

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

Current Report

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

Date of Report (Date of earliest event reported): January 27, 2020

OPTICAL CABLE CORPORATION

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

000-27022
(Commission
File Number)

54-1237042
(I.R.S. Employer
Identification Number)

5290 Concourse Drive
Roanoke, VA
(Address of principal executive offices)

24019
(Zip Code)

(540) 265-0690
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
Common Stock, no par value

Trading Symbol
OCC

Name of exchange on which registered
Nasdaq Global Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12B-2 of the Securities Exchange Act of 1934.

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Item 2.02 Results of Operations and Financial Condition

On January 27, 2020, Optical Cable Corporation issued a press release announcing its fourth quarter and fiscal year 2019 financial results. Also on January 27, 2020, Optical Cable Corporation held an earnings call. The press release is attached hereto as Exhibit 99.1 and the transcript for the earnings call is attached as Exhibit 99.2.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

The following are filed as Exhibits to this Report.

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
99.1	Press Release dated January 27, 2020 (FILED HEREWITH)
99.2	Transcript of earnings call on January 27, 2020 (FILED HEREWITH)

SIGNATURES

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

OPTICAL CABLE CORPORATION

By: /s/ TRACY G. SMITH

Name: Tracy G. Smith

Title: Senior Vice President and Chief Financial
Officer

Dated: January 28, 2020



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FOR IMMEDIATE RELEASE

**OPTICAL CABLE CORPORATION REPORTS
 FISCAL YEAR AND FOURTH QUARTER 2019 FINANCIAL RESULTS**

Roanoke, Va., January 27, 2020 — Optical Cable Corporation (Nasdaq GM: OCC) (“OCC[®]” or the “Company”) today announced financial results for fiscal year 2019 and its fourth quarter ended October 31, 2019.

Fiscal Year 2019 Financial Results

Consolidated net sales for fiscal year 2019 were \$71.3 million compared to record net sales of \$87.8 million for fiscal year 2018, a decrease of 18.8%. By comparison, the Company’s consolidated net sales for fiscal year 2017 were \$64.1 million.

Net sales decreased in fiscal year 2019 as a result of a number of large orders from one customer in the wireless carrier market in fiscal year 2018 that did not recur at the same levels in fiscal year 2019. Net sales to this customer decreased \$19.9 million in fiscal year 2019.

OCC’s consolidated net sales to all other customers during fiscal year 2019 increased 5.7% compared to the prior year (excluding the wireless carrier market from both years), with an increase in OCC’s other specialty markets, partially offset by a decrease in its enterprise market.

OCC reported gross profit of \$18.3 million in fiscal year 2019 compared to gross profit of \$27.9 million in fiscal year 2018, a decrease of 34.3%. Gross profit margin, or gross profit as a percentage of net sales, was 25.7% in fiscal year 2019 compared to 31.7% for fiscal year 2018.

During fiscal year 2019, the Company experienced significant reduction in gross profit margins, primarily as a result of unintended throughput constraints and inefficiencies experienced in the Roanoke production facility impacting gross profits—particularly in the first quarter of the year. These throughput constraints and inefficiencies resulted from the expansion, training, and restructuring of the Company’s manufacturing workforce and from process changes during fiscal year 2018—initiatives intended to ultimately increase throughput and efficiency in order to meet increased product demand over the short- and long-term.

OCC focused on cost control and correcting the impact of these unintended throughput constraints and inefficiencies during fiscal year 2019—achieving improvements after the first quarter of fiscal year 2019. OCC’s efforts to control costs and correct unintended inefficiencies are ongoing, and the Company believes the benefits of some of the cost reductions and changes that have been made, and continue to be made, will be fully realized in fiscal year 2020.

SG&A expenses decreased 10.3% to \$23.4 million during fiscal year 2019 from \$26.1 million for fiscal year 2018. The decrease in SG&A expenses during fiscal year 2019 compared to last year was primarily the result of decreases in employee related costs including employee incentives and share-based compensation expense.

OCC recorded a net loss of \$5.7 million, or \$0.77 per basic and diluted share, for fiscal year 2019, compared to net income of \$1.1 million, or \$0.14 per basic and diluted share, for fiscal year 2018.

Over 58% of OCC’s fiscal year 2019 net loss occurred in the first quarter of fiscal year 2019—with OCC achieving improvements after the first quarter as a result of efforts to control costs and improve production throughput and efficiencies.

Fourth Quarter 2019 Financial Results

Consolidated net sales were \$18.2 million in the fourth quarter of fiscal year 2019, a decrease of 10.0% compared to net sales of \$20.3 million in the fourth quarter of fiscal year 2018. The year-over-year decrease in net sales reflects a number of large orders from one customer in the wireless carrier market in the fourth quarter of fiscal year 2018 that did not recur at the same levels in the fourth quarter of fiscal year 2019. Net sales to this customer decreased \$2.6 million in the fourth quarter of fiscal 2019, as compared to the prior year period.

OCC’s consolidated net sales to all other customers during the fourth quarter of fiscal year 2019 increased 3.5% compared to the same period in fiscal year 2018 (excluding the wireless carrier market from both periods), with an increase in OCC’s other specialty markets, partially offset by a decrease in its enterprise market.

Gross profit was \$4.9 million in the fourth quarter of fiscal year 2019 compared to gross profit of \$6.7 million in the same period last year, a decrease of 25.8%. Gross profit margin was 27.1% in the fourth quarter of fiscal year 2019 compared to 32.9% for the same period in fiscal year 2018.

SG&A expenses decreased 19.7% to \$5.5 million during the fourth quarter of fiscal year 2019, compared to \$6.8 million for the fourth quarter of fiscal year 2018. The decrease in SG&A expenses was primarily the result of decreases in employee related costs including employee incentives and share-based compensation expense.

For the fourth quarter of fiscal year 2019, OCC recorded a net loss of \$657,000, or \$0.09 per basic and diluted share, compared to a net loss of \$350,000, or \$0.05 per basic and diluted share, for the fourth quarter of fiscal year 2018.

Credit Agreement Modified

OCC's Credit Agreement with Pinnacle Bank was modified on January 22, 2020, subsequent to the Company's fiscal year end. The Credit Agreement was modified to (i) reduce the aggregate outstanding balance under the Credit Agreement by \$200,000 on or before April 15, 2020 by reducing the outstanding principal balances on the term loans; (ii) provide that all outstanding and future advances under the Revolver accrue interest at an interest rate of prime lending rate plus 0.50%, effective January 22, 2020, (iii) suspend the current ratio financial covenant for the fiscal quarter ended October 31, 2019, (iv) suspend the fixed charge coverage ratio for the fiscal year ended October 31, 2019, and (v) provide that OCC engage in good faith to negotiate a letter of intent or similar expression of interest to refinance the Revolver by March 31, 2020 and enter into a financing commitment letter, similar equity commitment or combination thereof relating to the financing by May 1, 2020 with closing planned on or before June 30, 2020.

Management's Comments

Neil Wilkin, President and Chief Executive Officer of OCC, said, "During fiscal year 2019, the OCC team again demonstrated its ability to adjust course in a challenging environment. We achieved 5.7% growth in total net sales in our core targeted markets—excluding the volatile wireless carrier market—demonstrating our strong market position and the strength of our comprehensive product offerings. The OCC team took aggressive actions to correct the impact of unintended throughput constraints and inefficiencies that occurred in fiscal year 2019—most significantly impacting the first quarter—resulting from production process changes made necessary by record demand for OCC's products during fiscal year 2018. Our efforts resulted in gross profit improvements and other SG&A expense reductions beginning in the second quarter of fiscal year 2019, and we expect additional cost savings to be realized in fiscal year 2020."

Mr. Wilkin concluded, "OCC is uniquely positioned in the fiber optic and copper cabling and connectivity industry with core strengths and capabilities that enable us to grow and successfully compete against our larger competitors. We begin 2020 with a continued focus on driving top-line growth and working with urgency to further increase operational efficiency, reduce costs and realize the benefit of our operating leverage on the Company's bottom line."

Conference Call Information

As previously announced, OCC will host a conference call today, January 27, 2020, at 10:00 a.m. Eastern Time. Individuals wishing to participate in the conference call should call (866) 610-1072 in the U.S. or (973) 935-2840 internationally, passcode 6073147. For interested individuals unable to join the call, a replay will be available through Monday, February 10, 2020 by dialing (800) 585-8367 or (404) 537-3406, passcode 6073147. The call will also be broadcast live over the internet and can be accessed by visiting the investor relations section of the Company's website at www.occfiber.com.

Company Information

Optical Cable Corporation (“OCC[®]”) is a leading manufacturer of a broad range of fiber optic and copper data communication cabling and connectivity solutions primarily for the enterprise market and various harsh environment and specialty markets (collectively, the non-carrier markets) and also the wireless carrier market, offering integrated suites of high quality products which operate as a system solution or seamlessly integrate with other providers’ offerings.

OCC[®] is internationally recognized for pioneering innovative fiber optic and copper communications technologies, including fiber optic cable designs for the most demanding environments and applications, copper connectivity designs to meet the highest data communication industry standards, as well as a broad product offering built on the evolution of these fundamental technologies.

OCC uses its expertise to deliver cabling and connectivity products and integrated solutions that are best suited to the performance requirements of each end-user’s application. And, OCC’s solutions offerings cover a broad range of applications—from commercial, enterprise network, datacenter, residential and campus installations to customized products for specialty applications and harsh environments, including military, industrial, mining, petrochemical and broadcast applications, as well as for the wireless carrier market.

Founded in 1983, OCC is headquartered in Roanoke, Virginia with offices, manufacturing and warehouse facilities located in Roanoke, Virginia, near Asheville, North Carolina and near Dallas, Texas. OCC’s facilities are ISO 9001:2015 registered and its Roanoke and Dallas facilities are MIL-STD-790G certified.

Optical Cable Corporation[™], OCC[®], Procyon[®], Superior Modular Products[™], SMP Data Communications[™], Applied Optical Systems[™], and associated logos are trademarks of Optical Cable Corporation.

Further information about OCC[®] is available at www.occfiber.com.

FORWARD-LOOKING INFORMATION

This news release by Optical Cable Corporation and its subsidiaries (collectively, the “Company” or “OCC”) may contain certain forward-looking information within the meaning of the federal securities laws. The forward-looking information may include, among other information, (i) statements concerning our outlook for the future, (ii) statements of belief, anticipation or expectation, (iii) future plans, strategies or anticipated events, and (iv) similar information and statements concerning matters that are not historical facts. Such forward-looking information is subject to known and unknown variables, uncertainties, contingencies and risks that may cause actual events or results to differ materially from our expectations, and such known and unknown variables, uncertainties, contingencies and risks may also adversely affect Optical Cable Corporation and its subsidiaries, the Company’s future results of operations and future financial condition, and/or the future equity value of the Company. A partial list of such variables, uncertainties, contingencies and risks that could cause or contribute to such differences from our expectations or that could otherwise adversely affect Optical Cable Corporation and its subsidiaries is set forth in Optical Cable Corporation’s quarterly and annual reports filed with the Securities and Exchange Commission (“SEC”) under the heading “Forward-Looking Information.” OCC’s quarterly and annual reports are available to the public on the SEC’s website at <http://www.sec.gov>. In providing forward-looking information, the Company expressly disclaims any obligation to update this information, whether as a result of new information, future events or otherwise except as required by applicable laws and regulations.

(Financial Tables Follow)

OPTICAL CABLE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(thousands, except per share data)
(unaudited)

	Three Months Ended October 31,		Fiscal Year Ended October 31,	
	2019	2018	2019	2018
Net sales	\$ 18,250	\$ 20,273	\$ 71,324	\$ 87,828
Cost of goods sold	13,308	13,612	53,019	59,955
Gross profit	4,942	6,661	18,305	27,873
SG&A expenses	5,466	6,802	23,434	26,131
Royalty income, net	(5)	(3)	(6)	(33)
Amortization of intangible assets	10	9	39	35
Income (loss) from operations	(529)	(147)	(5,162)	1,740
Interest expense, net	(139)	(133)	(521)	(608)
Other, net	15	(81)	8	(80)
Other expense, net	(124)	(214)	(513)	(688)
Income (loss) before income taxes	(653)	(361)	(5,675)	1,052
Income tax expense (benefit)	4	(11)	(6)	(17)
Net income (loss)	<u>\$ (657)</u>	<u>\$ (350)</u>	<u>\$ (5,669)</u>	<u>\$ 1,069</u>
Net income (loss) per share:				
Basic and diluted	<u>\$ (0.09)</u>	<u>\$ (0.05)</u>	<u>\$ (0.77)</u>	<u>\$ 0.14</u>
Weighted average shares outstanding:				
Basic and diluted	<u>7,319</u>	<u>6,667</u>	<u>7,387</u>	<u>7,593</u>

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OPTICAL CABLE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET DATA
(thousands)
(unaudited)

	October 31, 2019	October 31, 2018
Cash	\$ 537	\$ 177
Trade accounts receivable, net	10,348	12,833
Inventories	18,096	17,475
Other current assets	399	562
Total current assets	<u>29,380</u>	<u>31,047</u>
Non-current assets	10,727	12,051
Total assets	<u>\$ 40,107</u>	<u>\$ 43,098</u>
Current liabilities	\$ 13,627	\$ 7,028
Non-current liabilities	5,241	9,259
Total liabilities	<u>18,868</u>	<u>16,287</u>
Total shareholders' equity	<u>21,239</u>	<u>26,811</u>
Total liabilities and shareholders' equity	<u>\$ 40,107</u>	<u>\$ 43,098</u>

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CORPORATE PARTICIPANTS

Aaron Palash *Joele Frank, Wilkinson Brimmer Katcher - Director*

Neil D. Wilkin *Optical Cable Corporation - Chairman, President & CEO*

Tracy G. Smith *Optical Cable Corporation - Senior VP, CFO & Corporate Secretary*

PRESENTATION**Operator**

Good morning. My name is Maria, and I'll be your conference operator today. At this time, I would like to welcome you to the Optical Cable Corporation fourth quarter and fiscal year 2019 earnings conference call. (Operator Instructions) After the speakers' remarks, there will be a question-and-answer period. (Operator Instructions) Mr. Palash, you may begin your conference.

Aaron Palash - *Joele Frank, Wilkinson Brimmer Katcher - Director*

Great. Thank you. Good morning, and thank you all for participating on Optical Cable Corporation's fourth quarter and fiscal year 2019 conference call. By this time, everyone should have a copy of the earnings press release issued earlier today. You can also visit www.occfiber.com for a copy. On the call with us today are Neil Wilkin, President and Chief Executive Officer of OCC and Tracy Smith, Senior Vice President and Chief Financial Officer.

Before we begin, I'd like to remind everyone that this call may contain forward-looking statements that involves risks and uncertainties. The actual future results of Optical Cable Corporation may differ materially due to a number of factors and risks including, but not limited to, those factors referenced in the forward-looking statements section of this morning's press release. These cautionary statements apply to the contents of the internet webcast on www.occfiber.com as well as today's call.

With that, I'll turn the call over to Neil Wilkin. Neil, please begin.

Neil D. Wilkin - *Optical Cable Corporation - Chairman, President & CEO*

Thank you, Aaron, and good morning, everyone. I will begin the call today with a few opening remarks. Tracy will then review the fourth quarter and full year results for the three-month and twelve-month periods ended October 31, 2019 in some additional detail. After Tracy's remarks, we will answer as many of your questions as we can. As is our normal practice, we will only take questions from analysts and institutional investors during the Q&A session. However, we also offer other shareholders the opportunity to submit questions in advance of our earnings call. Instructions regarding such submissions are included in our press release announcing the date and time of our call today.

Before we get to the results, I want to take this opportunity to reflect on where OCC is as a company and why we believe OCC's future is so bright. Optical Cable Corporation is uniquely positioned in the fiber optic and copper cabling and connectivity industry with core strengths and capabilities which are valuable assets. For decades, OCC has used its core strengths and capabilities to grow sales and successfully compete against a host of much larger competitors by offering top-tier products and application solutions. Often, OCC competes with different, larger competitors in OCC's different targeted markets.

OCC's core strengths and capabilities include: first, OCC has enviable market positions, brand recognition, as well as the loyalty and relationships with customers, decision-makers and end users across a broad range of targeted markets including the enterprise, industrial, mining, oil and gas, broadcast, military, and other harsh environment and specialty markets. Second, we have a broad and diverse geographic footprint. OCC sells into approximately 50 countries every year. Third, OCC has extensive industry experience and expertise. Our engineering, sales and business development teams are well-respected for their product and application experience and expertise that enables OCC to create its portfolio of innovative, high performance products and associated intellectual property. Fourth, the Company's wide range of fiber optic and copper cabling and connectivity products and solutions offerings--well suited for the applications in our targeted markets. And finally, our extensive manufacturing capacity.

OCC's ability to create growth opportunities to successfully compete against larger industry players in our targeted markets depends on our ability to maintain and build upon these core strengths and capabilities.

Many of the costs we incur to maintain and build our strengths and capabilities (plus other costs like our public company costs) are fixed. As OCC grows net sales, gross profit and profitability tend to increase at a faster rate than the rate of the increase in net sales as fixed production costs and SG&A expenses remain relatively stable, but are spread over higher net sales levels, creating operating leverage for OCC.

Consequently, our top priority remains executing our business development, sales and marketing initiatives to accelerate sales growth, better realize economies of scale, and create shareholder value.

Now a few comments on our results this year. Over the course of fiscal year 2019, the OCC team again demonstrated its ability to adjust course in a challenging environment. OCC achieved consolidated net sales of \$71.3 million, with 5.7% growth in total net sales excluding our volatile wireless carrier market, demonstrating OCC's market strength and resilience in our core targeted markets. Historically, OCC's net sales in the wireless carrier market have been volatile, with sales in the wireless carrier market generally totaling about \$4 million per year. OCC's sales in the wireless carrier market exceeded \$28 million in fiscal year 2018 and was almost \$9 million in fiscal year 2019.

In fiscal year 2019, we faced a tough year-over-year consolidated net sales comparison as a result. OCC achieved consolidated net sales of \$87.8 million, the highest annual net sales in the company's history in fiscal year 2018, with net sales growing 37%, driven by our specialty markets, particularly the wireless carrier market. Notably, as you look at our net sales for fiscal year 2019, our consolidated net sales are 11.3% higher when compared to \$64.1 million in fiscal year 2017, before our record fiscal year 2018.

During fiscal year 2019, the Company team also took aggressive actions to address unintended throughput constraints and inefficiencies that occurred in fiscal year 2019, most significantly impacting the first quarter, resulting from production process changes made necessary by record demand for the Company's products during fiscal year 2018. Our sharp sales growth and production volume increases in fiscal year 2018 necessitated production process changes. OCC's changes created some unintended throughput constraints and inefficiencies in fiscal year 2019, which led to net losses this year.

OCC began a series of initiatives in fiscal year 2018 designed to create additional short- and long-term production flexibility in order to accommodate spikes in production volume and improve production capabilities at the Company's Roanoke production facility. These initiatives included restructuring production teams, cross-training, expanding our manufacturing workforce as well as implementing process and production scheduling changes, initiatives intended to increase production throughput and efficiency in order to meet increased product demand over the short- and long term.

While some improvements were achieved, the initiatives also resulted in unintended throughput constraints and unexpected inefficiencies in OCC's Roanoke production facility, significantly impacting gross profits, particularly in the first quarter of fiscal year 2019. We believe the challenges we encountered are analogous to those experienced by some other businesses during major system change initiatives, similar to an ERP implementation. As a result, OCC experienced a very difficult first quarter of fiscal year 2019 with 58.4% of the net losses during the entire fiscal year 2019 occurring in the first 3 months of the year.

We took aggressive actions to correct the impact of these unintended throughput constraints and inefficiencies, as well as reduce and control other costs. We made leadership changes, formed cross-functional teams to review and implement process and system corrections and improvements and initiated personnel reductions with the goal of reducing costs and improving efficiency and flexibility. While turbulent and challenging, our efforts resulted in gross profit improvements and other SG&A expense reductions beginning in the second quarter of fiscal year 2019.

We expect additional cost savings to be realized in fiscal year 2020. Certain of our already implemented workforce-related reductions will begin to be fully realized in fiscal year 2020. We believe these actions will reduce net personnel costs by approximately \$2 million per year for the full year of fiscal year 2020.

In addition to the actions we've taken, we will continue to focus on executing our strategies to capture growth opportunities while working with urgency to further enhance our production flexibility, throughput and efficiency, as well as further reduce other costs.

As we begin fiscal year 2020, we remain focused on driving top-line growth and realizing the benefit of operating leverage on OCC's bottom line. Our production improvement initiatives and corrective actions continue, focused on further enhancing the throughput and efficiency of our Roanoke production operations. And, our SG&A cost control efforts continue as well.

We finished the year with a strong balance sheet. OCC has a current assets to current liabilities ratio of 2.2 to 1, even with our bank revolver being classified as a current liability. We estimate the loan-to-value of our real estate on our \$5.91 million in term loans to be less than 62% at October 31, 2019, and the loan-to-value of just our cash and accounts receivable, not including our inventory and other assets, on our \$5.65 million bank revolver balance to be less than 52% at the end of fiscal year 2019.

Sales in the first quarter of fiscal year 2020 are slower than our typical seasonality. However, at this time, we continue to expect total consolidated net sales in fiscal year 2020 to exceed fiscal year 2019. Our business is strong and we are excited about capitalizing on the opportunities before us. We are also confident in our ability to continue to meet the evolving needs of our customers, installers, specifiers and end-users, including providing technical and application expertise.

We will continue to work with urgency to drive top-line growth, further enhance our production flexibility, throughput and efficiency, as well as to further reduce other costs. Our success in these efforts enable OCC to better realize economies of scale due to our operating leverage, grow our bottom line, and create shareholder value.

And with that, I'll turn the call over to Tracy Smith, who will review some additional details regarding our fourth quarter and fiscal year 2019 financial results.

Tracy G. Smith - *Optical Cable Corporation - Senior VP, CFO & Corporate Secretary*

Thank you, Neil. Consolidated net sales for fiscal year 2019 were \$71.3 million, a decrease of 18.8% compared to net sales of \$87.8 million for fiscal year 2018. Consolidated net sales for the fourth quarter of fiscal 2019 were \$18.2 million, a decrease of 10% compared to net sales of \$20.3 million for the fourth quarter of fiscal 2018. The decrease in net sales when comparing the fourth quarter and fiscal year 2019 year-over-year is a result of a number of large orders from one customer in the fourth quarter and fiscal year 2018 that did not recur at the same levels in the fourth quarter and fiscal year 2019. Net sales to this customer decreased \$2.6 million and \$19.9 million, respectively, in the fourth quarter and fiscal year 2019. Consolidated net sales to all other customers increased 3.5% during the fourth quarter and increased 5.7% in fiscal year 2019 compared to the same periods last year, excluding net sales from this one customer from all periods.

Turning to gross profit. Gross profit was \$18.3 million in fiscal year 2019 compared to \$27.9 million in fiscal 2018. Gross profit margin, or gross profit as a percentage of net sales, was 25.7% in fiscal 2019 compared to 31.7% in fiscal 2018. Gross profit was \$4.9 million in the fourth quarter of fiscal 2019 compared to \$6.7 million in the fourth quarter of fiscal 2018. Gross profit margin was 27.1% in the fourth quarter of fiscal 2019 compared to 32.9% in the fourth quarter of fiscal 2018.

During fiscal year 2019, we experienced significant reduction in gross profit margins, primarily as a result of unintended throughput constraints and inefficiencies that we experienced in our Roanoke production facility, particularly in the first quarter of the year. These throughput constraints and inefficiencies resulted from the expansion, training and restructuring of our manufacturing workforce and from process changes during fiscal year 2018, initiatives intended to ultimately increase throughput and efficiency in order to meet increased product demand over the short- and long-term. In 2019, we focused on cost control and correcting the impact of these unintended throughput constraints and inefficiencies that we experienced in our Roanoke facility, achieving improvements after the first quarter of fiscal year 2019. Our efforts to control costs and correct unintended inefficiencies are ongoing, and we believe the benefits of some of the cost reductions and changes we have made, and continue to make, will be fully realized in fiscal year 2020.

Our gross profit margins tend to be higher when we achieve higher net sales levels, as certain fixed manufacturing costs are spread over higher sales. Additionally, our gross profit margin percentages are heavily dependent upon product mix on a quarterly basis, which continued to be a factor putting downward pressure on our gross profit margin during the fourth quarter and fiscal year 2019.

SG&A expenses decreased 10.3% to \$23.4 million during fiscal 2019 compared to \$26.1 million during fiscal year 2018. SG&A expenses decreased 19.7% to \$5.5 million during the fourth quarter of fiscal 2019 compared to \$6.8 million for the same period last year. The decrease in SG&A expenses during the fourth quarter and fiscal year 2019 compared to the fourth quarter and fiscal year 2018 was primarily the result of decreases in employee-related costs, including employee incentives and share-based compensation. This can also be attributed to decreased net sales and our financial results during the fourth quarter and fiscal year 2019.

OCC recorded a net loss of \$5.7 million, or \$0.77 per basic and diluted share, for fiscal 2019 compared to net income of \$1.1 million, or \$0.14 per basic and diluted share, for fiscal 2018. OCC recorded a net loss of \$657,000, or \$0.09 per basic and diluted share, for the fourth quarter of fiscal 2019 compared to a net loss of \$350,000, or \$0.05 per basic and diluted share, for the fourth quarter of fiscal 2018.

Subsequent to our fiscal quarter end, we entered into a loan modification agreement with our lender to modify our Credit Agreement. The purpose of the agreement was to reduce the aggregate outstanding balance under the Credit Agreement by \$200,000 on or before April 15, 2020, by reducing the outstanding principal balances on our term loans; provide that all outstanding and future advances under the revolver accrue interest at an interest rate of prime lending rate plus 0.5%, effective January 22, 2020; suspend the current ratio financial covenant for the fiscal quarter ended October 31, 2019; suspend the fixed charge coverage ratio for the fiscal year ended October 31, 2019; and provide that we engage in good faith to negotiate a letter of intent or similar expression of interest to refinance the revolver by March 31, 2020, and enter into a financing commitment letter, similar equity commitment or combination thereof, relating to the financing by May 1, 2020, with closing planned on or before June 30, 2020.

As of October 31, 2019, we had outstanding borrowings of \$5.7 million on our revolving credit note and \$850,000 in available credit. We also had outstanding loan balances of \$5.9 million under our real estate term loans.

With that, I'll turn the call back over to Neil.

Neil D. Wilkin - *Optical Cable Corporation - Chairman, President & CEO*

Thank you, Tracy. Now, if you have any questions, we are happy to answer them. Operator, if you could please indicate the instructions for our participants to call in any questions they may have, I'd appreciate it. Again, we are only taking live questions from analysts and institutional investors.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And I'm not showing any audio questions at this time. I'd like to turn the floor back over to Mr. Neil Wilkin.

Neil D. Wilkin - *Optical Cable Corporation - Chairman, President & CEO*

Thank you. Aaron, are there any questions that were submitted by individual investors in advance of today's call?

Aaron Palash - *Joele Frank, Wilkinson Brimmer Katcher - MD*

Yes, Neil. I do have a few questions submitted in advance of the call by noninstitutional shareholders. I'd be happy to read them off here.

Neil D. Wilkin - *Optical Cable Corporation - Chairman, President & CEO*

Okay.

Aaron Palash - *Joele Frank, Wilkinson Brimmer Katcher - MD*

So the first. Congratulations on 5.7% growth in total net sales in core targeted markets in FY 2019. Do you expect similar growth in FY 2020?

Neil D. Wilkin - *Optical Cable Corporation - Chairman, President & CEO*

While we're not -- we don't provide any specific guidance. However, we have said this year, and we've talked about it earlier on the call, that we do expect sales for fiscal year 2020 in total to be higher than net sales for fiscal year 2019.

Aaron Palash - *Joele Frank, Wilkinson Brimmer Katcher - MD*

Great. Second question. Can you disclose your backlog or forward log as of October 31, 2019?

Neil D. Wilkin - *Optical Cable Corporation - Chairman, President & CEO*

Well, as we've noted on the call already, we do expect net sales in the first quarter to be weaker, partly due to seasonality as we're seeing some delay in some pending projects from customers. And we also expect to see our net sales for the entire year to be higher than last year. And I think that covers the question.

Aaron Palash - *Joele Frank, Wilkinson Brimmer Katcher - MD*

Okay, great. Next question. At this point, are the unintended throughput constraints and inefficiencies experienced in the Roanoke production facility largely in the past? Can you quantify the throughput improvements and efficiencies you expect? And can you elaborate on the nature of the problems and when they will be fully solved?

Neil D. Wilkin - *Optical Cable Corporation - Chairman, President & CEO*

Okay. There's a number of parts to be addressed there. I think that, first, while we haven't specifically separately quantified the impact, what we can say is that the impacts that we saw were reflected in our gross profit margin, largely related to production in our Roanoke facility. And those are reflected in our financials. And so you can see, as you look from quarter-to-quarter and year-to-year, the impact on the gross profit margin. We do believe that we've largely addressed the issues, and -- but we do continue to focus on further improving our production efficiency and throughput. However, I think it is important to realize that OCC's operating leverage is significant. And so when sales volumes are lower, gross profit tends to be lower as fixed costs remain a factor. Similarly, when sales volumes are higher, gross profits tend to be higher as fixed costs are spread over higher sales. And so the percentage change in sales disproportionately impacts the percentage change in bottom line profitability.

Aaron Palash - *Joele Frank, Wilkinson Brimmer Katcher - MD*

Okay. Next, we have a series of questions on the Pinnacle Credit Agreement. Has it been moved to special assets? In the press release, does the phrase refinancing the revolver by March 31, 2020, suggests refinancing with Pinnacle or at a different financial institution? Similarly, will the borrowing portion of the commitment letter be through Pinnacle or at a different financial institution? And finally, can you talk about the equity commitment and what that means with respect to the issuance of OCC shares?

Tracy G. Smith - *Optical Cable Corporation - Senior VP, CFO & Corporate Secretary*

I'll take that one, Aaron. Pinnacle Bank has indicated their interest in OCC securing an alternative source of financing to replace the revolving loan that OCC has with Pinnacle Bank, which is set to expire on June 30, 2020. We are in the process of seeking alternative financing sources for our revolving loan. And at this time, we expect to be able to secure alternative financing for our revolving loan on or before June 30, 2020.

Aaron Palash - *Joele Frank, Wilkinson Brimmer Katcher - MD*

Great. Last question. Do you expect to have an issue with any covenants at the end of Q1 fiscal year 2020?

Tracy G. Smith - *Optical Cable Corporation - Senior VP, CFO & Corporate Secretary*

In our annual report filing that will be filed by tomorrow, we describe our covenants in more detail. We have a constructive relationship with our bank, and they have been willing to work with us when we have had covenant violations, particularly since some of the violations have been created by the classification of the revolver balance as current, as opposed to noncurrent, which is how it was classified originally.

Aaron Palash - *Joele Frank, Wilkinson Brimmer Katcher - MD*

Got it. That was the last question.

Neil D. Wilkin - *Optical Cable Corporation - Chairman, President & CEO*

Are there any other questions? Then there's no other questions, Aaron?

Aaron Palash - *Joele Frank, Wilkinson Brimmer Katcher - MD*

No. Good to go.

Neil D. Wilkin - *Optical Cable Corporation - Chairman, President & CEO*

Okay. Well, in closing then, I'd like to first, thank our team of dedicated employees who have worked tirelessly to overcome the challenges we've experienced this last year. I'm deeply grateful for the hard work and contributions and mindful that their efforts are essential to the success of our customers and to OCC. I'd also like to thank everyone for listening to our fourth quarter and fiscal year 2019 conference call today. As always, we appreciate your time and your interest in Optical Cable Corporation. Thank you.

Operator

Thank you, ladies and gentlemen. This does conclude today's conference call. You may now disconnect.
