Optex Systems Holdings Inc
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PROSPECTUS

2,291,900 Class A units consisting of common stock and warrants and 400 Class B units consisting of shares of Series C convertible preferred stock and warrants (and an aggregate of 5,625,500 shares of common stock underlying (i) shares of Series C convertible preferred stock and (ii) warrants).

OPTEX SYSTEMS HOLDINGS, INC.

We are offering 2,291,900 shares of our common stock, $.001 par value per share, together with warrants to purchase an equal number of shares of common stock (and the shares issuable from time to time upon exercise of the warrants) pursuant to this prospectus at an offering price of $1.20 for each unit of a share and a warrant ("Class A unit"). The shares and warrants will be separately issued, but the shares and warrants will be issued and sold to purchasers in equal proportion. Each warrant will have an exercise price of $1.50 per share, will be exercisable upon issuance and will expire five years from issuance.

We are also offering to those purchasers, whose purchase of Class A units in this offering would result in the purchaser, together with its affiliates and certain related parties, beneficially owning more than 4.99% of our outstanding common stock following the consummation of this offering, the opportunity to purchase, in lieu of the number of Class A units that would result in ownership in excess of 4.99% of our outstanding common stock, a unit consisting of one share of Series C convertible preferred stock, par value $.001 per share, convertible at any time at the holder's option into a number of shares of common stock equal to $5,000 divided by $1.20, the public offering price per Class A unit (the "Conversion Price"), and warrants to purchase a number of shares of common stock equal to the number of shares of common stock issuable upon conversion of one share of Series C convertible preferred stock ("Class B unit") at a public offering price of $5,000 per Class B unit. The warrants included in the Class B units will have the same terms as the warrants included in the Class A units.

Our common stock is currently traded on the OTCQB Marketplace, operated by OTC Markets Group, Inc. under the symbol "OPXS". On August 15, 2016, the last reported sales price for our common stock was $2.15 per share. There is no established trading market for the warrants or the Series C convertible preferred stock. The warrants have been approved for quotation on the OTCQB Marketplace under the ticker symbol "OPXXW".

INVESTING IN THE OFFERED SECURITIES INVOLVES RISKS, INCLUDING THOSE SET FORTH IN THE "RISK FACTORS" SECTION OF THIS PROSPECTUS BEGINNING ON PAGE 8. INVESTORS SHOULD ONLY CONSIDER AN INVESTMENT IN THESE SECURITIES IF THEY CAN AFFORD THE LOSS OF THEIR ENTIRE INVESTMENT.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Per Class A Unit (2)	Per Class B Unit (2)	Total
Public offering price	$ 1.20	$ 5,000.00	$ 4,750,280.00
Underwriting discounts and commissions(1)	$ 0.084	$ 350.00	$ 332,519.60
Proceeds, before expenses, to us	$ 1.116	$ 4,650.00	$ 4,417,760.40

(1) In addition to the underwriting discount, we have agreed to the representative a non-accountable expense allowance of 1% of the aggregate gross proceeds of this offering and to reimburse the representative up to $127,000 for its fees and expenses in connection with this offering, which includes the fees and expenses of the representative's counsel. We have agreed to issue warrants to the representative of the underwriters. See "Underwriting" on page 58 of this prospectus for a description of the compensation arrangements.

(2) The public offering price and underwriting discount corresponds to (i) in respect of the Class A units (a) a public offering price per share of common stock of $1.19 and (b) a public offering price per warrant of $0.01, and (ii) in respect of the Class B units, (a) a public offering price per share of Series C convertible preferred stock of $4,958.33 and (ii) a public offering price per warrant of $0.01.

We have granted the underwriters a 45-day option to purchase up to 593,785 additional shares of common stock and/or additional warrants to purchase up to 593,785 shares of common stock (15% of the shares (including the number of shares of common stock issuable upon conversion of the Series C convertible preferred stock issued in this offering) and 15% of the warrants issued in the offering), in any combination thereof, from us at the offering price for each security, less underwriting discounts and commissions, to cover over-allotments, if any. The over-allotment option may be used to purchase shares of common stock, warrants, or any combination thereof, as determined by the representative of the underwriters. The shares and/or warrants issuable upon exercise of the over-allotment option are identical to those offered by this prospectus. If the underwriters exercise this option in full, the total underwriting discounts and commissions payable by us will be $382,397.54, and the total proceeds to us, before expenses, will be $5,080,424.46. We estimate the total expenses of this offering, excluding underwriting commissions and discounts, to be approximately $411,000.

The underwriters are offering the Class A units and Class B units as set forth under the heading "Underwriting" beginning on page 58. The underwriters expect to deliver our securities, against payment, on or about August 26, 2016.

Joseph Gunnar & Co.

The date of this prospectus is August 23, 2016.

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You should rely only on the information contained in this prospectus and any related free writing prospectus that we may provide to you in connection with this offering. We have not, and the underwriter has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriter is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

For investors outside the United States: neither we nor the underwriter have done anything that would permit this offering or possession or distribution of this prospectus or any free writing prospectus we may provide to you in connection with this offering in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus and any such free writing prospectus outside of the United States.

PROSPECTUS SUMMARY

This summary highlights important information about this offering and our business. It does not include all information you should consider before investing in our common stock. Please review this prospectus in its entirety, including the risk factors and our financial statements and the related notes, before you decide to invest.

References in this prospectus to “we,” “us,” and “our” refer to Optex Systems Holdings, Inc. and its subsidiaries.

Our Company

We manufacture 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. We also manufacture and deliver 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. Our products consist primarily of build-to-customer print products that are delivered both directly to the armed services and to other defense prime contractors. We are 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. We are 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.

Recent Orders

- In February 2016, we received a $1.2 million award from General Dynamics Land Systems.
- In April 2016, we received $841,000 in initial orders for advanced laser protected periscopes from U.S. Army Contracting Command.
- In May 2016, we received a new $1.12 million purchase order from a domestic customer.
- In June 2016, we completed shipment of $518,000 of periscopes to Brazil.
- In July 2016, we secured a five-year contract with the Defense Logistics Agency with a value of $5.99 million.

New Product Development

We continue to field new product opportunities from both domestic and international customers. Given continuing unrest in multiple global hot spots, the need for precision optics continues to increase. Most of these requirements are for observation and situational awareness applications; however, we continue to see requests for higher magnification and custom reticles in various product modifications. The basic need to protect the soldier while providing information about the mission environment continues to be the primary driver for these requirements.

We do not believe that the upcoming presidential election will cause a major change in the direction of funding or product need for the U.S. military. Maintenance will still be required, and the opportunities for us to upgrade existing systems with higher performing systems will continue to present themselves. Spending levels may change, but given the mix between foreign spending, domestic/prime demand, and the more recent commercial opportunities, we do not expect any negative trends arising from political domestic changes into fiscal 2017.

During the first six months of 2015, we released a new digital spotting scope called Red Tail (patent pending). This device is targeted towards long range observation and image recording used by military, border patrol, and select consumer/commercial applications. The device is designed to deliver high definition images with military grade resolution, but at commercial "off the shelf" pricing. Using high grade optics to deliver a 45X magnified image onto a 5 megapixel CMOS sensor, the Red Tail device then transmits this image via Wi-Fi to the user's smartphone or tablet. Digital still images or videos can then be captured and/or emailed using a custom Red Tail app available for either iOS or Android devices. We demonstrated this device in April 2015 at the Border Security Expo in Phoenix, Arizona and received positive feedback from U.S. border agents, police officers, and other Expo attendees.

On November 10, 2015, we entered into a retail sales relationship with Cabela's Inc., to distribute our Red Tail Digital Spotting Scope as well as our new Stabilized Monocular. We are presently in negotiations to make these devices available via General Services Administration schedules for government personnel.

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Products

Our products are installed on various types of U.S. military land vehicles, such as the Abrams and Bradley, and Stryker families of fighting vehicles, as well as light armored and armored security vehicles. We also manufacture and deliver numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. We deliver our products both directly to the federal government and to prime contractors.

We deliver high volume products, under multi-year contracts, to large defense contractors and government customers. Increased emphasis in the past two years has been on new opportunities to promote and deliver our products in foreign military sales, where U.S.-manufactured, combat and wheeled vehicles, are supplied (and upgraded) in cooperation with the U.S. Department of Defense. We have a reputation for quality and credibility with our customers as a strategic supplier. We also anticipate the opportunity to integrate some of our night vision and optical sights products into commercial applications.

Specific product categories include:

- Electronic sighting systems
- Mechanical sighting systems
- Laser protected plastic and glass periscopes
- Non-laser protected plastic and glass periscopes
- Howitzer sighting systems
- M36 Thermal Day/Night Periscopes
- M17 Day/Thermal Periscopes
- Ship binoculars
- Replacement optics (e.g. filters, mirrors)

· Optical assemblies and laser filters

Product Line	Product Category
Periscopes	Laser & Non Laser Protected Plastic & Glass Periscopes, Electronic M17 Day/Thermal Periscopes, Vision Blocks
Sighting Systems	Back Up Sights, Digital Day and Night Sighting Systems (DDAN), M36 Thermal Periscope, Unity Mirrors
Howitzers	M137 Telescope, M187 Mount, M119 Aiming Device
Other	Muzzle Reference Systems (MRS), Binoculars, Collimators, Optical Lenses & Elements, Windows
Applied Optics Center	ACOG Laser filter, Laser Filter Interface, Optical Assemblies

We also anticipate the opportunity to integrate some of our night vision and optical sights products into commercial applications and have taken steps in fiscal 2016 to market our products in the commercial (nonmilitary) areas.

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Recent Events

Reverse Stock Split

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 our Board of Directors and shareholders of a reverse stock split of our common stock, in a ratio to be determined by our board of directors, of not less than 1-for-400 nor more than 1-for-1000 and on October 7, 2015, we effected a 1-for-1000 reverse split of our common stock. All warrant, option, share and per share information in this prospectus gives retroactive effect for a 1-for-1000 split. All numbers in this prospectus gives effect to all financial information as if the reverse split had occurred on the date reported, except as otherwise noted.

Resignation of Directors

Effective November 3, 2015, Stanley Hirschman retired as one of our directors. In recognition of his service, all of his unvested stock options were deemed to vest immediately, and the termination date of all of his stock options was extended to December 31, 2019. On May 26, 2016, Kerry Craven resigned as one of our directors.

Compensation Changes

On January 21, 2016, our Board of Directors Compensation Committee held a meeting and approved the following compensation changes:

- A base salary increase of 10% for Danny Schoening, CEO, and Karen Hawkins, CFO.

- A bonus payment of $7.5 thousand awarded to Karen Hawkins for 2015 performance.

- A $10 thousand monthly director fee for Peter Benz, Chairman, effective for calendar 2016.

Credit Facility — Avidbank

On April 20, 2016, we amended our 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) was due (and paid) 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.

- Our obligations 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 us 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.

Investor Relations — IRTH Communications

On April 6, 2016, we executed an investor relations services agreement with IRTH Communications. The material terms of the agreement are as follows:

• An initial retainer of $7,500, followed by 11 consecutive monthly payments of $7,500.

• A single one-time retainer payment of 40,000 shares of our common stock; which shares shall be “Restricted Securities” pursuant to the provisions of Rule 144, as promulgated under the Securities Act of 1933, as amended.

• Reimbursement of any reasonable out-of-pocket cost and expenses, approved by us in advance.

• The term of the agreement is 12 months, expiring on April 5, 2017, and shall automatically renew for an additional 12-month term on each yearly anniversary date unless we give notice to IRTH of an intention to terminate at the expiration of the original term.

• Continued payments of $7,500 per month plus a one-time payment of $100,000 worth of retainer shares of our common stock on renewal; which shares shall be “Restricted Securities” pursuant to the provisions of Rule 144.

On April 29, 2016, we issued 40,000 common “restricted” shares at a market price of $2.35 per share ($94,000) in support of the IRTH Communications agreement in a transaction exempt from registration under Section 4(2) of the Securities Act of 1933.

2016 Restricted Stock Unit Plan

On June 14, 2016, our Compensation Committee approved our 2016 Restricted Stock Unit Plan. This plan provides for issuance of stock units (“RSUs”) for up to 1,000,000 shares of our common stock. Each RSU constitutes a right to receive one share of our 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 our 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 us 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 us 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, our 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, we issued 150,000 RSUs to our Chief Executive Officer, Danny Schoening, and 50,000 RSUs to our 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.

Risk Factors

Investing in our common stock is a speculative proposition, and we encourage you to review our Risk Factors section commencing on p.8 of this prospectus.

These risks include, but are not limited to, the following:

- our lack of market saturation for our products and our ability to achieve full commercialization of our product ahead of our competitors;

- our ability to achieve market acceptance and to become profitable;

- our ability to engage and retain key personnel, for which we do not carry key man insurance; and

- the dilutive nature of this offering and the potential need to raise further capital in the future, which will have a further dilutive effect on our shareholders.

Corporate Information

On March 30, 2009, Optex Systems Holdings, Inc. (formerly known as Sustut Exploration, Inc.), a Delaware corporation, and Optex Systems, Inc., a privately held Delaware corporation, 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 was the surviving corporation and Optex Systems, Inc. became our wholly-owned subsidiary. At the closing, we changed our name from Sustut Exploration, Inc. to Optex Systems Holdings, Inc., and our year end changed from December 31 to a fiscal year ending on the Sunday nearest September 30.

Our principal executive office is located at 1420 Presidential Drive, Richardson, TX 75081. Our telephone number is (972) 764-5700. Our website is www.optexsys.com. Our website and the information contained on, or that can be accessed through, our website will not be deemed to be incorporated by reference in, and are not considered part of, this prospectus. You should not rely on our website or any such information in making your decision whether to purchase our common stock.

We do not intend the use or display of other companies' trademarks and trade names to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables summarize the consolidated financial data for our business. You should read this summary financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes, all incorporated by reference elsewhere in this prospectus.

We derived the consolidated statements of operations data for the year ended September 27, 2015, from our audited consolidated financial statements referenced elsewhere in this prospectus. The unaudited consolidated statements of operations data for the nine months ended June 26, 2016 and June 28, 2015, and the unaudited consolidated balance sheet data as of June 26, 2016, are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. We have prepared the unaudited information on the same basis as the audited consolidated financial statements and have included, in our opinion, all adjustments, consisting only of normal recurring adjustments that we consider necessary for a fair presentation of the financial information set forth in those statements. Our historical results are not necessarily indicative of the results to be expected in the future. All numbers are in thousands except share numbers.

Pro forma basic net income (loss) per share has been calculated assuming the conversion of all outstanding shares of our preferred stock into 2,698,431 shares of common stock upon the completion of this offering. The balance sheet data as of June 26, 2016, is presented:

- on an actual basis;
- on a pro forma basis to reflect the automatic conversion of outstanding shares of our preferred stock into 2,698,431 shares of common stock in connection with the completion of this offering; and
- on a pro forma basis to reflect the redemption of 66.4 Series A and 795.1 Series B preferred shares that will not convert to common shares in connection with the completion of this offering; and
- on a pro forma as adjusted basis to reflect the pro forma adjustments and the sale by us of 2,291,900 shares of common stock offered by this prospectus at an assumed initial public offering price of $1.19 per share less and $0.01 per warrant less the underwriting discounts and commissions and estimated offering expenses payable by us.

	Year ended September 27, 2015	Nine months ended June 26, 2016 (Unaudited)	Nine months ended June 28, 2015
Consolidated Statements of Operations Data:			
REVENUES	$ 13,003	$ 11,773	$ 7,814

COSTS AND EXPENSES:			
Cost of Sales	11,617	9,708	7,723
General and Administrative Expense	2,826	2,394	2,237
Operating Loss	(1,440)	(329)	(2,146)
Other Income and Expense	1,931	(28)	1,944
Income (loss) before taxes	491	(357)	(202)
Deferred income taxes (benefit)	—	—	—
NET INCOME (LOSS)	$ 491	$ (357)	$ (202)
Preferred stock dividend premium	(6,441)	—	(6,441)
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	(5,950)	(357)	(6,643)
Basic and diluted income (loss) per share	$ (0.85)	$ (0.05)	$ (0.95)
Weighted average shares outstanding	6,969,350	7,413,452	6,968,467

	As of June 26, 2016		
	Actual	Pro Forma	Pro Forma as Adjusted
	(Unaudited) (In thousands)		
Consolidated Balance Sheet Data:			
Current assets	$ 9,056	$ 2,256	$ 11,312
Property and equipment, net	1,745	—	1,745
Other assets	121	—	121
Total assets	10,922	2,256	13,178
Total liabilities	3,009	—	3,009
Stockholders’ equity	7,913	2,256	10,169
Total liabilities and stockholders’ equity	10,922	2,256	13,178

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Summary of the Offering

Class A units offered by us	We are offering 2,291,900 Class A units (excluding over allotment). Each Class A unit consists of one share of common stock and a warrant to purchase one share of our common stock (together with the shares of common stock underlying such warrants).
Offering price per Class A unit	$1.20
Class B units offered by us	We are also offering 400 Class B units to those purchasers, whose purchase of Class A units in this offering would result in the purchaser, together with its affiliates and certain related parties, beneficially owning more than 4.99% of our outstanding common stock following the consummation of this offering, the opportunity to purchase, in lieu of the number of Class A units that would result in ownership in excess of 4.99% of our outstanding common stock. Each Class B unit will consist of one share of Series C preferred stock, par value $0.001 per share, convertible into a number of shares of common stock equal to $5,000 divided by $1.20, the public offering price per Class A unit (the "Conversion Price"), and warrants to purchase a number of shares of common stock equal to the number of shares of common stock issuable upon conversion of one share of Series C convertible preferred stock (together with the shares of common stock underlying such shares of Series C convertible preferred stock and such warrants).
Offering price per Class B unit	$5,000.00
Description of Series C preferred stock	Each share of Series C preferred stock 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 Conversion Price. Notwithstanding the foregoing, 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 shares 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 our common stock in excess of 4.99% of the shares of our common stock then outstanding after giving effect to such exercise. For additional information, see "Description of Securities—Series C Preferred Stock" in this prospectus.
Common stock outstanding before the offering(*):	1,755,436
Common stock to be outstanding after the offering (*):	6,745,767 shares (or 7,339,552 shares if the underwriters exercise in full their option to purchase additional shares).
Underwriters option	We have granted to the underwriters an option for a period of 45 days from the date of this prospectus supplement to purchase up to 593,785 additional shares and/or warrants to purchase up to 593,785 additional shares, in any combination thereof, to cover over-allotments.
Estimate of Proceeds:	$4,750,280

Use of proceeds[2]:	We intend to use the net proceeds from this offering for the following purposes:

Proceeds:	
Gross Proceeds without over allotment	$ 4,750,280
Underwriter Discount, Fees and Expenses	(743,520)
Series A (66.4 shares) and Series B Preferred Share Redemption (795.1 shares)	(1,750,810)
Net Proceeds	2,255,950
Uses:	
Working Capital & Operating Expenses	416,190
Sales, Marketing & Business Development	400,000
Acquisitions	1,439,760
Total Uses	$ 2,255,950

No listing of Series C preferred stock:	We do not intend to apply for listing of the shares of Series C preferred stock on any exchange or other trading system.
Quotation of Warrants on OTCQB:	The warrants have been approved for quotation on the OTCQB under the symbol "OPXXW".

(*) The total number of shares of our common stock outstanding after this offering is based on 1,755,436 shares outstanding as of August 15, 2016. Includes conversion of 470.5 shares, of Series A preferred stock and 6.4 shares of Series B preferred stock into shares of common stock at a price of $1.20 per share (the public offering price per share) which adds an additional 2,698,431 shares to shares of common stock outstanding, which conversion is a condition to the obligations of the underwriters in this offering. Except as otherwise indicated herein, all information in this prospectus assumes the underwriter does not sell any common stock or warrants contained in the over-allotment option and the warrants offered hereby are not exercised. Excludes as of that date, the following:

- 52,850 shares of common stock issuable upon the exercise of vested options outstanding as of July 11, 2016, at a weighted average exercise price of $10.00 per share;

- 17,150 shares of common stock reserved for future grant or issuance as of August 15, 2016 under all of our 2009 Stock Option Plan;

- 1,000,000 shares of common stock reserved for future grant or issuance as of August 15, 2016 under our 2016 Restricted Stock Unit Plan;

- 3,958,700 shares of common stock issuable upon exercise of the warrants issued to the public in connection with this offering;

- 1,666,800 shares issuable upon conversion of the Series C preferred stock; and

- 197,935 shares of common stock issuable upon exercise of the warrants to be received by the underwriter in connection with this offering.

[2] Without over allotment.

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RISK FACTORS

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

Risks Related to our Business

We expect that we may need to raise additional capital in the future beyond any cash flow from our existing business; additional funds may not be available on terms that are acceptable to us, or at all.

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

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

- our ability to fulfill backlog;
- our ability to procure additional production contracts;
- our ability to control costs;
- the timing of payments and reimbursements from government and other contracts, including but not limited to changes in federal government military spending and the federal government procurement process;
- increased sales and marketing expenses;
- technological advancements and competitors’ response to our products;
- capital improvements to new and existing facilities;
- our relationships with customers and suppliers; and
- general economic conditions including the effects of future economic slowdowns, acts of war or terrorism and the current international conflicts.

Even if available, financings may involve significant costs and expenses, such as legal and accounting fees, diversion of management’s time and efforts, and substantial transaction costs. If adequate funds are not available on acceptable terms, or at all, we may be unable to finance our operations, develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures.

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

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

Our ability to fulfill our backlog may have an effect on our long term ability to procure contracts and fulfill current contracts.

Our ability to fulfill our backlog may be limited by our ability to devote sufficient financial and human capital resources and limited by available material supplies. If we do not fulfill our backlog in a timely manner, we may experience delays in product delivery which would postpone receipt of revenue from those delayed deliveries. Additionally, if we are consistently unable to fulfill our backlog, this may be a disincentive to customers to award large contracts to us in the future until they are comfortable that we can effectively manage our backlog.

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

Future general political and economic conditions, which cannot be accurately predicted, may directly and indirectly affect the quantity and allocation of expenditures by federal agencies. Even the timing of incremental funding commitments to existing, but partially funded, contracts can be affected by these factors. Therefore, cutbacks or re-allocations in the federal budget could have a material adverse impact on our results of operations. Given the continued adverse economic conditions, the federal government has slowed its pace with regard to the release of orders for the U.S. military. Since we depend on orders for equipment for the U.S. military for a significant portion of our revenues, this slower release of orders will continue to have a material adverse impact on our results of operations. Obtaining government contracts may also involve long purchase and payment cycles, competitive bidding, qualification requirements, delays or changes in funding, budgetary constraints, political agendas, extensive specification development, price negotiations and milestone requirements. In addition, our government contracts are primarily fixed price contracts, which may prevent us from recovering costs incurred in excess of budgeted costs. Fixed price contracts require us to estimate the total project cost based on preliminary projections of the project's requirements. The financial viability of any given project depends in large part on our ability to estimate such costs accurately and complete the project on a timely basis. Some of those contracts are for products that are new to our business and are thus subject to unanticipated impacts to manufacturing costs. Given the current economic conditions, it is also possible that even if our estimates are reasonable at the time made, that prices of materials are subject to unanticipated adverse fluctuation. In the event our actual costs exceed fixed contractual costs of our product contracts, we will not be able to recover the excess costs which could have a material adverse effect on our business and results of operations. We examine these contracts on a regular basis and accrue for anticipated losses on these contracts, if necessary. As of June 26, 2016, we had a loss provision of $6 thousand accrued as a result of cost overruns on small contracts that will complete during fiscal year 2016.

Approximately 95% of our contracts contain termination clauses for convenience. In the event these clauses should be invoked by our customer, future revenues against these contracts could be affected, however these clauses allow for a full recovery of any incurred contract costs plus a reasonable fee up through and as a result of the contract termination. We are currently unaware of any pending terminations on our existing contracts.

In some cases, contract awards may be issued that are subject to renegotiation at a date (up to 180 days) subsequent to the initial award date. Generally, these subsequent negotiations have had an immaterial impact (zero to 5%) on the contract price of the affected contracts. Currently, none of our awarded contracts are subject to renegotiation.

We have sought to mitigate the adverse impact from the slower pace of U.S. military orders on our results of operations by seeking to obtain foreign military orders as well as new commercial business. We do not expect these markets to completely mitigate the negative impact of lower U.S. defense spending.

There is further uncertainty which arises from the sequestration in early 2013 which may continue to affect business opportunities at the federal government level.

Military spending has been negatively impacted by the Budget Control Act of 2011, which was passed in August 2011. The Budget Control Act mandated a $917.0 billion reduction in discretionary spending over the next decade, and $1.2 trillion in automatic spending cuts over a nine-year period to be split between defense and non-defense programs beginning in January 2013.

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On November 2, 2015 Congress passed the Bipartisan Budget Act of 2015 which sets federal spending through the 2016 and 2017 fiscal years, and eases strict caps on spending set forth in the 2011 sequestration. The plan lifted caps on the appropriated spending each year by $50 billion in 2016 and $30 billion in 2017, evenly divided between defense and domestic programs with an additional $16 billion added each year in the form of inflated war spending, evenly split between the Defense and State departments. The agreed budget framework for the fiscal 2016 and 2017 budget years combined with the increased spending limits provides the needed stability for the defense agencies to plan the required programs over the next two years. On November 10, 2015, Congress passed the National Defense Authorization Act 2016, which is the comprehensive legislation to authorize the budget authority of the Department of Defense and the national security programs of the Department of Energy. The bill authorizes $607 billion in defense funding for fiscal year 2016, a 3.9% increase from the authorized funding of $584 billion in fiscal year 2015. As of August 15, 2016 the National Defense Authorization funding for fiscal year 2017 has not yet been approved by Congress. The preliminary estimates on the fiscal year 2017 spending are up slightly from 2016 levels to $611 billion. We are unable to tie the budget increase to any specific military vehicle and as such, the impact of the funding increase to our company is unknown as of August 15, 2016.

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

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

We do not have employment agreements with our key personnel, other than our Chief Executive Officer, and our management has very minimal unencumbered equity ownership in us. If we are not able to retain our key personnel or attract additional key personnel as required, we may not be able to implement our business plan and our results of operations could be materially and adversely affected.

We depend to a large extent on the abilities and continued participation of our executive officers and other key employees. The loss of any key employee could have a material adverse effect on our business. We currently have only one employment agreement, with our Chief Executive Officer which renews on an annual basis and currently expires on December 1, 2016, and we do not presently maintain "key man" insurance on any key employees. Our management also has minimal unencumbered ownership interest in us, thus limiting their direct stake in our outcome. We believe that as our activities increase and change in character, additional, experienced personnel will be required to implement our business plan. Competition for such personnel is intense, and we cannot assure you that they will be available when required, or that we will have the ability to attract and retain them. In addition, due to our small size, we do not presently have depth of staffing in our executive, operational and financial management areas in order to have an effective succession plan should the need arise. Thus, in the event of the loss of one or more of our management employees, our results of operations could be vulnerable to challenges associated with recruiting additional key personnel, if such recruiting efforts are not successful in a timely manner.

Certain of our products are dependent on specialized sources of supply that are potentially subject to disruption which could have a material, adverse impact on our business.

We have selectively single-sourced some of our material components in order to mitigate excess procurement costs associated with significant tooling and startup costs. Furthermore, because of the nature of government contracts, we are often required to purchase selected items from U.S. government approved suppliers, which may further limit our ability to utilize multiple supply sources for these key components.

To the extent any of these single sourced or government approved suppliers may have disruptions in deliveries due to production, quality, or other issues, we may also experience related production delays or unfavorable cost increases associated with retooling and qualifying alternate suppliers. The impact of delays resulting from disruptions in supply for these items could negatively impact our revenue, our reputation with our customers, and our results of operations. In addition, significant price increases from single-source suppliers could have a negative impact on our profitability to the extent that we are unable to recover these cost increases on our fixed price contracts.

Each contract has a specific quantity of material which needs to be purchased, assembled, and shipped. Prior to bidding a contract, we contact potential sources of material and receive qualified quotations for this material. In some cases, the entire volume is given to a single supplier and in other cases; the volume might be split between several suppliers. If a contract has a single source supplier and that supplier fails to meet their obligations (e.g., quality, delivery), then we would find an alternate supplier and bring this information back to the final customer. Contractual deliverables would then be re-negotiated (e.g., specifications, delivery, price). As of August 15, 2016, approximately 24% of our material requirements are single-sourced across 7 suppliers representing approximately 11% of our active supplier orders. Single-sourced component requirements span across all of our major product lines. The vast majority of these single-sourced components could be provided by another supplier with minimal interruption in schedule (supply delay of 3 months or less) or minimally increased costs. We do not believe these single sourced materials to pose any significant risk to us as other suppliers are capable of satisfying the purchase requirements in a reasonable time period with minimal increases in cost. Of these single sourced components, we have contracts (purchase orders) with firm pricing and delivery schedules in place with each of the suppliers to supply parts in satisfaction of our current contractual needs.

We consider only those specialized single source suppliers where a disruption in the supply chain would result in a period of three months or longer for us to identify and qualify a suitable replacement to present a material financial or schedule risk. In the table below, we identify only those specialized single source suppliers and the product lines supported by those materials utilized by us as of August 15, 2016.

Product Line	**Supplier**	**Supply Item**	**Risk**	**Purchase Orders**
Sighting Systems M36 DDAN	Raytheon EO Innovations	Digital camera system	Alternative source would take in excess of six months to qualify	Current firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule.
Sighting Systems M36 DDAN	Libra Industries	Digital camera system	Alternative source would take in excess of six months to qualify	New supplier is the designated replacement for Raytheon on M36 DDAN video system boards. One P.O. is currently in place to drive the transfer from Raytheon.
Sighting Systems M36 DDAN	L3 Comm Corp Warrior Systems.	Image Intensifier	Requires specialized, equipment. Alternative source would take six months or more to qualify	Firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule.
Periscopes	Harbor Castings	Steel castings	Alternative source would take six months to qualify	Firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements.
Periscopes	Optical Security LLC	Block Assembly	Alternative source would take six months to qualify	Firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements.
Applied Optics Center Optical Assemblies	Outback Manufacturing	Erector Tube	Item is source directed by our customer. Alternative source would take in excess of six months to qualify.	Firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule.

Applied Optics Center ACOG Laser Filter Unit 11	Armament Technology	Anti-Reflective Device	No alternative source, item is source directed by U.S. Govt.	Firm fixed price & quantity purchase orders are in place with the supplier to meet all contractual requirements. Supplier is on schedule.

The defense technology supply industry is subject to technological change and if we are not able to keep up with our competitors and/or they develop advanced technology as response to our products, we may be at a competitive disadvantage.

The market for our products is generally characterized by technological developments, evolving industry standards, changes in customer requirements, frequent new product introductions and enhancements, short product life cycles and severe price competition. Our competitors could also develop new, more advanced technologies in reaction to our products. Currently accepted industry standards may change. Our success depends substantially on our ability, on a cost-effective and timely basis, to continue to enhance our existing products and to develop and introduce new products that take advantage of technological advances and adhere to evolving industry standards. An unexpected change in one or more of the technologies related to our products, in market demand for products based on a particular technology or of accepted industry standards could materially and adversely affect our business. We may or may not be able to develop new products in a timely and satisfactory manner to address new industry standards and technological changes, or to respond to new product announcements by others. In addition, new products may or may not achieve market acceptance.

As a result of our November 2014 acquisition of the Applied Optics Center from L-3, we believe we have incurred the following additional risks, which may have a material adverse effect on our business results as we integrate the operations.

As a result of the purchase and integration of the Applied Optics Center from L-3 with our traditional business lines, the combined businesses are subject to some additional risks which were not formerly present.

• AOC has a substantial fixed cost base that is inflexible in the short term to changes in market conditions. This is due to the highly skilled and specialized workforce with established benefits for severance and vacation accruals that may exceed 6 months. In the short term, we may not be able to generate sufficient business revenue to cover these costs, so there will likely be increased cash flow requirements that exceed our availability and would entail our raising additional funds to cover cash flow.

• The manufacturing process entails use of coating equipment chambers which require utilization of high amounts of electrical power and are thus highly sensitive to changes in energy costs. Current energy rates are locked in through May 28, 2018; however, if energy costs or usage increase significantly, it would have a material impact on future financials if AOC were unable to successfully incorporate the increases into priced contracts. Further, significant interruptions or surges in the electrical power supply could result in equipment damage, repair expenses and machine down time.

• Above and beyond the normal risks to retain skilled personnel, there may be an inability to retain the specialized work force of AOC as a result of the changed corporate climate and the difference in corporate values of L-3 and us. A failure to retain such personnel could result in a material adverse ability to produce the traditional AOC products or cause delays and additional costs as we would need to train new personnel.

Unexpected warranty and product liability claims could adversely affect our business and results of operations.

The possibility of future product failures could cause us to incur substantial expense to repair or replace defective products. Some of our customers require that we warrant the quality of our products to meet customer requirements and be free of defects for twelve to fifteen months subsequent to delivery. As of June 26, 2016, approximately 80% of our current contract deliveries were covered by these warranty clauses. We establish reserves for warranty claims based on our historical rate of less than one percent of returned shipments against these contracts. There can be no assurance that this reserve will be sufficient if we were to experience an unexpectedly high incidence of problems with our products. Significant increases in the incidence of such claims may adversely affect our sales and our reputation with consumers. Costs associated with warranty and product liability claims could materially affect our financial condition and results of operations.

We derive almost all of our revenue from three customers and the loss of any of these customers could have a material adverse effect on our revenues.

For the year ended September 27, 2015, we derived approximately 83% of our gross operating revenue from four customers: 32.0% from the U.S. Government (primarily USACC — Warren), 26.4% from General Dynamics Land Systems Divisions, 14.1% from L3 Communications, Inc. and 11.1% from Nightforce Optics Inc. Procuring new customers and contracts may partially mitigate this risk. In particular, a decision by either General Dynamics Land System Divisions or USACC-Warren to cease issuing contracts to us could have a significant material impact on our business and results of operations given that they represent 58.4% of our gross business revenue. There can be no assurance that we could replace these customers on a timely basis or at all.

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We have approximately 80 discrete contracts with General Dynamics Land System Division and the U.S. Government (primarily USACC-Warren), and other prime contractors. If they choose to terminate these contracts, we are entitled to fully recover all contractual costs and reasonable profits incurred up to or as a result of the terminated contract.

We only possess two patents and one patent license and rely primarily on trade secrets to protect our intellectual property.

We utilize several highly specialized and unique processes in the manufacture of our products, for which we rely solely on trade secrets to protect our innovations. We cannot assure you that we will be able to maintain the confidentiality of our trade secrets or that our non-disclosure agreements will provide meaningful protection of our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or other disclosure. The non-disclosure agreements that are designed to protect our trade secrets could be breached, and we might not have adequate remedies for the breach.

It is also possible that our trade secrets will otherwise become known or independently developed by our competitors, many of which have substantially greater resources than us, and these competitors may have applied for or obtained, or may in the future apply for or obtain, patents that will prevent, limit or interfere with our ability to make and sell some of our products. Although based upon our general knowledge (and we have not conducted patent searches), we believe that our products do not infringe on the patents or other proprietary rights of third parties; however, we cannot assure you that third parties will not assert infringement claims against us or that such claims will not be successful.

We have one outstanding patent application. While we are optimistic that our application will be approved, we cannot guarantee that this patent application will ever result in an actual patent being awarded. The application was based on technology which is believed to be unique; however, there are many companies and many patents already awarded in this space. Further, the time frame for the US Patent and Trademark Office to review the patent application and engage in negotiations cannot be guaranteed.

In the future, we may look to acquire other businesses in our industry and the acquisitions will require us to use substantial resources.

In the future, we may decide to pursue acquisitions of other businesses in our industry. In order to successfully acquire other businesses, we would be forced to spend significant resources for both acquisition and transactional costs, which could divert substantial resources in terms of both financial and personnel capital from our current operations. Additionally, we might assume liabilities of the acquired business, and the repayment of those liabilities could have a material adverse impact on our cash flow. Furthermore, when a new business is integrated into our ongoing business, it is possible that there would be a period of integration and adjustment required which could divert resources from ongoing business operations.

The Financial Industry Regulatory Authority, or FINRA, has adopted sales practice requirements which may also limit a shareholder's ability to buy and sell our stock.

FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

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

We provide indemnification to our directors and officers to the extent provided by Delaware law. The foregoing indemnification obligation could result in our incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which we may be unable to recoup. These provisions and resultant costs may also discourage us from bringing a lawsuit against directors and officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by our stockholders against our directors and officers even though such actions, if successful, might otherwise benefit us and our stockholders.

Risks Related to Our Stock

We have issued a large number of shares of preferred stock, warrants and options, which if converted or exercised would substantially increase the number of common shares outstanding.

On July 14, 2016, we had 1,730,436 shares of common stock outstanding, and (a) we have options outstanding to purchase common stock that, if fully exercised, would generate proceeds of $528,500 and result in the issuance of an additional 52,850 shares of common stock, and (b) we have 546 shares of Series A preferred stock and 801.6 shares of Series B preferred stock that, if fully converted at the $2.50 conversion rate, would result in the issuance of an additional 2,020,573 shares of common stock. Future sales of our common stock, warrants, options and Series A and Series B preferred stock may also adversely affect our stock price and our ability to raise funds in new offerings.

As a key component of our growth strategy we have provided and intend to continue offering compensation packages to our management and employees that emphasize equity-based compensation and would thus cause further dilution.

Historically, we have not paid dividends on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future.

We have never paid cash dividends on our common stock. We intend to retain our future earnings, if any, to fund operational and capital expenditure needs of our business, and we do not anticipate paying any cash dividends in the foreseeable future. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for our common stockholders in the foreseeable future.

Our stock price is speculative and there is a risk of litigation.

The trading price of our common stock has in the past and may in the future be subject to wide fluctuations in response to factors such as the following:

- revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;

- speculation in the press or investment community;

- wide fluctuations in stock prices, particularly with respect to the stock prices for other defense industry companies;
- announcements of technological innovations by us or our competitors;
- new products or the acquisition of significant customers by us or our competitors;
- changes in investors' beliefs as to the appropriate price-earnings ratios for us and our competitors;
- changes in management;
- sales of common stock by directors and executive officers;
- rumors or dissemination of false or misleading information, particularly through Internet chat rooms, instant messaging, and other rapid-dissemination methods;
- conditions and trends in the defense industry generally;
- the announcement of acquisitions or other significant transactions by us or our competitors;
- adoption of new accounting standards affecting our industry;
- general market conditions;
- domestic or international terrorism and other factors; and
- the other factors described in this section.

Fluctuations in the price of our common stock may expose us to the risk of securities class action lawsuits. Although no such lawsuits are currently pending against us and we are not aware that any such lawsuit is threatened to be filed in the future, there is no assurance that we will not be sued based on fluctuations in the price of our common stock. Defending against such suits could result in substantial cost and divert management's attention and resources. In addition, any settlement or adverse determination of such lawsuits could subject us to significant liability.

Future sales of our common stock could depress our stock price.

Sales of a large number of shares of our common stock, or the availability of a large number for sale, could materially adversely affect the per share market price of our common stock and could impair our ability to raise funds in addition offering of our debt or equity securities. In the event that we propose to register shares of common stock under the Securities Act for our own account, certain shareholders are entitled to include their shares in the registration, subject to limitations described in the agreements granting these rights.

If you are not an institutional investor, you may purchase securities in this offering only if you reside within the states in which we will apply to have the securities registered or are exempt from registration, and, if required, meet any requisite suitability standards.

Because our common stock is quoted on the OTCQB Marketplace and not listed on a national securities exchange, this offering must be registered, or be exempt from registration, in any state in which the securities are to be offered or sold. We will apply to register the securities, or will seek to obtain an exemption from registration, only in certain states. If you are not an "institutional investor," you must be a resident of these jurisdictions to purchase our securities in the offering. The definition of an "institutional investor" varies from state to state, but generally includes financial institutions, broker-dealers, banks, insurance companies and other qualified entities. If you are not an institutional investor, you may purchase securities in this offering only if you reside in the jurisdictions where there is an effective registration or an available exemption, and, if required, meet any requisite suitability standards.

Cautionary Note Regarding Forward-Looking Information

This prospectus, in particular the "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing herein, contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). These forward-looking statements represent our expectations, beliefs, intentions or strategies concerning future events, including, but not limited to, any statements regarding our assumptions about financial performance; the continuation of historical trends; the sufficiency of our cash balances for future liquidity and capital resource needs; the expected impact of changes in accounting policies on our results of operations, financial condition or cash flows; anticipated problems and our plans for future operations; and the economy in general or the future of the electrical storage device industry, all of which are subject to various risks and uncertainties.

When used in this prospectus as well as in reports, statements, and information we have filed with the Securities and Exchange Commission, in our press releases, presentations to securities analysts or investors, in oral statements made by or with the approval of an executive officer, the words or phrases "believes," "may," "will," "expects," "should," "continue, "anticipates," "intends," "will likely result," "estimates," "projects" or similar expressions and variations thereof are intended t identify such forward-looking statements. However, any statements contained in this prospectus that are not statements of historical fact may be deemed to be forward-looking statements. We caution that these statements by their nature involve risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors.

USE OF PROCEEDS

We estimate that we will receive up to $4,750,280 in gross proceeds from the sale of common stock and warrants (and a potential additional $712,542 if the entire overallotment is exercised) in this offering, based on an assumed price of $1.20 per combination of share of common stock and warrant, which is based upon the closing price of our common stock on August 15, 2016 of $2.15, and corresponding warrant and after deducting estimated underwriter fees and estimated offering expenses payable by us. If the underwriters exercise their over-allotment option in full, we estimate that the net proceeds from this offering will be approximately $2,255,950, excluding the proceeds, if any, from the exercise of any warrants issued in the over-allotment option.

We intend to use the net proceeds from this offering for the following purposes:

Proceeds:	
Gross Proceeds without over allotment	$ 4,750,280
Underwriter discount, fees and expenses	(743,520)
Series A (66.4 shares) and B preferred stock redemption (795.1 shares)	(1,750,810)
Net Proceeds	$ 2,255,950
Uses:	
Working capital & operating expenses	416,190
Sales, marketing & business development	400,000
Acquisitions	1,439,760
Total Uses	$ 2,255,950

The allocation of the net proceeds of the offering set forth above represents our estimates based upon our current plans and assumptions regarding industry and general economic conditions, our future revenues and expenditures.

With respect to the portion of the use of proceeds to be utilized for acquisitions, we have identified specific businesses as potential acquisitions, thus we are in negotiations regarding any such acquisitions, and we seek to commence active searches for such businesses on an ongoing basis. The nature of businesses sought are smaller divisions of major defense industry manufacturers which will provide accretive and compatible businesses to our core business, much as our Applied Optics Product Line acquisition in November 2014. We seek to acquire businesses which manufacture products which are compatible with our main night vision products for the defense and commercial industries to either or both provide supply of main components of our products and/or expand our product offerings.

The amounts and timing of our actual expenditures will depend upon numerous factors, including market conditions, cash generated by our operations, business developments and related rate of growth. We may find it necessary or advisable to use portions of the proceeds from this offering for other purposes.

Circumstances that may give rise to a change in the use of proceeds and the alternate purposes for which the proceeds may be used include:

- the existence of other opportunities or the need to take advantage of changes in timing of our existing activities;

- the need or desire on our part to accelerate, increase or eliminate existing initiatives due to, among other things, changing market conditions and competitive developments; and/or

- if strategic opportunities of which we are not currently aware present themselves, including acquisitions, joint ventures, licensing and other similar transactions.

From time to time, we evaluate these and other factors and we anticipate continuing to make such evaluations to determine if the existing allocation of capital, including the proceeds of this offering, is being optimized. Pending such uses, we intend to invest the net proceeds of this offering in direct and guaranteed obligations of the United States, interest-bearing, investment-grade instruments or certificates of deposit.

DILUTION

If you purchase securities in this offering, your interest will be diluted immediately to the extent of the difference between the assumed public offering price of $1.20 per share, based upon the closing price of our common stock on August 15, 2016 of $2.15, and the as adjusted net tangible book value per share of our common stock immediately following this offering.

Our net tangible book value as of June 26, 2016 was $7.8 million. The net tangible book value per share is approximately $1.36 per share and represents our total tangible assets less total liabilities and less the redemption value of $1.75 million of Series A (66.4) and Series B (795.1) preferred shares, divided by the number of shares of common stock outstanding as of August 15, 2016 of 1,755,436 plus the conversion of 470.5 Series A preferred shares and 6.4 Series B preferred shares into 2,698,431 common shares as a condition of the offering.

Assuming that we issue only Class A units (and no Class B units) at an assumed offering price of $1.20, net tangible book value dilution per share of common stock to new investors represents the difference between the amount per share paid by purchasers in this offering and the as adjusted net tangible book value per share of common stock immediately after completion of this offering. After giving effect to our sale of 2,291,900 shares in this offering at an assumed public offering price of $1.20 per share, and after deducting the underwriter commissions and estimated offering expenses, our as-adjusted net tangible book value as of June 26, 2016 would have been $10.1 million, or $1.20 per share. This represents an immediate dilution in net tangible book value of ($0.16) per share to existing stockholders and no change in net tangible book value per share to purchasers of shares in this offering, as illustrated in the following table:

Public offering price per share	$ 1.20
Increase per share to new investors in the offering	$ -
Adjusted net tangible book value per share after giving effect to the offering and preferred share conversions	$ 1.20
Net tangible book value per share as of June 26, 2016 as adjusted for preferred share conversions*	$ 1.36
Decrease in net tangible book value per share attributable to new investors	$ (0.16)
Adjusted net tangible book value per share after giving effect to the offering and preferred share conversions	$ 1.20

The total number of shares of our common stock outstanding after this offering is based on 1,755,436 shares outstanding as of August 15, 2016 and the conversion of preferred shares to 2,698,431 common shares on closing and excludes as of that date, the following:

- 52,850 shares of common stock issuable upon the exercise of vested options outstanding as of August 15, 2016, at a weighted average exercise price of $10.00 per share;

- 17,150 shares of common stock reserved for future grant or issuance as of August 15, 2016 under all of our 2009 Stock Option Plan;

- 1,000,000 shares of common stock reserved for future grant or issuance as of August 15, 2016 under our 2016 Restricted Stock Unit Plan

- 3,958,700 shares of common stock issuable upon exercise of the warrants issued to the public in connection with this offering; and

- 197,935 shares of common stock issuable upon exercise of the warrants to be received by the underwriter in connection with this offering.

Except as otherwise indicated herein, all information in this prospectus assumes the underwriter does not sell any common stock contained in the over-allotment option.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain all future earnings for the expansion and operation of our business and do not anticipate paying cash dividends in the foreseeable future. Otherwise, the payment of dividends on common stock, if any, in the future is within the discretion of our Board and will depend on its earnings, capital requirements and financial condition and other relevant facts.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of June 26, 2016:

- on an actual basis; and

- on a pro forma basis, based upon an assumed offering price of $1.20 per share of common stock and corresponding warrant, to give effect to the sale of 2,291,900 shares of common stock in this offering, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Based on the assumed offering price of $1.20 per Class A unit, and no Class B units are sold, which is based upon the closing price of our common stock on August 15, 2016, we allocated the $4.75 million aggregate consideration to common stock. The pro forma information below is only for illustrative purposes and our capitalization following the completion of this offering will be adjusted based on the actual offering price and other terms of this offering determined at pricing. The pro forma information below is only for illustrative purposes and our capitalization following the completion of this offering will be adjusted based on the actual offering price and other terms of this offering determined at pricing. You should read this table in conjunction with "Use of Proceeds" above as well as our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and financial statements and the related notes appearing elsewhere in this prospectus.

	June 26, 2016 Unaudited Actual	Unaudited Pro Forma
	(in thousands except share amounts)	
Assets:		
Cash & Cash Equivalents	$ 601	$ 2,857
Liabilities:		
Credit Facility	730	730
Total Liabilities	$ 730	$ 730
Stockholders' Equity:		
Preferred Stock Series A ($.001 par 5,000 authorized, 546 and zero Series A preferred shares issued and outstanding, respectively)	—	—
Preferred Stock Series B ($.001 par 1,010 authorized, 969 and zero Series B preferred shares issued and outstanding, respectively)	—	—
Preferred Stock Series C ($.001 par 400 authorized, zero and 400 Series C preferred shares issued and outstanding, respectively)	—	—
Common Stock – (par $.001, 2,000,000,000 authorized, 1,621,145 and 6,745,767 shares issued and outstanding, respectively)	2	7
Additional Paid-in-capital	26,504	28,755
Retained Earnings (Deficit)	(18,593)	(18,593)
Total Stockholders' Equity	7,913	10,169
Capitalization	$ 8,643	$ 10,899

The total number of shares of our common stock outstanding in the table above is based on 1,621,145 shares outstanding as of June 26, 2016, and includes conversions of Series A and B preferred shares to 134,291 common shares through August 15, 2016 and conversion of preferred shares to 2,698,431 common shares at closing and excludes as of that date, the following:

- 52,850 shares of common stock issuable upon the exercise of vested options outstanding as of June 26, 2016, at a weighted average exercise price of $10.00 per share;

- 17,150 shares of common stock reserved for future grant or issuance as of June 26, 2016 under all of our 2009 Stock Option Plan;

- 1,000,000 shares of common stock reserved for future grant or issuance as of August 15, 2016 under our 2016 Restricted Stock Unit Plan

- 3,958,700 shares of common stock issuable upon exercise of the warrants issued to the public in connection with this offering; and

- 197,935 shares of common stock issuable upon exercise of the warrants to be received by the underwriter in connection with this offering.

Except as otherwise indicated herein, all information in this prospectus assumes the underwriter does not sell any common stock contained in the over-allotment option.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market information

Our common stock is currently quoted on the OTCQB Marketplace under the symbol "OPXS". Trading in our common stock has historically lacked consistent volume, and the market price has been volatile.

The following table shows the range of high and low bid prices for our common stock as reported by the OTCQB Marketplace. The quotations reflect inter-dealer prices, without retail markup, markdown or commission and may not represent actual transactions.

Period	**High**		**Low**	
Fourth Quarter 2013	$	20.00	$	8.00
First Quarter 2014	$	9.00	$	8.00
Second Quarter 2014	$	30.00	$	30.00
Third Quarter 2014	$	10.00	$	10.00
Fourth Quarter 2014	$	20.00	$	10.00
First Quarter 2015	$	10.00	$	10.00
Second Quarter 2015	$	10.00	$	8.00
Third Quarter 2015	$	7.00	$	5.00
Fourth Quarter 2015	$	8.00	$	8.00
First Quarter 2016	$	7.30	$	2.60
Second Quarter 2016	$	3.50	$	2.00
Third Quarter 2016	$	2.60	$	1.75

On August 15, 2016, the closing price for our common stock as reported on the OTCQB was $2.15 per share.

Securities outstanding and holders of record

On August 15, 2016, there were approximately 80 shareholders of record for our common stock and 1,755,436 shares of our common stock issued and outstanding.

Dividends

We have never paid dividends. We currently anticipate that we will retain all future earnings for the expansion and operation of our business and do not anticipate paying cash dividends in the foreseeable future.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Management's Discussion and Analysis of Financial Condition and Results of Operations for the period ended September 27, 2015 is hereby incorporated by reference in their entirety from our Form 10-K for the year ended September 27, 2015, filed with the SEC on December 15, 2015[3]. The Management's Discussion and Analysis of Financial Condition and Results of Operations for the periods ended December 27, 2015, March 27, 2016 and June 26, 2016 are hereby incorporated by reference in their entirety from our Form 10-Qs for the quarters ended December 27, 2015, March 27, 2016 and June 26, 2016, filed with the SEC on February 16, 2016, May 11, 2016 and August 8, 2016, respectively.

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3 The Company is eligible to incorporate by reference under General Instruction VII of Form S-1. Specifically, the Company notes that it has met the requirements of paragraphs A. – D. of General Instruction VII, and that it has not been, during the past three years, a registrant for an offering of "penny stock" as defined in Rule 3a51-1 as under Rule 3a51-1.g.1., it has had average revenue of more than $6 million in all three of its last fiscal years as set forth in its balance sheets for the years ended September 27, 2015, September 28, 2014 and September 29, 2013 (as reported in the Forms 10-K of the Company for the years ended September 27, 2015, September 28, 2014 and September 29, 2013, respectively).

FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 27, 2015 AND SEPTEMBER 28, 2014 AND THE QUARTERS ENDED DECEMBER 27, 2015 AND DECEMBER 28, 2014, MARCH 27, 2016 AND MARCH 28, 2015 AND JUNE 26, 2016 AND JUNE 28, 2015.

Our audited financial statements for the years ended September 27, 2015 and September 28, 2014, and the quarters ended December 27, 2015 and December 28, 2014, March 27, 2016 and March 28, 2015 and June 26, 2016 and June 28, 2015, respectively, are hereby incorporated by reference in their entirety from our Form 10-K for the year ended September 27, 2015, filed with the SEC on December 15, 2015 and our Form 10-Qs for the quarters ended December 27, 2015, March 27, 2016 and June 26, 2016, filed with the SEC on February 16, 2016, May 11, 2016 and August 8, 2016, respectively.

BUSINESS

Background

Prior History — Sustut Exploration, Inc.

Sustut Exploration, Inc. was a Delaware corporation formed on April 11, 2006 to search for available mining properties in North Central British Columbia. It entered into an option agreement in 2006 to purchase a mineral claim, and the option expired in May 2008 without any payment being made. Thus, as of May 2008, Sustut had no operating business.

As a result of the reorganization on March 30, 2009, which is described below, Optex Systems Holdings changed its name from Sustut Exploration Inc. to Optex Systems Holdings, Inc.

Reorganization

On March 30, 2009, a reorganization occurred whereby the then existing shareholders of Optex Systems, Inc., a private Delaware corporation ("Optex Systems, Inc. (Delaware)"), exchanged their shares of Optex Systems, Inc. (Delaware) common stock with the shares of common stock of us as follows (all on a pre-split basis due to the historical context): (i) the outstanding 85,000,000 shares of Optex Systems, Inc. (Delaware) common stock were exchanged for 113,333,282 shares of our common stock, (ii) the outstanding 1,027 shares of Optex Systems, Inc. (Delaware) Series A preferred stock were exchanged for 1,027 shares of Series A preferred stock and (iii) the 8,131,667 shares of Optex Systems, Inc. (Delaware) common stock purchased in the private placement were exchanged for 8,131,667 (presplit) shares of us common stock. Optex Systems, Inc. (Delaware) has remained our wholly-owned subsidiary.

Current Line of Business

We manufacture optical sighting systems and assemblies, primarily for Department of Defense applications. Our 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. We also manufacture and deliver numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. Our products consist primarily of build-to-customer print products that are delivered both directly to the armed services and to other defense prime contractors. Less than 1% of today's revenue is related to the resale of products substantially manufactured by others. In this case, the product would likely be a simple replacement part of a larger system previously produced by us.

We continue to field new product opportunities from both domestic and international customers. Given continuing unrest in multiple global hot spots, the need for precision optics continues to increase. Most of these requirements are for observation and situational awareness applications; however, we continue to see requests for higher magnification and custom reticles in various product modifications. The basic need to protect the soldier while providing information about the mission environment continues to be the primary driver for these requirements.

We do not believe that the upcoming presidential election will cause a major change in the direction of funding or product need for the U.S. military. Maintenance will still be required, and the opportunities for us to upgrade existing systems with higher performing systems will continue to present themselves. Spending levels may change, but given the mix between foreign spending, domestic/prime demand, and the more recent commercial opportunities, we do not expect any negative trends arising from political domestic changes into fiscal 2017.

Recent Events

Reverse Stock Split

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 our Board of Directors and shareholders of a reverse stock split of our common stock, in a ratio to be determined by our board of directors, of not less than 1-for-400 nor more than 1-for-1000 and on October 7, 2015, we effected a 1-for-1000 reverse split of our common stock.

Resignations of Directors

Effective November 3, 2015, Stanley Hirschman retired as one of our directors. In recognition of his service, all of his unvested stock options were deemed to vest immediately, and the termination date of all of his stock options was extended to December 31, 2019. On May 26, 2016, Kerry Craven resigned as one of our directors.

Compensation Changes

On January 21, 2016, our Board of Directors Compensation Committee held a meeting and approved the following compensation changes:

- A base salary increase of 10% for Danny Schoening, CEO, and Karen Hawkins, CFO.

- A bonus payment of $7.5 thousand awarded to Karen Hawkins for 2015 performance.

- A $10 thousand monthly director fee for Peter Benz, Chairman, effective for calendar 2016.

Credit Facility — Avidbank

On April 20, 2016, we amended our 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) was due (and paid) 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.

- Our obligations 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 us 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.

2016 Restricted Stock Unit Plan

On June 14, 2016, our Compensation Committee approved our 2016 Restricted Stock Unit Plan. This plan provides for issuance of stock units (“RSUs”) for up to 1,000,000 shares of our common stock. Each RSU constitutes a right to receive one share of our 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 our 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 us 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 us 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, our 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, we issued 150,000 RSUs to our Chief Executive Officer, Danny Schoening, and 50,000 RSUs to our 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.

New Product Development

During the first six months of 2015, we released a new digital spotting scope called Red Tail (patent pending). This device is targeted towards long range observation and image recording used by military, border patrol, and select consumer/commercial applications. The device is designed to deliver high definition images with military grade resolution, but at commercial “off the shelf” pricing. Using high grade optics to deliver a 45X magnified image onto a 5 megapixel CMOS sensor, the Red Tail device then transmits this image via Wi-Fi to the user’s smartphone or tablet. Digital still images or videos can then be captured and/or emailed using a custom Red Tail app available for either iOS or Android devices. We demonstrated this device in April 2015 at the Border Security Expo in Phoenix, Arizona and received positive feedback from U.S. border agents, police officers, and other Expo attendees.

On November 10, 2015, we entered into a retail sales relationship with Cabela’s Inc., to distribute our Red Tail Digital Spotting Scope as well as our new Stabilized Monocular. We are presently in negotiations to make these devices available via General Services Administration schedules for government personnel.

<u>Products</u>

Our products are installed on various types of U.S. military land vehicles, such as the Abrams and Bradley, and Stryker families of fighting vehicles, as well as light armored and armored security vehicles. We also manufacture and deliver numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. We deliver our products both directly to the federal government and to prime contractors.

We deliver high volume products, under multi-year contracts, to large defense contractors and government customers. Increased emphasis in the past two years has been on new opportunities to promote and deliver our products in foreign military sales, where U.S.-manufactured, combat and wheeled vehicles, are supplied (and upgraded) in cooperation with the U.S. Department of Defense. We have a reputation for quality and credibility with our customers as a strategic supplier. We also anticipate the opportunity to integrate some of our night vision and optical sights products into commercial applications.

Specific product categories include:

- Electronic sighting systems
- Mechanical sighting systems
- Laser protected plastic and glass periscopes
- Non-laser protected plastic and glass periscopes
- Howitzer sighting systems
- M36 Thermal Day/Night Periscopes
- M17 Day/Thermal Periscopes
- Ship binoculars
- Replacement optics (e.g. filters, mirrors)
- Optical assemblies and laser filters

Product Line	Product Category
Periscopes	Laser & Non Laser Protected Plastic & Glass Periscopes, Electronic M17 Day/Thermal Periscopes, Vision Blocks
Sighting Systems	Back Up Sights, Digital Day and Night Sighting Systems (DDAN), M36 Thermal Periscope, Unity Mirrors
Howitzers	M137 Telescope, M187 Mount, M119 Aiming Device
Other	Muzzle Reference Systems (MRS), Binoculars, Collimators, Optical Lenses & Elements, Windows
Applied Optics Center	ACOG Laser filter, Laser Filter Interface, Optical Assemblies

Location and Facility

We are headquartered in Richardson, TX and lease approximately 93,733 combined square feet of facilities including Richardson, Texas and Dallas, Texas. As of December 11, 2015, we had 92 full time equivalent employees. We operate with a single shift, and capacity could be expanded by adding a second shift. Our proprietary processes and methodologies provide barriers to entry for other competing suppliers. In many cases, we are the sole source provider or one of only two providers of a product. We have capabilities which include machining, bonding, painting, tracking, engraving and assembly and can perform both optical and environmental testing in-house. We renewed the lease on our 49,100 square foot, Richardson, Texas facility, effective as of December 10, 2013, with a lease expiration of

March 31, 2021. As of December 11, 2015, the Richardson facility operates with 58 full time equivalent employees in a single shift operation.

In November 2014, we also acquired a business unit from L-3 Communications, Inc., which is described herein below under "Recent Events — Acquisition". The acquisition, Applied Optics Center, is located in Dallas, Texas with leased premises consisting of approximately 56,633 square feet of space, of which 12,000 square feet is currently subleased to L3 Mobile Vision. As of December 11, 2015, the Applied Optics Center operates with 34 full time equivalent employees in a single shift operation.

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Contracts

Many of our contracts allow for government contract financing in the form of contract progress payments pursuant to Federal Acquisition Regulation 52.232-16, "Progress Payments". As a small business, and subject to certain limitations, this clause provides for government payment of up to 90% of incurred program costs prior to product delivery. To the extent our contracts allow for progress payments, we intend to utilize this benefit, thereby minimizing the working capital impact on us for materials and labor required to complete the contracts.

Our contracts allow for Federal Acquisition Regulation 52.243-1 which entitles the contractor to an "equitable adjustment" to the contract if the contract changes result in a change in contract costs or time of performance. In essence, an equitable price adjustment request is a request for a contract price modification (generally an increase) that allows for the contractor to be "made whole" for additional costs incurred which were necessitated by some modification of the contract effort. This modification may come from an overt change in U.S. Government requirements or scope, or it may come from a change in the conditions surrounding the contract (e.g., differing site conditions or late delivery of U.S. Government-furnished property) which result in statement of work additions, deletions, part substitutions, schedule or other changes to the contract which impact the contractor's overall cost to complete. 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, we appealed the decision with the Armed Services Board of Contract Appeals (ASBCA). In September 2015, the U.S. Government agreed to a $0.9 million 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 Contract Board of Appeals. 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.

Each contract with our customers has specific quantities of material that need to be purchased, assembled, and then shipped. Prior to bidding a contract, we contact potential sources of material and receive qualified quotations for each material. In some cases, the entire volume is given to a single supplier and in other cases, the volume might be split between several suppliers. If a contract has a single source supplier and that supplier fails to meet their obligations (e.g., quality, delivery), then we would attempt to find an acceptable alternate supplier, and if successful, we would then renegotiate contractual deliverables (e.g., specifications, delivery, price). As of June 26, 2016, approximately 24% of our material requirements are single-sourced across 7 suppliers representing approximately 11% of our active supplier orders. Single-sourced component requirements span across all of our major product lines. Of these single sourced components, we have material contracts (purchase orders) with firm pricing and delivery schedules in place with each of the suppliers to supply the parts necessary to satisfy our current contractual needs.

We are subject to, and must comply with, various governmental regulations that impact, among other things, our revenue, operating costs, profit margins and the internal organization and operation of our business. The material regulations affecting our U.S. government business are summarized in the table below.

Regulation	Summary
Federal Acquisition Regulation	The principal set of rules in the Federal Acquisition Regulation System. This system consists of sets of regulations issued by agencies of the federal government of the United States to govern what is called the “acquisition process,” which is the process through which the government acquires goods and services. That process consists of three phases: (1) need recognition and acquisition planning, (2) contract formation, and (3) contract administration. This system regulates the activities of government personnel in carrying out that process. It does not regulate the purchasing activities of private sector firms, except to the extent that those activities involve government solicitations and contracts by reference.
International Traffic in Arms Regulations	United States government regulations that control the export and import of defense-related articles and services on the United States Munitions List. These regulations implement the provisions of the Arms Export Control Act.
Truth in Negotiations Act	A public law enacted for the purpose of providing for full and fair disclosure by contractors in the conduct of negotiations with the government. The most significant provision included is the requirement that contractors submit certified cost and pricing data for negotiated procurements above a defined threshold of $750,000. It requires contractors to provide the government with an extremely broad range of cost or pricing information relevant to the expected costs of contract performance, and it requires contractors and subcontractors to submit cost or pricing data to the government and to certify that, to the best of their knowledge and belief, the data are current, accurate, and complete.

We are responsible for full compliance with the Federal Acquisition Regulation. Upon award, the contract may identify certain regulations that we need to meet. For example, a contract may allow progress billing pursuant to specific Federal Acquisition Regulation clauses incorporated into the contract. Other contracts may call for specific first article acceptance and testing requirements. The Federal Acquisition Regulation will identify the specific regulations that we must follow based on the type of contract awarded. The Federal Acquisition Regulation also contains guidelines and regulations for managing a contract after award, including conditions under which contracts may be terminated, in whole or in part, at the government’s convenience or for default. These regulations also subject us to financial audits and other reviews by the government of our costs, performance, accounting and general business practices relating to our government contracts, which may result in adjustment of our contract-related costs and fees and, among other things and impose accounting rules that define allowable and unallowable costs governing our right to reimbursement under certain contracts.

First Article Testing and Acceptance requirements consist of specific steps. For example, the first article testing associated with Howitzer-type product is comprehensive and time consuming. The dimensions and material specifications of each piece of the assembly must be verified, and each product has in excess of 100 piece parts. Once the individual piece parts are verified to be compliant to the specification, the assembly processes are documented and verified. A sample of the production (typically three units) is verified to meet final performance specifications. Once the units meet the final performance specification, they are then subjected to accelerated life testing, a series of tests which simulate the lifetime use of the product in the field. This consists of exposing the units to thermal extremes, humidity, mechanical shock, vibration, and other physical exposure tests. Once completed, the units undergo a final verification process to ensure that no damage has occurred as a result of the testing and that they continue to meet the performance specification. All of the information and data is recorded into a final first article inspection and test report and submitted to the customer along with the test units for final approval. First Article Acceptance and Testing is generally required on new contracts/product awards but may also be required on existing products or contracts where there has been a significant gap in production, or where the product has undergone significant manufacturing process, material, tooling, equipment or product configuration changes.

We are also subject to laws, regulations and executive orders restricting the use and dissemination of information deemed classified for national security purposes and the exportation of certain products and technical data as covered by the International Traffic in Arms Regulation. In order to import or export items listed on the U.S. Munitions List, we are required to be registered with the Directorate of Defense Trade Controls office. The registration is valid for one year, and the registration fees are established based on the number of license applications submitted the previous year. We currently have an approved and current registration on file with the Directorate of Defense Trade Controls office. Once the registration is approved, each import/export license must be filed separately. License approval requires the company to provide proof of need, such as a valid contract or purchase order requirement for the specific product or technical data requested on the license and requires a detailed listing of the items requested for export/import, the end-user, the end-user statement, the value of the items, consignees/freight forwarders and a copy of a valid contract or purchase order from the end-user. The approval process for the license can vary from several weeks to six months or more. The licenses we currently use are the DSP-5 (permanent export), DSP-6 (license revisions) and DSP-73 (temporary export).

The aforementioned licenses are valid for 48 months from date that each such license is issued as set forth on the table below (updated as of June 30, 2016).

DSP – 5 licenses	**Issue Date**	**Expiration Date (48 months of issue)**
50397890	8/8/2012	8/7/2016
50398181	8/10/2012	8/9/2016
50398178	8/10/2012	8/9/2016
50402338	8/29/2012	8/28/2016
50403055	9/6/2012	9/5/2016
50399603	9/18/2012	9/17/2016
50401835	9/12/2012	9/11/2016
50430589	1/25/2013	1/22/2017
50435218	3/7/2013	3/5/2017
50435219	3/7/2013	3/5/2017
50439431	3/7/2013	11/4/2017
50455029	6/10/2013	6/8/2017
50459204	6/28/2013	6/26/2017
50468553	7/29/2013	7/28/2017
50468550	8/30/2013	8/28/2017
50470855	9/9/2013	9/8/2017

50486913	11/20/2013	11/19/2017
50486760	12/5/2013	12/4/2017
50486727	12/6/2013	12/5/2017
50490381	12/11/2013	12/10/2017
50490628	1/3/2014	1/2/2018
50490371		