processes. The excess or "idle" capacity on these unique assets was considered in the appraiser's valuation, and the appraised values adjusted downward accordingly, in consideration of the reduced revenue and corresponding limited cash flow that could reasonably be generated from these assets under the current market conditions.

Separate from the appraisal analysis, Optex Systems, Inc. completed a physical inventory of all raw material, work in process and finished goods inventories in their various stages of production as of the acquisition date, and conducted a thorough revaluation and review of the counted inventory carrying values giving downward consideration to any excess, obsolete, or other product inventories which were valued in excess of the expected net realizable values given the depressed market conditions. Based on the supplemental inventory review, combined with the income approach used on the excess and idle capacity assets applied by the appraiser, the company was satisfied that the third party appraisal fairly valued those assets. The total fair value appraisal for the purchased assets, before intangible assets and assumed liabilities approximated 73% of the net carrying values of those same assets on the sellers closing balance sheet as of November 3, 2014.

Optex Systems Holdings believes that it was able to acquire the Applied Optics Center for less than the fair value of its assets because of (i) its unique position as a market leader in the industry sector that directly utilizes the manufactured components specific to the Applied Optics Center, (ii) a previous customer/supplier relationship with the acquisition target, (iii) L-3's intent to exit the optical coating operations, and (iv) L-3's desire to provide for continued employment of the Applied Optics Center workforce. The Applied Optics Center had a recent history of losses, and the seller approached Optex Systems, Inc. in an effort to sell the product line and exit the optical coating manufacturing business that no longer fit its strategy. With the seller's intent to exit the business segment and Optex's position as a market leader within the same industry sector utilizing the product line capability, Optex Systems, Inc. was able to agree on a favorable purchase price with L-3 Communications.

As a result of the asset purchase, the company has incurred additional acquisition-related costs of approximately $40.2 thousand for legal, accounting and valuation consulting fees which have been expensed to general administrative costs in 2015.

Note 5 Segment Reporting

Optex Systems Holdings, Inc. has two reportable segments which include Optex Systems (OPX)-Richardson, and Applied Optics Center (AOC) – Dallas. The accounting policies for each segment are the same as those described in the summary of significant accounting policies. Optex Systems Holdings, Inc. evaluates performance based on profit and loss from operations before income taxes excluding nonrecurring gains and losses.

The Optex Systems Holdings reportable segments are strategic businesses offering similar products to similar markets and customers; however the companies are operated and managed separately due to differences in manufacturing technology, equipment, geographic location, and specific product mix. The Applied Optics Center was acquired as a unit, and the management at the time of the acquisition was retained.

The Applied Optics Center segment also serves as the key supplier of the laser coated filters used in the production of periscope assemblies at the Optex Systems Richardson segment. Intersegment sales and transfers are accounted for at annually agreed to pricing rates based on estimated segment product cost, which includes segment direct manufacturing and general and administrative costs, but exclude profits that would apply to third party external customers.

Optex Systems – Dallas, serves as the home office for both segments and shared general and administrative costs attributable to both segments are allocated directly to the segments based on the government costs accounting standard, CAS 403 – "Allocation of Home Office Expenses to Segments". The purpose of CAS 403 is to provide criteria for allocating home office expenses to the segments of an organization based on the beneficial or causal relationships between the expenses and the receiving segments. Based on CAS 403, Optex Systems Holdings allocates home office expenses based on a three factor formula which is the average of the following three percentages for the each segments fiscal year:

(1) The percentage of segment payroll dollars to total payroll dollars of all segments;
(2) The percentage of the segment's operating revenue to the total operating revenue of all segments
(3) The percentage of the average net book value of the sum of the segment's tangible capital assets plus inventories to the total average net book value of such assets of all segments.

Optex Systems (OPX) – Richardson, Texas

Optex Systems, Inc. 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. also manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. We have capabilities which include machining, bonding, painting engraving and assembly and can perform both optical and environmental testing in-house. Optex Systems, Inc. products consist primarily of build-to-customer print products that are delivered both directly to the armed services and to other defense prime contractors. Optex Systems in Richardson is both a prime and sub-prime contractor to the Department of Defense. Sub-prime contracts are typically issued through major defense contractors such as General Dynamics Land Systems, Raytheon Corp., BAE, NorcaTec and others. Optex Systems is also a military supplier to foreign governments such as Israel, Australia and NAMSA and South American countries and as a subcontractor for several large U.S. defense companies serving foreign governments.

During the year ended October 2, 2016, 99% of Optex Systems – Richardson revenues were in support of prime and subcontracted military customers. The Optex Systems segment serves domestic military customers, 71%, foreign military customers, 28%, and domestic commercial customers of 1%. The Optex Systems segment revenue for the year ending October 2, 2016 was derived from external customers consisting of General Dynamics, 27%, the U.S. government, 57%, International Parts Supply Corp. 5%, and other external customers, 11%.

Optex Systems is located in Richardson Texas, with leased premises consisting of approximately 49,100 square feet. As of October 2, 2016, the Richardson facility operated with 53 full time equivalent employees in a single shift operation. Optex Systems in Richardson serves as the home office for both the Optex Systems (OPX) and Applied Optics Center (AOC) segments.

Applied Optics Center (AOC) – Dallas

On November 3, 2014, Optex Systems, Inc. entered into a Purchase Agreement with L-3 pursuant to which Optex Systems, Inc. purchased from L-3 the assets comprising L-3's Applied Optics Center Products Line (see note 4). Applied Optics Center is engaged in the production, marketing and sales of precision optical assemblies and components which utilize thin film coating technologies. Most of the AOC products and services are directly related to the deposition of thin-film coatings. AOC is both a prime and sub-prime contractor to the Department of Defense. Sub-prime contracts are typically issued through major defense contractors such as General Dynamics Land Systems, Raytheon Corp., L-3 Communications, Excelis Inc. and others. AOC also creates a new sector of opportunity for commercial products. Globally, commercial optical products use thin film coatings to create product differentiation and performance levels. These coatings can be used for redirecting light (mirrors), blocking light (laser protection), absorbing select light (desired wavelengths), and many other combinations. They are used in telescopes, rifle scopes, binoculars, microscopes, range finders, protective eyewear, photography, etc. The Applied Optics Center is a key supplier to Nightforce Optics, Inc. and provides optical assembly components to their markets of interest in commercial sporting optics and select military optics. Given this broad potential, the commercial applications are a key opportunity going forward. The Applied Optics Center segment also serves as the key supplier of the laser coated filters used in the production of periscope assemblies at the Optex Systems Richardson segment.

The Applied Optics Center serves primarily domestic U.S. customers. Approximately 77% of the Applied Optics Center revenue for the year ending October 2, 2016 was derived from external customers consisting of Nightforce Optics, Inc., 43%, the U.S. government, 24%, L3 Communications, 10%, Excelis Inc., 15%, and other external customers, 8%. Sales to commercial customers represent 48% and military sales to prime and subcontracted customers represent 52% of the total segment revenue. Intersegment sales to Optex Systems – Richardson during the year ended October 2, 2016, comprised 23% of the total segments revenue and was primarily in support of military contracts.

The Applied Optics Center (AOC), is located in Dallas, Texas with leased premises consisting of approximately 56,633 square feet of space, of which 12,000 square feet was subleased to L3 Mobile Vision through September 30, 2016. As of October 2, 2016, AOC operated with 38 full time equivalent employees in a single shift operation.

The financial table below presents the information for each of the reportable segments profit or loss as well as segment assets for each year. Optex Systems Holdings, Inc. does not allocate interest expense, income taxes or unusual items to segments.

Reportable Segment Financial Information (thousands)

Twelve months ending October 2, 2016 (Restated)

	Optex Systems Richardson	Applied Optics Center Dallas	Other (non allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	$ 11,052	$ 6,227	$ -	$ 17,279
Intersegment revenues	-	1,892	(1,892)	-
Total Revenue	$ 11,052	$ 8,119	$ (1,892)	$ 17,279
Interest expense	$ -	$ -	$ 36	$ 36
Depreciation and Amortization	$ 73	$ 272	$ -	$ 345
Income (Loss) before taxes	$ 145	$ (345)	$ (8)	$ (208)
Other significant noncash items:				
Allocated home office expense	$ (728)	$ 728	$ -	$ -
Stock compensation expense	$ 192	$ -	$ -	$ 192
Royalty expense amortization	$ 30	$ -	$ -	$ 30
Provision for (use of) contract loss reserves	$ -	$ (54)	$ -	$ (54)
(Gain) on change in fair value of warrant liability	$ -	$ -	$ (739)	$ (739)
Warrants issued for underwriter expenses	$ -	$ -	$ 156	156
Segment Assets	$ 8,861	$ 3,900	$ -	$ 12,761
Expenditures for segment assets	$ (16)	$ (18)	$ -	$ (34)

Reportable Segment Financial Information (thousands)

Twelve months ending September 27, 2015

	Optex Systems Richardson	Applied Optics Center Dallas (1)	Other (non allocated costs and intersegment eliminations)	Consolidated Total
Revenues from external customers	$ 8,172	$ 4,831	$ -	$ 13,003
Intersegment revenues	-	526	(526)	-
Total Revenue	$ 8,172	$ 5,357	$ (526)	$ 13,003
Interest expense	$ -	$ -	$ 179	$ 179
Depreciation and Amortization	$ 88	$ 246	$ -	$ 334
Income (Loss) before taxes	$ (431)	$ 1,101	$ (179)	$ 491
Other significant noncash items:				
Allocated home office expense	$ (387)	$ 387	$ -	$ -
(Gain) on purchased asset - AOC	$ -	$ (2,110)	$ -	$ (2,110)
Amortization of intangible assets	$ -	$ 342	$ -	$ 342
Stock option compensation expense	$ 140	$ -	$ -	$ 140
Provision for excess & obsolete inventories	$ 132	$ 115	$ -	$ 247
Royalty expense amortization	$ 30	$ -	$ -	$ 30
Provision for (use of) contract loss reserves	$ (11)	$ 54	$ -	$ 43
Segment Assets	$ 7,537	$ 4,009	$ -	$ 11,546
Expenditures for segment assets	$ 30	$ 2,070	$ -	$ 2,100

(1) The Applied Optics Center was acquired on November 3, 2014.

Note 6 – Intangible Assets

On November 3, 2014, Optex Systems, Inc. purchased the Applied Optics Center Products line in exchange for $1,013.1 thousand and the assumption of approximately $270.7 thousand of liabilities (see Note 4). Optex Systems, Inc. has allocated the consideration for the acquisition of the purchased assets among tangible and intangible assets acquired and liabilities assumed based upon their fair values as of the acquisition date. 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 Optex Systems Holdings as of November 3, 2014 as follows:

		(Thousands)
Assets:		
Current assets, consisting primarily of inventory of $940.1 thousand and prepaid assets of $47.1 thousand	$	987.2
Identifiable intangible assets		342.2
Other non-current assets, principally property and equipment		2,064.7
Total assets	**$**	**3,394.1**
Liabilities:		
Current liabilities, consisting of accounts payable of $119.4 thousand and accrued liabilities of $151.3 thousand	$	(270.7)
Acquired net assets	**$**	**3,123.4**

The fair values of the intangible assets as of the asset transfer date consisted primarily of $342.2 thousand of undelivered customer order backlog with contracted delivery dates that were essentially fulfilled as of June 28, 2015. The amortization of identifiable intangible assets associated with the acquisition has been amortized on a straight line basis over the six month period beginning on December 29, 2014 and ending June 28, 2015 at a rate of $57.0 thousand per month pursuant to the order deliveries. The intangible amortization was allocable to operating expenses as manufacturing cost of sales and general and administrative expenses at a rate of $48.5 thousand and $8.5 thousand per month, respectively, through June 28, 2015. The identifiable intangible assets are amortized over 15 years for income tax purposes.

During the twelve months ending September 27, 2015, $291.1 thousand has been amortized to cost of sales, and $51.1 thousand had been amortized to general and administrative expenses. There were no unamortized intangible assets or amortization expenses incurred in the twelve months ending October 2, 2016. As of September 27, 2015 and October 2, 2016, the total unamortized balance of intangible assets was zero.

Note 7 — Property and Equipment

A summary of property and equipment at October 2, 2016 and September 27, 2015 is as follows:

		(Thousands)			
	Estimated Useful Life		**Year Ended October 2, 2016**		**Year Ended September 27, 2015**
Property and Equipment					
Furniture and Fixtures	3-5yrs	$	356	$	322
Machinery and Equipment	5 yrs		3.233		3,247
Leasehold Improvements	7 yrs		276		276
Less: Accumulated Depreciation			(2,214)		(1,874)
Net Property & Equipment		**$**	**1,651**	**$**	**1,971**
Depreciation Expense		**$**	**345**	**$**	**334**

During the twelve months ending October 2, 2016, Optex Systems Holdings' purchased $34 thousand in new furniture and fixtures, and sold machinery and equipment with a net book value of $9 thousand for $4 thousand in proceeds resulting in a loss on asset sales of $5 thousand.

Note 8 — Accrued Expenses

The components of accrued liabilities for the years ended October 2, 2016 and September 27, 2015 are summarized below:

	(Thousands) Year Ended October 2, 2016	Year Ended September 27, 2015
Deferred Rent Expense	$ 108	$ 106
Accrued Vacation	330	315
Property Taxes	101	81
Operating Expenses	144	81
Reserve for Contract Losses	-	54
Payroll & Payroll Related	127	175
Total Accrued Expenses	**$ 810**	**$ 812**

Note 9 — Commitments and Contingencies

Rental Payments under Non-cancelable Operating Leases

Optex Systems Holdings leases its office and manufacturing facilities for the Optex Systems, Inc, Richardson address and the Applied Optics Center Dallas address, under non-cancellable operating leases.

The leased facility under Optex Systems Inc. at 1420 Presidential Drive, Richardson, Texas consists of 49,100 square feet of space and expires March 31, 2021. Pursuant to the terms of the most recent amendment to the Richardson site facilities lease, there was no base rent payment due from January 1, 2014 through March 31, 2014, with payments beginning April 2014, and annual rental payment increases occurring each year beginning in 2016. As of October 2, 2016 the unamortized deferred rent was $108 thousand as compared to $106 thousand as of September 27, 2015. Deferred rent expense is amortized monthly over the life of the lease.

The leased facility under the Applied Optics Center at 9839 and 9827 Chartwell Drive, Dallas, Texas, consists of 56,633 square feet of space at the premises. Approximately 12,000 square feet of the facility is subleased through September 30, 2016 to L-3 Communications Mobile Vision Inc. under a separate Memorandum of Understanding dated October 27, 2014, which was not renewed. The term of the Applied Optics Center facility lease expired September 30, 2016, and was renewed for 44,867 square feet, excluding the portion formerly subleased by L-3 Communications Mobile Vision Inc. The new lease term will expire on September 30, 2021, with three remaining renewal options available to the tenant, each with a renewal term duration of five years.

As of October 2, 2016, the remaining minimum base lease and estimated common area maintenance (CAM) payments under the non-cancelable office and facility space leases are as follows:

Non-cancellable Operating Leases Minimum Payments

(Thousands)

Fiscal Year	**Optex Systems Richardson**		**Applied Optics Center Dallas (1)**		
	Lease Payments	**CAM Estimate**	**Lease Payments**	**CAM Estimate**	**Total Payments**
2017	$ 266	$ 88	$ 214	$ 60	$ 628
2018	271	90	240	61	662
2019	281	92	248	62	683
2020	291	94	255	63	703
2021	147	48	262	64	521
2022	-	-	22	65	87
Total minimum lease payments	**$ 1,256**	**$ 412**	$ 1,241	**$ 375**	$ 3,284

(1) Includes new countersigned facility lease dated October 21, 2016 and countersigned by the landlord on November 17, 2016 for 44,867 square feet for the Applied Optics Center. The lease expires on October 31, 2021 (with a lease term which commenced retroactive to October 1, 2016). See Note 16- Subsequent Events.

Total facilities rental and CAM expenses for both facility lease agreements as of the twelve months ended October 2, 2016 was $627 thousand. Total expense under facility lease agreements as of the twelve months ended September 27, 2015 was $589 thousand.

Note 10 — Transactions with a Related Party

As of October 2, 2016, accounts receivable includes $132 thousand of non trade receivables due from Sileas Corporation, a related party, for operating expenses paid by Optex Systems on their behalf. The amount is to be settled in stock within the next quarter. See Note 16- Subsequent Events.

In the twelve months ending October 2, 2016, Sileas Corporation converted 926 shares of Optex Systems Series A preferred stock at a total stated value of $6.4 million for 5,293,896 common shares. The common shares include 1,354,167 of additional common shares issued on October 18, 2016 as a result of a downward adjustment on the preferred Series A conversion price triggered by the public offering price in August 2016 on Sileas Corporation's previously converted preferred Series A shares. These additional shares have been retroactively reflected in the ending common shares outstanding as of October 2, 2016. As a result, Optex has recorded an additional beneficial conversion amount of $0.8 million to reflect the common stock conversion rate change from $2.50 to $1.20 in 2016.

There were no other transactions with Related Parties during fiscal years 2016 or 2015 except as described below in Note 11 Debt Financing.

Note 11 — Debt Financing

Related Parties

Acquisition by Sileas Corporation on February 20, 2009

On February 20, 2009, Sileas purchased 100% of the equity and debt interest held by Longview, which represented 90% of the Optex Systems, Inc. (Delaware) outstanding equity on that date. Currently, Sileas is the majority owner of Optex Systems Holdings.

Sileas Secured Promissory Note Due on May 29, 2021 to Longview Fund, LP

As a result of the transaction described above between Sileas and Longview on February 20, 2009, Sileas, the new majority owner of Optex Systems, Inc. (Delaware), executed and delivered to Longview, a Secured Promissory Note due February 20, 2012 in the principal amount of $13,524,405. The Note bears simple interest at the rate of 4% per annum, and the interest rate upon an event of default increases to 10% per annum. In the event 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, then in addition to paying the principal and interest due, Sileas shall also pay an amount equal to 90% of the consideration. "Major Transaction" refers to a transaction whereby Optex Systems, Inc. (Delaware) would consolidate or merge into or sell or convey all or substantially all of its assets to a third party entity for more than nominal consideration, and "Net Consideration" refers to the fair market value of the consideration received in connection with a Major Transaction less all outstanding liabilities of Optex Systems, Inc. (Delaware).

On November 22, 2011 Sileas Corp and Longview Fund, LP entered into an amendment to the Secured Promissory Note that extended the maturity date for an additional two year period ending on February 20, 2014. In exchange for the extension, Sileas Corp agreed to pay Longview Fund an extension fee equal to 2% of the principal amount of this Secured Note. As a result of the agreement, the principal amount of the Note was increased $270 thousand to $13.8 million as of November 22, 2011.

On November 27, 2013 Sileas Corp. and the Longview Fund, LP entered into an amendment to the Secured Promissory Note that extended the maturity date for an additional two year period ending on February 20, 2016. In exchange for the extension, Sileas Corp. agreed to pay the Longview Fund an extension fee equal to 2% of the principal amount of this Secured Note. As a result of the amendment, the principal amount of the Note was increased by $275 thousand to $14.1 million as of November 27, 2013.

On June 5, 2015, Sileas Corp. amended its Secured Note, with Longview Fund, L.P., as lender, as follows:

- The principal amount was increased to $18,022,329 to reflect the original principal amount plus all accrued and unpaid interest to date, and the Secured Note ceased to bear interest as of that date;
- The maturity date of the note was extended to May 29, 2021; and
- A conversion feature was added to the Secured Note by which the principal amount of the Secured Note can be converted into our Series A preferred stock, which is owned by Sileas, at the stated value of our Series A preferred stock.

Simultaneously therewith, Sileas entered into a Blocker Agreement with us pursuant to which the Series A preferred stock shall not be convertible by Sileas into our common stock, and we shall not effect any conversion of the Series A Stock or otherwise issue any shares of our common stock pursuant hereto, to the extent (but only to the extent) that after giving effect to such conversion or other share issuance hereunder Sileas (together with its affiliates) would beneficially own in excess of 9.99% our common stock. Sileas also agreed to not vote any of its shares of Series A preferred stock in excess of 9.99% of our common stock.

On August 4, 2016, Longview Fund, L.P. converted $250 thousand of the note principal for 100,000 shares of Optex Systems Holdings common stock pursuant to the note conversion terms. The Sileas note balance to the Longview Fund, LP as of October 2, 2016 is $17.8 million.

In the twelve months ending October 2, 2016, Sileas Corporation converted all their Optex Systems Holdings, Inc. Series A preferred stock, 926 shares, at a total stated value of $6.4 million for 5,293,896 common shares. The total common shares held by Sileas as of October 2, 2016 is 5,296,081. The common shares outstanding include 1,354,167 of additional common shares issued on October 18, 2016 as a result of a downward adjustment on the preferred Series A conversion price triggered by the public offering price in August 2016 for Sileas Corporation's previously converted preferred Series A shares. These additional shares have been retroactively reflected in the ending common shares outstanding as of October 2, 2016.

Credit Facility — Avidbank

On April 20, 2016, the Company amended its revolving credit facility with Avidbank. The new renewable revolving maturity date is January 22, 2018. The facility provides up to $2 million in financing against eligible receivables and is subject to meeting certain covenants including an asset coverage ratio test for up to twenty months. The material terms of the amended revolving credit facility are as follows:

- The interest rate for all advances shall be the then in effect prime rate plus 2.5% and is subject to a minimum interest payment requirement per six month period of $10,000.
- Interest shall be paid monthly in arrears.
- A facility fee of (0.5%) of the revolving line ($10,000) is due on May 22, 2016 and each anniversary thereof for so long as the revolving credit facility is in effect.
- The loan period is from April 20 through January 22, 2018 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. to Avidbank.

As of October 2, 2016, the outstanding principal on the line of credit was $300 thousand. For the years ended October 2, 2016 and September 27, 2015, the total interest expense against the outstanding line of credit balance was $36 thousand and $33 thousand, respectively.

Issuance of Convertible Notes

On November 17, 2014, Optex Systems Holdings entered into a Subscription Agreement (the "Agreement") to sell up to $2.1 million principal amount of convertible promissory notes ("Notes") to several accredited investors (the "Investors") in a private placement pursuant to which the Investors purchased a series of Notes with an aggregate principal amount of $1,550 thousand. An additional convertible promissory note for $10 thousand was issued to the placement agency in consideration for placement services on the transaction.

Optex Systems, Inc. incurred $74 thousand in debt issuance costs, for investment banking, legal and placements fee services, inclusive of the $10 thousand supplemental convertible note issued for placement fees. These costs are reflected in the balance sheet and cash flow statement as debt issuance costs and are amortized to interest expense across the term of the notes based on the effective interest method.

On March 29, 2015, the holders of the Company's $1,560,000 principal amount of convertible promissory notes, issued on or about November 17, 2014, converted the entire principal amount thereof and all accrued and unpaid interest thereon, into 1,000 shares of the Company's Series B Preferred Stock.

For the twelve months ending September 27, 2015 the amortized interest expense related to the debt was $146 thousand. As of September 27, 2015 the unamortized debt issuance costs was zero.

Note 12 — Stock Based Compensation

The Optex Systems Holdings 2009 Stock Option Plan provides for the issuance of up to 75,000 shares to Optex Systems Holdings officers, directors, employees and to independent contractors who provide services to Optex Systems Holdings as either incentive or nonstatutory stock options determined at the time of grant. As of October 2, 2016, Optex Systems Holdings has granted stock options to officers and employees as follows (as adjusted for the 1000:1 reverse stock split on common shares effective October 7, 2015):

Date of Grant	Shares Granted	Exercise Price	Shares Outstanding As of 10/02/16	Expiration Date	Vesting Period
12/09/11	46,070	$ 10.00	35,340	12/08/2018	4 years
12/19/13	25,000	$ 10.00	25,000	12/18/2020	4 years
Total	**71,070**		**60,340**		

The following table summarizes the status of Optex Systems Holdings' aggregate stock options granted under the incentive stock option plan (as adjusted for the 1000:1 reverse stock split on common shares effective October 7, 2015):

Subject to Exercise	Number of Shares Remaining Options	Weighted Average Fair Value	Weighted Average Life (Years)	Aggregate Value (Thousands)
Outstanding as of September 28, 2014	62,912	$ —	3.41	$ —
Granted – 2015	—			
Forfeited – 2015	(54)			—
Exercised – 2015	—			—
Outstanding as of September 27, 2015	62,858	$ —	2.32	$ —
Granted – 2016	—			
Forfeited – 2016	(2,518)			—
Exercised – 2016	—			—
Outstanding as of October 2, 2016	60,340	$ —	1.40	$ —
Exercisable as of September 27, 2015	40,266	$ —	1.45	$ —
Exercisable as of October 2, 2016	52,840	$ —	1.07	$ —

There were no options granted in the twelve months ended October 2, 2016 and September 27, 2015.

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 September 28, 2014	**42,710**	$ 7.58
Non-vested granted — year ended September 27, 2015	—	$ —
Vested — year ended September 27, 2015	(20,064)	$ 7.50
Forfeited — year ended September 27, 2015	(54)	$ —
Non-vested as of September 27, 2015	**22,592**	$ 7.66
Non-vested granted — year ended October 2, 2016	—	—
Vested — year ended October 2, 2016	(12,575)	7.33
Forfeited — year ended October 2, 2016	(2,518)	—
Non-vested as of October 2, 2016	**7,500**	$ 8.00

Restricted Stock Units issued to Officers and Employees

On June 14, 2016, the Compensation Committee ("Committee") of the Board of Directors of Optex Systems Holdings, Inc. approved the Company's 2016 Restricted Stock Unit Plan (the "Plan"). The Plan provides for the issuance of stock units ("RSU") for up to 1,000,000 shares of the Company's common stock to Optex Systems Holdings officers and employees. Each RSU constitutes a right to receive one share of the Company's common stock, subject to vesting, which unless otherwise stated in an RSU agreement, shall vest in equal amounts on the first, second and third anniversary of the grant date. Shares of the Company's common stock underlying the number of vested RSUs will be delivered as soon as practicable after vesting. During the period between grant and vesting, the RSUs may not be transferred, and the grantee has no rights as a shareholder until vesting has occurred. If the grantee's employment is terminated for any reason (other than following a change in control of the Company or a termination of an officer other than for cause), then any unvested RSUs under the award will automatically terminate and be forfeited. If an officer grantee's employment is terminated by the Company without cause or by the grantee for good reason, then, provided that the RSUs have not been previously forfeited, the remaining unvested portion of the RSUs will immediately vest as of the officer grantee's termination date. In the event of a change in control, the Company's obligations regarding outstanding RSUs shall, on such terms as may be approved by the Committee prior to such event, immediately vest, be assumed by the surviving or continuing company or cancelled in exchange for property (including cash).

On June 15, 2016, the Company issued 150,000 RSUs to its Chief Executive Officer, Danny Schoening, and 50,000 RSUs to its Chief Financial Officer, Karen Hawkins. The RSUs issued to Mr. Schoening and Ms. Hawkins vest as follows: 34% on January 1, 2017, 33% on January 1, 2018 and 33% on January 1, 2019. The total market value of the restricted stock units based on the shares price of $1.85 as of June 15, 2016 is $372 thousand. The cost of the shares is amortized on a straight line basis across the vesting periods.

As of October 2, 2016, none of the restricted stock units had vested.

Consulting and Vendor Equity Issues

On April 29, 2016, Optex Systems Holdings, Inc. issued 40,000 common "restricted" shares at a market price of $2.35 per share ($94,000) in support of the IRTH Communications agreement (See note 6). The cost of the shares is amortized on a straight line basis through April 2017. There were no other equity instruments issued to consultants and vendors during the twelve months ended October 2, 2016.

Stock Based Compensation Expense

Equity compensation is amortized based on a straight line basis across the vesting or service period as applicable. The recorded compensation costs for options and shares granted and restricted stock units awarded as well as the unrecognized compensation costs are summarized in the table below:

	Stock Compensation (thousands)			
	Recognized Compensation Expense Twelve months ended		Unrecognized Compensation Expense As of period ending	
	October 2, 2016	September 27, 2015	October 2, 2016	September 27, 2015
Stock Options	$ 52	$ 140	$ 48	$ 100
Restricted Stock Units	93	-	279	-
Consultant Shares (IRTH)	47	-	47	-
Total Stock Compensation	**$ 192**	**$ 140**	**$ 374**	**$ 100**

Note 13 — Stockholders Equity

The table below depicts the Optex Systems Holdings stock equity transactions and ending share balances by equity class for the twelve months ending September 27, 2015 and October 2, 2016, respectively.

Optex Systems Holdings Inc.
Stockholder Equity Shares Outstanding

	Common	Series A	Series B	Series C	Warrants
Shares outstandingSeptember 28, 2014 (post split)	**310,867**	**1,001**	**-**	**-**	**-**
Conversion of Notes to Series B Preferred shares June 28, 2015(1)			1,000		
Conversion of Series B Preferred shares May 27, 2015(2)	4,000	-	(6)	-	-
Common shares outstanding as of September 27, 2015	**314,867**	**1,001**	**994**	**-**	**-**
Conversion of Series B Preferred shares October 23, 2015(3)	16,031	-	(25)	-	-
Issuance of shares on December 8, 2015 for DTC roundup correction(4)	247	-	-	-	-
Conversion of Series A Preferred shares March 27, 2016(5)(14)	1,250,000	(456)	-	-	-
Issuance IRTH consulting common shares on April 29, 2016(6)	40,000	-	-	-	-
Conversion of Series B Preferred shares on July 6, 2016(7)	109,291	-	(167)	-	-
Conversion of Series A Preferred shares on August 10, 2016(8)	25,000	(9)	-	-	-
Public offering issuance of common stock on August 26, 2016(9)	2,291,900	-	-	400	3,958,700
Underwriter warrants issued with offering on August 26, 2016(10)	-	-	-	-	166,500
Redemption of Series A and Series B Preferred shares on August 26,2016(11)	-	(66)	(796)	-	-
Conversion of Series A and Series B Preferred shares on August 26,2016(12)	2,698,431	(470)	(6)	-	-
Conversion of Series C Preferred shares on August 10, 2016(13)	166,667	-	-	(40)	-
Additional shares issued on October 18, 2016 for downward price adjustment for previous converted 456 share Series A Preferred dated March 27, 2016(14)(5)	1,354,167	-	-	-	-
Common shares outstanding as of October 2, 2016	**8,266,601**	**-**	**-**	**360**	**4,125,200**

Notes:

1. *On June 28, 2015, the holders of the Company's $1,560,000 principal amount of convertible promissory notes, issued on or about November 17, 2014, converted the entire principal amount thereof and all accrued and unpaid interest thereon, into 1,000 shares of the Company's Series B Preferred Stock.*
2. *On May 27, 2015 a private investor converted $10 thousand, or 6 shares of the Series B preferred stock at a stated value of $1,629 per share, for 4,000 shares of common stock*
3. *On October 23, 2015 a private investor converted $40 thousand, or 25 shares of the Series B preferred stock at a stated value of $1,629 per share, for 16,031 shares of common stock.*
4. *On December 7, 2015, 247 common shares issued to certain beneficial holders to correct Depository Trust and Clearing Corporation (DTC) rounding errors occurring from the October 7, 2015 reverse split*
5. *On March 27, 2016, Sileas Corporation converted $3,125 thousand or 456 shares of the Series A preferred stock at a stated value of $6,860 per share, for 1,250,000 shares of common stock.*
6. *On April 29, 2016, Optex Systems Holdings, Inc. issued 40,000 common "restricted" shares at a market price of $2.35 per share ($94 thousand) in support of the IRTH Communications agreement (See note 12).*
7. *On July 6, 2016 a private investor converted $273 thousand, or 167 shares of the Series B preferred stock at a stated value of $1,629 per share, for 109,291 shares of common stock.*
8. *On August 10, 2016, a private investor converted $62.5 thousand, or 9 shares, of the Series A preferred stock at a stated value of $6860 per share for 25,000 shares of common stock.*
9. *On August 26, 2016, we consummated a public offering of 2,291,000 Class A units consisting of common stock and warrants and 400 Class B units consisting of shares of Series C convertible stock and warrants for a total gross purchase price of $4,750,280. The offering is comprised of Class A Units, priced at a public offering price of $1.20 per unit, with each unit consisting of one share of common stock and one five-year warrant to purchase one share of common stock with an exercise price of $1.50 per share (each, a "warrant"), and Class B Units, priced at a public offering price of $5,000 per unit, with each unit comprised of one share of preferred stock with a conversion price of $1.20 which is convertible into 4,167 shares of common stock and warrants to purchase 4,167 shares of common stock. The securities comprising the units are immediately separable and will be issued separately.*
10. *On August 26, 2016, 166,500 five-year warrants to purchase one share of common stock with an exercise price of $1.50 per share were issued to the underwriter in connection with the offering.*
11. *On August 26, 2016, 66 Series A and 796 preferred shares were redeemed for $1.75 million, as a condition of the offering.*
12. *On August 26, 2016, 470 shares of Series A preferred stock at a stated value of $6,860 were converted for 2,689,729 shares of common stock and 6 shares of Series B preferred stock at a stated value of $1,629 were converted for 8,702 shares of common stock, for a total of 2,698,431 shares of common stock based on a conversion price of $1.20 per share, as a condition of the offering.*
13. *On August 26, 2016, 28 shares of Series C preferred stock, and on August 29, 2016 12 shares of Series C preferred stock were converted at a stated value of $5000 per share, for a total value of $200 thousand, into 166,667 common shares at a per share conversion price of $1.20.*

14. *Pursuant to a board of directors meeting held on August 4, 2016, 1,354,167 additional shares of common stock were issued to Sileas Corporation as a result of a downward price adjustment on the conversion rate of Series A preferred shares which was triggered by the August 26, 2016 public offering. The conversion price adjustment applied to 456 Series A preferred shares which had been previously converted on March 27, 2016. The conversion price was reset to the public offering price $1.20 per common share from the prior conversion price of $2.50 per common share. As a result of the adjustment the additional common shares were issued on October 18, 2016 and retroactively included in the ending outstanding shares as of October 2, 2016.*

Common stock

On August 31, 2015, the Optex Systems Holdings board of directors approved a reverse stock split of our common stock, in a ratio to be determined by the board of directors, of not less than 1-for-400 nor more than 1-for-1000. On October 6, 2015, 20 calendar days had passed since the mailing to our shareholders of the Definitive Schedule 14C filed on September 11, 2015 regarding the approval by the board of the reverse stock split. On October 7, 2015, we effected a 1-for-1000 reverse split of our common stock. Pursuant to the reverse split, all shareholders of less than 100,000 pre-split common shares, were issued a round lot quantity of 100 common shares post-split. The total share round up quantity related to the reverse split resulted in an additional issue of 139,953 common shares post-split. All share and related option information has been retroactively adjusted to reflect the decrease in shares resulting from this action. Additional funds were reclassified from the common stock to additional paid in capital to reflect the change in total par value represented by the lower common shares after the reverse split. The par value of the common stock outstanding shall remain at $0.001 per share subsequent to the reverse split action.

As of September 28, 2014, Optex Systems Holdings had 170,914 common shares outstanding. Pursuant to an October 7, 2015 reverse split, there was an additional 139,953 shares issued to preserve round lots of 100 shares for all lot holders holding less than 100,000 pre-split, or 100 post-split shares common shares. An adjustment to common stock par value and additional paid in capital was recorded to reflect the change in values as a result of the reverse split. The outstanding common shares as of September 28, 2014, have been retrospectively stated as 310,867 shares, reflective of the additional roundup quantity, post split.

During the twelve months ending September 27, 2015, Optex Systems Holdings issued 4,000 common shares due to conversions of Series B preferred stock. As of September 27, 2015, Optex Systems had 314,867 common shares outstanding.

On August 26, 2016, 2,291,900 Class A units consisting of common stock and warrants and 400 Class B units consisting of shares of Series C convertible stock and warrants were issued pursuant to a public offering. The offering is comprised of Class A Units, priced at a public offering price of $1.20 per unit, with each unit consisting of one share of common stock and one five-year warrant to purchase one share of common stock with an exercise price of $1.50 per share (each, a "warrant"), and Class B Units, priced at a public offering price of $5,000 per unit, with each unit comprised of one share of preferred stock with a conversion price of $1.20 which is convertible into 4,167 shares of common stock and warrants to purchase 4,167 shares of common stock. The net proceeds from the offering were $4,245 thousand (Gross proceeds of $4,750 thousand less underwriter expenses of $505 thousand). Deferred public offering costs incurred by Optex in connection with the offering was $252 thousand.

During the twelve months ending October 2, 2016, Optex Systems Holdings issued 5,619,587 common shares due to conversions of Series A, Series B and Series C preferred stock, 2,291,900 shares were issued in connection with the public offering, 247 common shares were issued to correct Depository Trust and Clearing Corporation (DTC) rounding errors occurring from the October 7, 2015 reverse split and 40,000 common shares were issued to a vendor (See note 12). As of October 2, 2016, the outstanding common shares are 8,266,601. The issued and outstanding shares above have been retroactively adjusted to include 1,354,167 common shares issued on October 18, 2016 pursuant to a ratchet triggered on previously converted Series A preferred shares.

There were no other issuances of common or preferred stock during the twelve months ended October 2, 2016.

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 currently sets forth the following terms for the Series A preferred stock: (i) number of authorized shares: 1,027; (ii) per share stated value: $6,860; (iii) liquidation preference per share: stated value; (iv) conversion price: $150.00 per share, ($0.15 per share, pre split) 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 (vi) par value $0.001 per share. The conversion price was subsequently reset to $10.00 per share as discussed below.

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 $150.00 per share. The dividends were subsequently waived and the price per share was reset to $10.00 on February 21, 2012 as discussed below. On November 17, 2014 an exercise price per share ratchet was triggered by the issuance of convertible notes with a lower conversion price and the exercise price was reset to a pre split value of $0.0025, or $2.50 post split per common share. Effective as of October 7, 2015, the conversion price has been reset to $2.50 per share pursuant to the 1000:1 reverse stock split on common shares and effective on August 22, 2016, the conversion price has been reset to $1.20 pursuant to a public offering of common shares at $1.20 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 April 1, 2012, the preferred shareholders agreed to waive the past dividends in arrears through June 29, 2014 of $884 thousand in exchange for an increase in the stated value to $6,860. On February 21, 2012, in connection with the purchase of the 5,000 shares of common stock of Optex Systems Holdings by Alpha Capital, the preferred shareholders executed an irrevocable waiver for any and all previously accrued and outstanding dividends and the right to receive any future dividends on the Series A Preferred Stock. The per share conversion price of the Optex Systems Holdings' Series A Preferred Stock was automatically reset to $10.00 per share in accordance with the reset provision as set forth in paragraph 4(d)(ii) of the Series Designation for the Optex Systems Holdings' Series A Preferred Stock. The total amount of dividends waived as a result of the February 21, 2012 waiver is $213 thousand. As of October 2, 2016 and September 27, 2015 as a result of the executed waiver dated February 21, 2012, there were no dividends in arrears on preferred shares and no future dividends will accrue on the preferred shares.

On October 7, 2015, we effected a 1-for-1000 reverse split of our common stock. Based on the price reset to $2.50 per common share, there were 1,001.5 shares of preferred stock with a beneficial conversion feature, "in the money", which were subject to conversion at the discretion of the holder. In the twelve months ending September 27, 2105, Optex Systems Holdings recognized a $5.2 million adjustment to retained earnings for dividends for the intrinsic value of the beneficial conversion feature on the convertible preferred shares. During the twelve months ending October 2, 2016, Optex System Holdings recognized an additional $0.8 million adjustment to retained earnings for dividends due to a beneficial conversion feature on 926 Series A preferred shares, whereas the conversion price reset from $2.50 per common share to $1.20 per common share as a result of the public offering price on August 26, 2016.

During the twelve months ending September 27, 2015 there were no conversions and no new issues of Series A preferred shares. Optex Systems Holdings had 1,001 of preferred shares outstanding as of September 27, 2015.

During the twelve months ending October 2, 2016 there were conversions of 935 preferred Series A shares, or $6,415 thousand, into 5,318,896 common shares, and cash redemptions for $455 thousand of 66 Series A preferred shares. The 5,318,896 converted common shares above have been retroactively adjusted to include 1,354,167 common shares subsequently issued on October 18, 2016 pursuant to a ratchet triggered on conversions of 456 of Series A preferred shares which had occurred on March 27, 2016.

As of October 2, 2016 there were zero preferred Series A shares outstanding.

Series B Preferred Stock

On March 26, 2015, Optex Systems Holdings 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 B preferred stock". The Certificate of Designation currently sets forth the following terms for the Series B preferred stock: (i) number of authorized shares: 1,010; (ii) per share stated value: $1,629 (iii) liquidation preference per share, other than Series A preferred stock: stated value; (iv) conversion price: $0.0025 per share, pre split, as adjusted from time to time; (v) voting rights: votes along with the common stock on an as converted basis with one vote per share; and (vi) par value of $0.001 per share. Effective as of October 7, 2015, the conversion price has been reset to $2.50 per share pursuant to the 1000:1 reverse stock split on common shares.

On June 28, 2015, the holders of the Company's $1,560,000 principal amount of convertible promissory notes, issued on or about November 17, 2014, converted the entire principal amount thereof and all accrued and unpaid interest thereon, into 1,000 shares of the Company's Series B Preferred Stock.

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 is initially set at $0.0025 per share and was reset to $2.50 per share pursuant to the October 7, 2015 1000:1 reverse stock split. Effective on August 22, 2016, the conversion price has been reset to $1.20 pursuant to a public offering of common shares at $1.20 per share.

At the time of issuance, the market value of the common stock was $10.00 ($0.01 pre split). As the conversion rate of $2.50 ($0.0025 pre split) was below the market price, the issued preferred series B stock contained a beneficial conversion feature. As the series B preferred stock is immediately convertible with no stated maturity date, Optex Systems Holdings recognized a retained earnings and additional paid in capital adjustment for the intrinsic value, "in the money portion", of the conversion options at inception. For the twelve months ending September 27, 2015 Optex Systems Holdings recognized a retained earnings dividends and additional paid in capital adjustment of $1.2 million, which represented the intrinsic value of the options at the commitment date. During the twelve months ending October 2, 2016 there were no dividends booked to retained earnings related to the beneficial conversion feature on Series B preferred shares as the conversion price remained at or above the market price.

During the twelve months ending September 27, 2015, 6 shares of the Series B preferred stock had been converted to common stock. As of September 27, 2015, there were 994 shares of Series B preferred shares outstanding.

During the twelve months ending October 2, 2016 there were conversions of 198 preferred Series B shares, or $324 thousand, into 134,024 common shares, and cash redemptions of 796 Series B preferred shares for $1,296 thousand. As of October 2, 2016 there were zero preferred Series B shares outstanding.

Series C Preferred Stock

Our board of directors designated 400 shares of our preferred stock as Series C convertible preferred stock ("Series C preferred stock"). The preferences and rights of the Series C preferred stock are set forth in a Certificate of Designation (the "Series C Certificate of Designation").

Pursuant to a transfer agency agreement between us and Equity Stock Transfer, as transfer agent, the Series C preferred stock will be issued in book-entry form and shall initially be represented only by one or more global certificates deposited with The Depository Trust Company, or DTC, and registered in the name of Cede & Co., a nominee of DTC, or as otherwise directed by DTC.

In the event of a liquidation, the holders of Series C preferred stock are entitled to participate on an as-converted-to-Common Stock basis with holders of the Common Stock in any distribution of assets of the Company to the holders of the Common Stock. The Series C Certificate of Designation provides, among other things, that we shall not pay any dividends on shares of Common Stock (other than dividends in the form of Common Stock) unless and until such time as we pay dividends on each Series C preferred share on an as-converted basis. Other than as set forth in the previous sentence, the Series C Certificate of Designation provides that no other dividends shall be paid on Series C preferred stock.

With certain exceptions, as described in the Series C Certificate of Designation, the Series C preferred stock have no voting rights. However, as long as any shares of Series C preferred stock remain outstanding, the Series C Certificate of Designation provides that we shall not, without the affirmative vote of holders of a majority of the then-outstanding Series C preferred stock, (a) alter or change adversely the powers, preferences or rights given to the Series C preferred stock or alter or amend the Series C Certificate of Designation, (b) increase the number of authorized shares of Series C preferred stock or (c) amend our certificate of incorporation in any manner that adversely affects the rights of holders of Series C preferred stock.

Each Series C preferred share is convertible at any time at the holder's option into a number of shares of common stock equal to $5,000 divided by the Series C Conversion Price. The "Series C Conversion Price" is initially $1.20 and is subject to adjustment for stock splits, stock dividends, distributions, subdivisions and combinations. Notwithstanding the foregoing, the Series C Certificate of Designation further provides that we shall not effect any conversion of Series C preferred stock, with certain exceptions, to the extent that, after giving effect to an attempted conversion, the holder of Series C preferred stock (together with such holder's affiliates, and any persons acting as a group together with such holder or any of such holder's affiliates) would beneficially own a number of shares of Common Stock in excess of 4.99% of the shares of our Common Stock then outstanding after giving effect to such exercise (the "preferred stock Beneficial Ownership Limitation"); provided, however, that upon notice to the Company, the holder may increase or decrease the preferred stock Beneficial Ownership Limitation, provided that in no event shall the preferred stock Beneficial Ownership Limitation exceed 9.99% and any increase in the preferred stock Beneficial Ownership Limitation will not be effective until 61 days following notice of such increase from the holder to us.

We do not intend to apply for listing of the Series C preferred stock on any securities exchange or other trading system.

During the twelve months ending October 2, 2016, Optex System Holdings recognized a $0.4 million adjustment to retained earnings for dividends due to a beneficial conversion feature on 400 Series C preferred shares, whereas the effective accounting conversion price at inception, after allocation of warrant proceeds was $0.27 and was "in the money" as it was significantly below the then current market price of $0.94 per common share as of the public offering on August 26, 2016.

During the twelve months ending October 2, 2016 there were 400 preferred Series C shares issued, at a total stated value of $2 million, pursuant to the public offering on August 26, 2016, and conversions of 40 preferred Series C shares, or $200 thousand, into 166,667 common shares. As of October 2, 2016 there were 360 preferred Series C shares outstanding.

Warrants

On August 26, 2016, Optex Systems Holdings Inc. issued 4,125,200 warrants to new shareholders and the underwriter, in connection with a public share offering. The warrants entitle the holder to purchase one share of our common stock at an exercise price equal to $1.50 per share at any time on or after August 26, 2016 (the "Initial Exercise Date") and on or prior to the close of business on August 26, 2021 (the "Termination Date").

Pursuant to a warrant agreement between Optex Systems Inc. and Equity Stock Transfer, LLC, as warrant agent, the warrants will be issued in book-entry form and shall initially be represented only by one or more global warrants deposited with the warrant agent, as custodian on behalf of The Depository Trust Company, or DTC, and registered in the name of Cede & Co., a nominee of DTC, or as otherwise directed by DTC.

The exercise price and number of shares of common stock issuable upon exercise of the warrants may be adjusted in certain circumstances, including in the event of a stock splits, stock dividend, extraordinary dividend on or recapitalization, reorganization, merger or consolidation. For one year following the issuance date of the warrants, the exercise price of the warrants will also be adjusted for issuances of common stock at a price below their exercise price, on the date of issuance of any option to purchase, or sell or grant any right to reprice, or otherwise dispose of or issue (or announce any offer, sale, grant or any option to purchase or other disposition) any common stock or common stock equivalents, at an effective price per share less than the exercise price then in effect. Under such adjustment, the exercise price of the warrants shall be reduced to that lower issuance price per share. Under the terms of the Warrants, there can only be one such price reset during the term of the warrant.

Under the terms of the warrant agreement, Optex Systems Holdings Inc. has agreed to use their best efforts to maintain the effectiveness of the registration statement and current prospectus relating to common stock issuable upon exercise of the warrants until the expiration of the warrants. During any period Optex fails to have maintained an effective registration statement covering the shares underlying the warrants, the warrant holder may exercise the warrants on a cashless basis. The warrant holders do not have the rights or privileges of holders of common stock and any voting rights until they exercise their warrants and receive shares of common stock, except as set forth in the warrants. After the issuance of shares of common stock upon exercise of the warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by stockholders.

Subject to limited exceptions, a holder of warrants will not have the right to exercise any portion of its warrants if the holder (together with such holder's affiliates, and any persons acting as a group together with such holder or any of such holder's affiliates) would beneficially own a number of shares of common stock in excess of 4.99% of the shares of our common stock then outstanding after giving effect to such exercise (the "Beneficial Ownership Limitation"); provided, however, that, upon notice to the Company, the holder may increase or decrease the Beneficial Ownership Limitation, provided that in no event shall the Beneficial Ownership Limitation exceed 9.99% and any increase in the Beneficial Ownership Limitation will not be effective until 61 days following notice of such increase from the holder to us.

No fractional shares of common stock will be issued upon exercise of the warrants. If, upon exercise of the warrants, a holder would be entitled to receive a fractional interest in a share, Optex Systems Holdings Inc. will, upon exercise, round up to the nearest whole number of shares of common stock to be issued to the warrant holder. If multiple warrants are exercised by the holder at the same time, Optex Systems Holdings Inc. will aggregate the number of whole shares issuable upon exercise of all the warrants. There is no established trading market for the warrants. The warrants have been approved for quotation on the OTCQB.

In the event of a fundamental transaction (as defined in warrant), then the Company or any successor entity will pay at the holder's option, exercisable at any time concurrently with or within 30 days after the consummation of the fundamental transaction, an amount of cash equal to the value of the remaining unexercised portion of the warrants on the date of consummation of the fundamental transaction as determined in accordance with the Black Scholes option pricing model.

The Company determined that these warrants are free standing financial instruments that are legally detachable and separately exercisable from the common stock included in the public share offering. Management also determined that the warrants are puttable for cash upon a fundamental transaction at the option of the holder and as such require classification as a liability pursuant to ASC 480 *"Distinguishing Liabilities from Equity"*. In accordance with the accounting guidance, the outstanding warrants are recognized as a warrant liability on the balance sheet. See Note 16 "Warrant Liabilities".

During the twelve months ending October 2, 2016, zero warrants had been exercised. As of October 2, 2016 the outstanding warrants were 4,125,200.

Note 14 — Income Taxes

The income tax provisions as of October 2, 2016 and September 27, 2015 include the following:

	(Thousands)	
	2016	2015
Current income tax expense:		
Federal	$ —	$ —
State		
	—	—
Deferred income tax provision (benefit):		
Federal	(65)	(539)
State	—	—
Change in valuation allowance	65	539
Provision for (Benefit from) income taxes, net	$ -0-	$ -0-

The income tax provision for Optex Systems as of October 2, 2016 differs from those computed using the statutory federal tax rate of 34%, due to the following permanent differences:

	2016	%	2015	%
Tax provision (benefit) at statutory federal rate	$ (80)	34	$ 167	34
Nondeductible expenses	15	25	11	2
Gain on asset purchase (Applied Optics Center)	—	—	(717)	(146)
Change in valuation and other	65	(59)	539	110
Provision for (Benefit from) income taxes, net	$ -0-	-0-	$ -0-	-0-

Deferred income taxes recorded in the balance sheets results from differences between financial statement and tax reporting of income and deductions. A summary of the composition of the deferred income tax assets (liabilities) follows:

	(Thousands) Deferred Tax Asset — Long Term	
	As of October 2, 2016	As of September 27, 2015
Stock Options	$ 308	$ 242
Inventory Reserve	332	312
Unicap	41	37
Contract Loss Reserve	(279)	(260)
Fixed assets	89	48
Goodwill Amortization	1,289	1,451
Intangible Asset Amortization	641	732
Net Operating Losses	2,244	2,058
Other	(14)	(34)
Subtotal	$ 4,651	$ 4,586
Valuation allowance	(4,651)	(4,586)
Net deferred asset (liability)-long term	$ -0-	$ -0-

As of October 2, 2016, the Company has a net operating loss carryforward of $6,601 thousand as compared to net loss carryforwards of $6,049 thousand available as of September 27, 2015.

As of September 27, 2015 management assessed the recoverability of deferred tax assets and determined due to recent and projected loss conditions and the downturn in the defense budget spending, that the balance of deferred tax assets may not be realized. The valuation allowance reserve was decreased by $65 thousand during the twelve months ended October 2, 2016, consistent with the 2016 change in deferred tax assets. As of October 2, 2016 Optex Systems Inc. has a deferred tax asset valuation allowance of ($4.7) million against a deferred tax asset of $4.7 million.

As the result of the application of the FASB ASC 740-10, Optex Systems Holdings has no unrecognized tax benefits. By statute, the tax years ending in October 2, 2016, September 27, 2015 and September 28, 2014 are open to examination by the major taxing jurisdictions to which the Optex Systems Holdings is subject.

There were no income taxes paid during the fiscal years ended October 2, 2016 or September 27, 2015.

Note 15 — Defined Contribution Plan

The Company sponsors a defined contribution pension plan under Section 401(k) of the Internal Revenue Code for all employees. Company contributions are voluntary and are determined annually at the discretion of the Board of Directors at the beginning of each fiscal year. For the fiscal years ending October 2, 2016 and September 27, 2015, the company offered a qualified automatic contribution arrangement (QACA) with a 100% match of the first 1% and 50% matching of the next 5% and a 2 year vesting requirement. The Company's contribution expense for the fiscal years ended October 2, 2016 and September 27, 2015 were $133 thousand and $110 thousand, respectively.

Note 16 — Warrant Liabilities

On August 26, 2016, Optex Systems Holdings Inc. issued 4,125,200 warrants to new shareholders and the underwriter, in connection with a public share offering. The warrants entitle the holder to purchase one share of our common stock at an exercise price equal to $1.50 per share at any time on or after August 26, 2016 (the "Initial Exercise Date") and on or prior to the close of business on August 26, 2021 (the "Termination Date"). The Company determined that these warrants are free standing financial instruments that are legally detachable and separately exercisable from the common stock included in the public share offering. Management also determined that the warrants are puttable for cash upon a fundamental transaction at the option of the holder and as such require classification as a liability pursuant to ASC 480 *"Distinguishing Liabilities from Equity"*. In accordance with the accounting guidance, the outstanding warrants are recognized as a warrant liability on the balance sheet and are measured at their inception date fair value and subsequently re-measured at each reporting period with changes being recorded as a component of other income in the statement of operations.

The fair value of the warrant liabilities were measured using a binomial lattice model ("Binomial"). Significant inputs into the model at the inception and reporting period measurement dates are as follows:

Binomial Assumptions	Issuance date (1) August 26, 2016		Period ending October 2, 2016	
Exercise Price(1)	$	1.50	$	1.50
Warrant Expiration Date (1)		August 26, 2021		
Stock Price (2)	$	0.95	$	0.77
Interest Rate (annual) (3)		1.23%		1.14%
Volatility (annual) (4)		246.44%		242.17%
Time to Maturity (Years)		5.0		4.9
Number of Steps (Years)		5		
Calculated fair value per share	$	0.93	$	0.76

(1) Based on the terms provided in the warrant agreement to purchase common stock of Optex Systems Holdings, Inc. dated August 26, 2016.
(2) Based on the trading value of common stock of Optex Systems Holdings, Inc. as of August 26, 2016 and October 2, 2016.
(3) Interest rate for U.S. Treasury Bonds, as of August 26, 2016 and October 2, 2016 as published by the U.S. Federal Reserve.
(4) Based on the historical daily volatility of Optex Systems Holdings, Inc. as of August 26, 2016.

The proceeds of the offering are allocated between the common stock, Series C preferred shares and warrant liability as of the initial measurement as follows:

(**Thousands, except share and per share data)**

As of August 26, 2016		Common Shares		Series C Preferred Shares		Total		Underwriter Warrants*		Warrant Liability*
Shares		2,291,900		400				166,500		4,125,200
Price per share	$	1.20	$	5,000			$	0.9349	$	0.9349
Proceeds received	$	2,750	$	2,000	$	4,750				
Less: Warrant liability at fair value		(2,142)		(1,558)		(3,700)	$	(156)	$	(3,856)
Residual proceeds to shares	**$**	**608**	**$**	**442**	**$**	**1,050**				

The warrants outstanding and fair values at each of the respective valuation dates are summarized below:

Warrant Liability	Warrants Outstanding		Fair Value per Share		Fair Value (000's)
Fair Value at initial measurement date of 8/26/2016	**4,125,200**	**$**	**0.9349**	**$**	**3,857**
(Gain) on Change in Fair Value of Warrant Liability					(739)
Fair Value as of period ending 10/2/2016	4,125,200	$	0.7558	**$**	**3,118**

The warrant liabilities are considered Level 3 liabilities on the fair value hierarchy as the determination of fair value includes various assumptions about of future activities and the Company's stock prices and historical volatility as inputs.

During the twelve months ending October 2, 2016, Optex Systems Holdings recognized a gain on change in fair value of warranty liabilities of $739 thousand. During the twelve months ending October 2, 2016 none of the warrants have been exercised.

Note 17 — Restatements

The Company has restated its consolidated financial statements for the year ended October 2, 2016 to correct the manner in which the Company recorded 4,125,200 warrants that were issued in conjunction with common stock and Series C preferred shares pursuant to a public offering. On August 26, 2016, 2,291,900 Class A units consisting of common stock and warrants and 400 Class B units consisting of shares of Series C convertible stock and warrants were issued pursuant to a public offering. The offering is comprised of Class A Units, priced at a public offering price of $1.20 per unit, with each unit consisting of one share of common stock and one five-year warrant to purchase one share of common stock with an exercise price of $1.50 per share (each, a "warrant"), and Class B Units, priced at a public offering price of $5,000 per unit, with each unit comprised of one share of preferred stock with a conversion price of $1.20 which is convertible into 4,167 shares of common stock and warrants to purchase 4,167 shares of common stock. The net proceeds from the offering were $4,245 thousand (Gross proceeds of $4,750 thousand less underwriter expenses of $505 thousand). Deferred public offering costs incurred by Optex in connection with the offering was $252 thousand. On August 26, 2016 Optex Systems Holdings, Inc. issued 3,958,700 warrants to investors and 166,500 warrants to the underwriter.

Optex Systems Holdings, Inc. originally treated the warrants as equity instruments and as such the warrants and public offering costs associated with the transaction were netted to additional paid in capital. The warrants are determined to be free standing financial instruments that are legally detachable and separately exercisable from the common stock and are also deemed to be indexed to the company's own stock. During the subsequent review period for the quarter ending January 1, 2017, it was determined that these warrants contained a fundamental transaction clause which provided that the warrants are puttable for cash at the option of the holder based on a triggering of the clause. The warrant clause meets the requirement for a contingently redeemable security; however, as they are redeemable at the option of the holder rather than the issuer and control of the redemption is outside the control of the Company, the warrants require classification as a liability pursuant to ASC 480 *"Distinguishing Liabilities from Equity"*. In accordance with ASC 480, the issued warrants should have been recorded at the fair market value on origination and recorded as a liability with an offsetting entry to additional paid in capital. The guidance also requires the fair market value be subsequently re-measured at each reporting period or triggering event with any changes in the valuation booked to earnings as a gain or loss.

Misstatement of the original warrant instruments as equity rather than debt, and the subsequent correction to warrant liability triggered additional accounting corrections as they related to the allocation of the proceeds received and the allocation of the public issuance costs against the warrants, common stock and Series C preferred shares. In accordance with the accounting guidance, fees associated with public offering costs for debt instruments must recognized in earnings to the extent they are allocable to the debt instrument. This correction resulted in a higher share of the fees associated with the public raise being allocated and recognized against earnings instead of netted against the proceeds and offset to additional paid in capital. In addition, after allocation of the proceeds attributable to the warrants, the remaining equity associated with our Series C preferred shares resulted in an effective accounting conversion rate well below the stated conversion price, and which was significantly below the then current market value, creating a beneficial conversion feature at inception and a corresponding recognition requirement as a preferred stock dividend/premium on the Series C preferred stock.

The corrections to the financial statement accounts as a result of the misstatement errors are summarized in the table below.

	Thousands		
	For the twelve months ending October 2, 2016		
Adjustments	**Warrant Liability**	**Additional Paid in Capital**	**Accumulated Deficit(*)**
Initial fair value of warrants issued in August 26, 2016 public offering	$ 3,857	$ (3,857)	$ -
Gain on change in fair value of warrants as of October 2, 2016 recognized as other income(*)	(739)	-	739
Fees on public offering associated with warrant liability recognized as operating expense(*)	-	711	(711)
Beneficial conversion feature recognized as dividend/premium on Series C preferred shares (*)	-	442	(442)
Total Adjustments to period ending October 2, 2016	**$ 3,118**	**$ (2,704)**	**$ (414)**

** These adjustements are reflected in both the Consolidated Balance Sheet Accumulated Deficit account balances as well as the Consolidated Statement of Operations account balances*

In evaluating whether the Company's previously issued consolidated financial statements were materially misstated, the Company considered the guidance in ASC Topic 250, *Accounting Changes and Error Corrections*, ASC Topic 250-10-S99-1, *Assessing Materiality*, and ASC Topic 250-10-S99-2, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. The Company concluded that these errors were in the aggregate material to the prior reporting period, and therefore, restatement of the previously filed financial statements for the year ending October 2, 2016 was necessary. There were no other annual or interim periods effected by this correction.

The account balances labeled "As Reported" in the following tables represent the previously reported audited balances in the Company's Annual Report on Form 10-K for the year ended October 2, 2016 as filed with Securities Exchange Commission on December 23, 2016.

Condensed Consolidated Balance Sheet
Thousands

	Period ended October 2, 2016		
Restatement Account*	**As Reported**	**Adjustments**	**As Restated**
Liabilities			
Warrant Liability	$ -	$ 3,118	$ 3,118
Total Liabilities	**2,403**	**3,118**	**5,521**
Stockholders' Equity			
Additional Paid in Capital	29,583	(2,704)	26,879
Accumulated Deficit	(19,233)	(414)	(19,647)
Total Stockholders' Equity	**10,358**	**(3,118)**	**7,240**
Total Liabilities and Stockholders' Equity	**$ 12,761**	$ -	**$ 12,761**

** The table above reflects only the amounts for selective Balance Sheet accounts and their respective account class subtotals and grand totals which were affected by the error. Balance Sheet accounts not listed above were not affected by the errors and as such have not changed from the originally reported balances.*

Condensed Consolidated Statement of Operations
Thousands

	Twelve months ending October 2, 2016		
Restatement Accounts*	**As Reported**	**Adjustments**	**As Restated**
General and Administrative Expense	$ 3,251	$ 711	$ 3,962
Operating Income (Loss)	**(200)**	**(711)**	**(911)**
Gain on Change in Fair Value of Warrant Liability	-	739	739
Income (Loss) Before Taxes	**(236)**	**28**	**(208)**
Net Income (Loss) After Taxes	**(236)**	**28**	**(208)**
Preferred Stock Dividend/Premium	(761)	(442)	(1,203)
Net loss applicable to common shareholders	**$ (997)**	**$ (414)**	**$ (1,411)**
Basic and diluted loss per share (1)	**$ (0.64)**	**$ (0.27)**	**$ (0.91)**

** The table above reflects only the amounts for selective Statement of Operations accounts and their respective account class subtotals and grand totals which were affected by the error. Statement of Operations accounts not listed above are not affected by the errors and as such have not changed from the originally reported balances.*
(1) There is no impact to diluted earnings per share as the "As Reported" and "As Restated" earnings per share as are both in a net loss position and the resulting calculations are antidilutive.

Consolidated Statement of Cash Flows
Thousands

Restatement Accounts*	Twelve months ending October 2, 2016 As Reported	Adjustments	As Restated
Net (loss) income	$ (236)	$ 28	$ (208)
Gain on change in fair value of warrant liability	-	739	(739)
Increase (decrease) in accounts payable and accrued expenses (1)	129	1	130
Total Adjustments	**407**	**(738)**	**(331)**
Net Cash provided by (used in) operating activities	**171**	**(710)**	**(539)**
Proceeds from sale of common stock	4,247	503	4,750
Deferred public offering cost	(252)	207	(45)
Net cash provided by financing activities	**$ 1,744**	**$ 710**	**$ 2,454**
Supplemental cash flow information			
Beneficial conversion feature on preferred stock	$ 761	$ 442	$ 1,203
Fair value of warrants issued for underwriter expenses in public offering	$ -	$ 156	$ 156

** The table above reflects only the amounts for selective Statement of Cash Flows accounts and their respective account class subtotals and grand totals which were affected by the error. Statement Cash Flows accounts not listed above were not affected by the errors and as such have not changed from the originally reported balances.*
(1) The increase in accounts payable and accrued expenses is a rounding adjustment to balance the financial statement accounts

Note 18 — Subsequent Events

Lease Renewal

The premises for the business unit which we acquired from L-3 Communications, Inc., the Applied Optics Center, in November 2014 consists of approximately 56,633 square feet of space, of which approximately 12,000 square feet was subleased through September 30, 2016 to L-3 Communications Mobile Vision Inc. under a separate Memorandum of Understanding dated October 27, 2014, which was not renewed. On November 17, 2016, we received a countersigned new lease for the Applied Optics Center from the landlord for 44,867 square feet, dated October 21, 2016, which lease expires on October 31, 2021 (with a lease term which commenced retroactive to October 1, 2016).

- The monthly base rent is $19.4 thousand through September 30, 2017 and escalates approximately 3% October 1, each year thereafter through 2021. The monthly rent includes approximately $4.9 thousand for additional Common Area Maintenance fees and taxes (CAM), to be adjusted annually based on actual expenses incurred by the landlord. The initial rent including CAM is $24.3 thousand beginning November 1, 2016.
- The lease includes a one month base rent abatement for October 1 through October 31, 2016 for $19.4 thousand.
- There are two renewal terms which are each five years in duration. Our obligations to make payments under the lease are secured by a $250,000 standby letter of credit which we can reduce to $125,000 on October 31, 2019.
- Our monthly base rent (including payment for operating expenses) under the new lease is $24,340.35.

Credit Facility — Avidbank

In order to meet the security requirement under the lease, we entered into a letter of credit with Avidbank on October 17, 2016 in the amount of $250,000, which expires on October 17, 2017 and is renewable by us for successive one year periods unless the bank notifies us no later than 60 days prior to the end of the initial or any extended term that it shall not renew the letter of credit.

In order to accommodate this letter of credit, Avidbank, on the same date, increased our line of credit to $2.2 million from $2.0 million.

Equity Transactions – Related Party

On October 31, 2016, Longview Fund, L.P. converted $2.7 million of the Sileas note principal in exchange for 800,000 shares of Optex Systems Holdings common stock. The Sileas note balance to the Longview Fund, LP as of October 31, 2016 is $15.1 million.

On October 31, 2016, Longview Fund L.P. authorized the return to Optex Systems Holdings' treasury of 197,299 common shares, held by Sileas Corporation in settlement of $157 thousand of accounts receivable due for expenses paid by Optex Systems Inc. on behalf of the Sileas Corporation. The shares were subsequently cancelled in satisfaction of the outstanding accounts receivable balance as of October 31, 2016.

<u>Executive Compensation</u>

On November 4, 2016 the Optex Systems Holdings Board of Directors approved executive bonus payments of $35.7 thousand to Karen Hawkins, CFO and $48.9 thousand to Danny Schoening CEO pursuant to their respective employment agreements. The $84.6 thousand of bonuses were paid on December 9, 2016.

Item 15 Exhibits

Exhibits

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 Section 13 or 15(d) 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.

OPTEX SYSTEMS HOLDINGS, INC.

By: /s/ Danny Schoening
Danny Schoening, Principal Executive Officer and Director

Date: May 5, 2017

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

Date: May 5, 2017

Pursuant to the requirements of the Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Peter Benz Peter Benz	Chairman and Director	May 5, 2017
/s/ Danny Schoening Danny Schoening	Principal Executive Officer and Director	May 5, 2017
/s/ Karen Hawkins Karen Hawkins	Principal Financial Officer and Principal Accounting Officer	May 5, 2017
/s/ David Kittay David Kittay	Director	May 5, 2017
/s/ Owen Naccarato Owen Naccarato	Director	May 5, 2017
/s/ Charles Trego Charles Trego	Director	May 5, 2017

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Danny Schoening, certify that:

1. I have reviewed this Amendment No. 2 to Form 10-K 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.

By: /s/ *Danny Schoening*
Danny Schoening
Principal Executive Officer

May 5, 2017

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Karen Hawkins, certify that:

1. I have reviewed this Amendment No. 2 to Form 10-K 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.

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

May 5, 2017

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report of Optex Systems Holdings, Inc. (the "Company") on this Amendment No. 2 to Form 10-K for the year ending October 2, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Danny Schoening, Principal Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

By: /s/ Danny Schoening
Danny Schoening
Principal Executive Officer

Dated: May 5, 2017

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report of Optex Systems Holdings, Inc. (the "Company") on this Amendment No. 2 to Form 10-K for the year ending October 2, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karen Hawkins, Principal Financial Officer and Principal Accounting Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

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

Dated: May 5, 2017