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

Form 10-K

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

For the fiscal year ended October 31, 2009

Commission File Number 0-27022

OPTICAL CABLE CORPORATION

(Exact name of the registrant as specified in its charter)

Virginia **(State or other jurisdiction of incorporation or organization)**	**54-1237042** **(I.R.S. Employer Identification No.)**
5290 Concourse Drive, Roanoke, VA **(Address of principal executive offices)**	**24019** **(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act: None

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, no par value	**Nasdaq Global Market**

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☒

The aggregate market value of the registrant's Common Stock, no par value, held by non-affiliates of the registrant (without admitting any person whose shares are not included in determining such value is an affiliate) as of April 30, 2009, the last business day of the Company's most recent second quarter was $17,268,273 based upon the closing price of these shares as reported by the Nasdaq Global Market on April 30, 2009.

As of January 22, 2010, the Company had outstanding 6,508,821 common shares.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2010 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K Report: "Election of Directors," "Beneficial Ownership of Securities," "Compensation of Executive Officers," "Compensation of Directors," "Compliance with Section 16(a) of the Securities Exchange Act of 1934," "Code of Ethics," "Executive Compensation," "Compensation Committee Report on Executive Compensation," "Beneficial Ownership of Common Stock," "Equity Compensation Plans Information," "Certain Relationships and Related Transactions," "Independent Registered Public Accounting Firm," and "Audit Committee Pre-approval of Audit and Permissible Non-audit Services of Independent Registered Public Accounting Firm." In addition, portions of the Company's Annual Report filed as exhibit 13.1 to this report on Form 10-K are incorporated by reference in Part II of this Form 10-K Report: "Corporate Information," "Management's Discussion and Analysis," "Consolidated Financial Statements," "Notes to Consolidated Financial Statements," and "Report of Independent Registered Public Accounting Firm."

OPTICAL CABLE CORPORATION

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PART I

Item 1. BUSINESS

Overview

Optical Cable Corporation was incorporated in the Commonwealth of Virginia in 1983. We are headquartered at 5290 Concourse Drive, Roanoke, Virginia 24019 and our telephone number is (540) 265-0690. Optical Cable Corporation, together with our wholly owned subsidiary, Applied Optical Systems, Inc. (“AOS”), has offices, manufacturing and warehouse facilities located in each of Roanoke, Virginia, near Asheville, North Carolina and near Dallas, Texas.

Optical Cable Corporation (or “OCC”) is a leading manufacturer of a broad range of fiber optic and copper data communications cabling and connectivity solutions primarily for the enterprise market, offering an integrated suite of high quality, warranted products which operate as a system solution or seamlessly integrate with other providers’ offerings. OCC’s product offerings include designs for uses ranging from commercial, enterprise network, datacenter, residential and campus installations to customized products for specialty applications and harsh environments, including military, industrial, mining and broadcast applications. OCC products include fiber optic and copper cabling, fiber optic and copper connectors, specialty fiber optic and copper connectors, fiber optic and copper patch cords, racks, cabinets, datacom enclosures, patch panels, face plates, multi-media boxes, and other cable and connectivity management accessories, and are designed to meet the most demanding needs of end-users, delivering a high degree of reliability and outstanding performance characteristics.

OCC is internationally recognized for pioneering the design and production of fiber optic cables for the most demanding military field applications, as well as of fiber optic cables suitable for both indoor and outdoor use, and creating a broad product offering built on the evolution of these fundamental technologies. OCC also is internationally recognized for its role in establishing copper connectivity data communications standards, through its innovative and patented technologies.

OCC primarily manufactures its high quality fiber optic cables at its ISO 9001:2008 registered and MIL-STD-790F certified facility located in Roanoke, Virginia, its high quality commercial connectivity products at its ISO 9001:2008 registered facility located near Asheville, North Carolina, and its high quality military and harsh environment connectivity products and systems at its MIL-STD-790F certified facility located near Dallas, Texas.

Recent Acquisitions

On May 30, 2008, Optical Cable Corporation acquired Superior Modular Products Incorporated, doing business as SMP Data Communications (“SMP Data Communications”). On October 31, 2009, we legally merged SMP Data Communications with and into Optical Cable Corporation, and SMP Data Communications ceased to exist as a separate entity. Our Asheville facility develops copper and fiber passive connectivity hardware components for use in the enterprise market, including a broad range of commercial and residential applications and is the reason OCC is internationally recognized for its role in establishing copper connectivity data communications standards, through its innovative and patented technologies. The products manufactured at our facility near Asheville, North Carolina are marketed and sold under the names Optical Cable Corporation and OCC by our integrated sales team.

On October 31, 2009, Optical Cable Corporation acquired AOS. Founded in 2003, AOS is a wholly owned subsidiary of Optical Cable Corporation that designs, develops and manufactures a broad range of specialty fiber optic connectors and connectivity solutions primarily for use in military and other harsh environment applications. OCC plans to market and sell the products manufactured at our facility near Dallas, Texas under the names Optical Cable Corporation and OCC by our integrated sales team.

OCC's product offerings as expanded by the acquisitions of SMP Data Communications and AOS are exceptionally complementary and are used together by customers and end-users as part of integrated cabling and connectivity systems.

In August 2008, Optical Cable Corporation acquired 70% of the authorized membership interests of Centric Solutions LLC ("Centric Solutions"). Centric Solutions is a start-up business founded in 2008 to provide turnkey cabling and connectivity solutions for the datacenter market. Centric Solutions operates and goes to market separately from Optical Cable Corporation, however, in some cases, Centric Solutions may include products supplied by Optical Cable Corporation in its product offering.

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

Products

Optical Cable Corporation and its subsidiaries (collectively, the "Company") is a leading manufacturer of a broad range of fiber optic and copper data communication cabling and connectivity solutions primarily for the enterprise market, offering an integrated suite of high quality, warranted products which operate as a system solution or seamlessly integrate with other providers' offerings. OCC's product offerings include designs for uses ranging from commercial, enterprise network, datacenter, residential and campus installations to customized products for specialty applications and harsh environments, including military, industrial, mining and broadcast applications. OCC products include fiber optic and copper cabling, fiber optic and copper connectors, specialty fiber optic and copper connectors, fiber optic and copper patch cords, racks, cabinets, datacom enclosures, patch panels, face plates, multi-media boxes, and other cable and connectivity management accessories, and are designed to meet the most demanding needs of end-users, delivering a high degree of reliability and outstanding performance characteristics.

Our fiber optic and copper cabling and connectivity products and solutions (predominantly passive, rather than active systems) are used for transmission of data, video and voice communications over various distances.

Fiber Optic Cable Products

We design, manufacture, market and sell a broad array of top-tier fiber optic cables that provide high bandwidth transmission of data, video and voice communications over short- to moderate-distances. Our product line is diverse and versatile, in keeping with evolving application needs of customers within our markets. Our tight-buffered fiber optic cables address the needs of the enterprise market in particular, and to a lesser extent the access market.

The following summarizes the major construction types of fiber optic cables we produce and their attributes; however, we produce many other types of fiber optic cables as well:

A-Series Assembly Fiber Optic Cables. Our A-Series fiber optic cables contain one or two optical fibers which are surrounded by a layer of aramid yarn strength members to prevent the optical fiber from being stretched if there is tension on the fiber optic cable. A flexible and resilient thermoplastic outer jacket is then applied to further strengthen and protect the optical fiber. These fiber optic cables are used for jumpers, which are short length patch cords, and for pigtails, which are short lengths of fiber optic cable with a connector on one end. Various special outer jacket materials are offered to provide flammability ratings and handling characteristics tailored to customers' needs. These fiber optic cables are sometimes privately labeled and often sold to original equipment manufacturers that produce the fiber optic cable assemblies.

B-Series Breakout Fiber Optic Cables. Our B-Series fiber optic cables consist of a number of subcables, each consisting of a single optical fiber, aramid yarn strength members and a subcable jacket. These subcables are generally tightbound in a high performance Core-Locked™ outer jacket to form the finished multifiber fiber optic cables. Like the A-Series fiber optic cables, the subcables are

intended to be terminated directly with connectors. This direct termination feature makes this fiber optic cable type particularly well suited for shorter distance installations, where there are many terminations and termination costs are more significant. The materials and construction of the fiber optic cable permit its use both indoors and outdoors. These features make the fiber optic cables suitable for use in campus and industrial complex installations and between and within buildings since there is no need to splice outdoor fiber optic cables to indoor fiber optic cables at the building entrance.

D-Series Distribution Fiber Optic Cables. Our D-Series fiber optic cables are made with the same tight-buffered optical fiber as the B-Series fiber optic cables and with a high performance outer jacket. Unlike the B-Series fiber optic cables, each tight-buffered optical fiber in a D-Series fiber optic cable is not covered with a separate subcable jacket, giving the D-Series cables a smaller and more lightweight configuration. Our D-Series fiber optic cables also are available with a Core-Locked™ jacket. The tight-buffered optical fiber and high performance outer jacket make D-Series fiber optic cables rugged and survivable. D-Series fiber optic cables are suitable for longer distance applications, where termination considerations are less important and often traded off for size, weight and cost. They also can be armored for additional protection for use in buried and overhead installations. The high strength to weight ratio of these fiber optic cables makes them well suited for installations where long lengths of fiber optic cables must be pulled through duct systems. D-Series fiber optic cables are used in relatively longer length segments of installations, such as trunking, LAN and distribution applications, optical fiber in the loop, optical fiber to the curb and drop cables.

G-Series Subgrouping Fiber Optic Cables. Our G-Series fiber optic cables combine a number of multifiber subcables, each similar to a D-Series fiber optic cable. Each multifiber subcable generally is tightbound with an elastomeric jacket, providing excellent mechanical and environmental performance. These subcables are further protected, generally with a pressure extruded, high performance Core-Locked™ outer jacket, to form the finished fiber optic cable. This design permits the construction of very high fiber count fiber optic cables. These fiber optic cables are well-suited for installations where groups of optical fibers must be routed to different locations.

Other Fiber Optic Cable Types. We believe that we offer the most comprehensive tight-buffered fiber optic cable product offering for the enterprise market. We produce variations on the basic fiber optic cable styles discussed above for more specialized installations, as well as various hybrid and composite cables (some variations are not available for all cable styles or types), and specialty fibers. We can armor fiber optic cables with corrugated steel tape or interlocking armor for further protection in certain installations. We offer cables suitable for underground or overhead installations. For overhead installations on utility poles, we offer several self-supporting fiber optic cables, with higher performance outer jackets, as well as M-Series aerial messenger cables which feature a stainless steel or galvanized steel, self-supporting messengered construction. We have fiber optic cables available in several flammability ratings, including plenum for use in moving air spaces in buildings, and riser for less critical flame-retardant requirements. Zero halogen versions of many of our fiber optic cables are available for use in enclosed spaces where there is concern over release of toxic gases during fire. We offer various hybrid and composite fiber optic cables combining different types of optical fiber and/or copper wires, with copper wires being used as power feeds or to facilitate the transition from copper wire to optical fiber-based systems without further installation of fiber optic cables. Our composite cables include a line of security cables which combine copper power feeds with optical fiber in the cables making them particularly well suited for surveillance cameras and other specialty applications. We also offer specialty fiber optic cables, such as for use in military ground tactical, industrial (including tray cables), mining, deployable broadcast, oil and gas, festoon, pierside and high density datacenter applications. Our product offering further includes fiber optic cables complying with or certified to various standards for specialty applications, such as: U.S. Department of Defense MIL-PRF-85045/8A and U.K. Ministry of Defence Def-Stan 60-1, Part 3 qualifications for military ground tactical fiber optic cable; Det Norske Veritas (DNV) type approval certificate for marine shipboard and offshore platform applications; U.S. Mine Safety and Health Administration (MSHA) approval for use in mines; and American Bureau of Shipping (ABS) type approved cables. Additionally, we offer our customers a variety of customized constructions to meet their specific communication needs.

Copper Datacom Cable Products

We market and sell a wide range of high quality copper datacom cables, including unshielded twisted pair (UTP) and shielded twisted pair (ScTP and FTP constructions), in Category 5e, Category 6 and Category 6a performance ratings, in riser and plenum configurations, and in various colors.

Fiber Optic and Copper Enterprise Connectivity Products

We design, manufacture, market and sell innovative top-tier fiber optic and copper connectivity components for use in a broad range of commercial, military, harsh environment and residential applications. We are internationally recognized for our role in establishing copper connectivity data communication standards, through our innovative and patented technologies.

The following summarizes the major types of fiber optic and copper passive enterprise connectivity products and their attributes; however, we produce many other types of connectivity products as well:

Fiber Optic Enterprise Connectivity Products. Our fiber optic enterprise connectivity products provide a wide range of fiber distribution solutions for the equipment room, the telecommunication closet, the datacenter and the workstation. Our product offering includes wall mount enclosures, rack mount enclosures, pre-terminated enclosures, patch panels, connectors, splice trays, fiber optic jumpers, plug and play cassette modules, pre-terminated fiber optic cable assemblies, adapters, and accessories.

Copper Enterprise Connectivity Products. Our copper enterprise connectivity products offer customers a complete line of copper connectivity components necessary for the equipment room, the telecommunications closet, the datacenter and the workstation. Our products include: category compliant plugs and jacks (including products with patented circuit board technology and products in a standard Keystone or proprietary Bezel configuration), patch cords, faceplates, surface mounted boxes, distribution and multimedia boxes, patch panels, cable assemblies, cable organizers, and other wiring products. Our product offering includes: products compliant with Category 6a, 6 and 5e standards, shielded and unshielded products, and products suitable for certain telco applications. Our product offering also includes patented technologies with unique features, such as our keyed Limited Axcess™ connectors.

Rack Solutions. We offer a complete array of high-performance network, data storage and telecommunications management systems for commercial and residential use. Our rack solutions product line includes data cabinets, wall-mount enclosures, horizontal and vertical cable management systems and open frame relay racks. These products meet the demands of all network segments including LAN, WAN, Metro co-location, POPs and Gateways. Our products serve the equipment, cross-connect and termination needs for copper, fiber optic and coaxial multi-media applications.

Residential Systems. Our offering includes the Home Axcess™ product line, a comprehensive line of high-quality wiring products comprised of various enclosures, modules and modular outlets designed for single dwelling and multiple dwelling residential use. By utilizing our products, customers obtain a convenient method for networking, customizing and distributing all of the electronic services in the home including voice, data, video, audio and security, all managed from one central location.

Applied Interconnect Systems

We design, manufacture, market and sell specialty fiber optic connectors and connectivity components, certain ruggedized copper datacom connectors, and related systems and solutions for the military and harsh environment applications. For deployable applications, we manufacture a full range of tactical fiber optic connectors that conform to U.S. Department of Defense standards, such as MIL-C-83522, MIL-DTL-83526, NAVSEA 7379171, NAVSEA 7379172 products. For fixed fiber optic or applications requiring

optical fiber and copper connections in the same connector, we manufacture the F-Link™ family of connector products. We fabricate a wide variety of simplex, duplex and multi-channel fiber optic assemblies for applications as varied as mining, oil & gas, broadcast, industrial and military. Our product offering includes deployable reel systems and ruggedized RJ-45 connectors.

Distribution Methods of Products and Services

Our products are sold to major distributors, regional distributors, various smaller distributors, original equipment manufacturers, value-added resellers, and, in certain cases, end-users. Generally, our products are purchased from our customers by contractors, system integrators and end-users.

Competitive Business Conditions, Positions in the Industry and Methods of Competition

The market for fiber optic cables and data communication connectivity products for the enterprise market and other short- to moderate-distance markets are highly competitive. Our fiber optic cable product lines compete with products of large, integrated fiber optic cable manufacturers such as Corning Cabling Systems, OFS, and Draka Comteq, as well as with other large fiber optic cable manufacturers such as General Cable, Belden, Nexans (doing business as Berk-Tek), CommScope and others. Our fiber optic and copper connectivity product lines compete with products of large fiber optic and copper connectivity manufacturers such as CommScope, Corning Cabling Systems, OFS, Ortronics/Legrand, Panduit, Belden and others. Our military and harsh environment connectivity product lines compete with products of Amphenol Corporation, Delphi and Stran Technologies.

Some of our competitors are more established, benefit from greater market recognition and have much greater financial, research and development, production and marketing resources than we do. Competition could increase if new companies enter the market or if existing competitors expand their product lines.

Compliance with Environmental Laws

We are not aware of any material violations at our facilities of any local, state or federal environmental laws. We have not incurred any material expenditures related to environmental compliance during our 2009 fiscal year. We believe that we have materially complied with all applicable environmental regulations.

Research and Development Activities

Research and development costs totaled $1.2 million for the fiscal year ended October 31, 2009. Research and development costs totaled $528,000 for the fiscal year ended October 31, 2008 and there were no significant research and development costs for fiscal year ended October 31, 2007. Our research and development costs related to work performed in connection with our enterprise connectivity product lines. The product development work with respect to our fiber optic cable products and our applied interconnect systems products is generally performed in response to customer product development requests and is characterized as engineering expense allocated to costs of goods sold and selling, general and administrative expenses, rather than characterized as research and development costs.

Customers

We have a global customer base, selling in over 50 countries in fiscal year 2009. The following is a partial list of representative types of end-users of our fiber optic cables and copper and fiber optic connectivity products:

- Commercial Institutions. Businesses located in offices, retail space, and medical facilities, to name a few, are installing or improving networks to distribute increasing volumes of data. These businesses often use high performance local area networks (“LANs”) or datacenters.
- Government Agencies. Government agencies tend to have large buildings or complexes, many people, and the need to access and process large quantities of data. Like commercial institutions, these routinely include high performance LANs or datacenters. Security also may be desired, making our cabling and connectivity solutions a logical choice.

- Industrial and Manufacturing Facilities. Industrial and manufacturing facilities typically have a more severe environment (often with heavy electrical equipment) than other types of businesses. Fiber optic cable and connectivity in these environments offers immunity to electrical noise, ruggedness, high information carrying capacity and greater distance capability. Such facilities also have need for our copper cabling and connectivity products. Our products are installed in automotive assembly plants, steel plants, chemical and drug facilities, petrochemical facilities and petroleum refineries, mines and other similar environments.
- Cable Assembly Houses. Cable assembly houses typically manufacture cable assemblies, which are short lengths of cable pre-terminated with connectors. Supporting virtually all segments of the market, these manufacturers consume large quantities of cables and connectivity products. Products sold to customers in this market sometimes may be privately labeled.
- Military. Our core fiber optic cable technologies enable us to develop and efficiently produce fiber optic cables for military tactical applications that survive extreme mechanical and environmental conditions. We are certified by both the United States Department of Defense ("U.S. DoD") and the United Kingdom Ministry of Defence as a qualified supplier of ground tactical fiber optic cable. Both our Roanoke and Dallas manufacturing facilities have also been certified by the U.S. DoD as MIL-STD-790F facilities, one of the most respected certifications in the defense industry. We also hold contracts with the U.S. DoD to supply tactical fiber optic cable assemblies, which we sell as fiber optic cables connectorized with qualified military connectors on military reels ready for deployment.
- Educational Institutions. Colleges, universities, high schools and grade schools are installing and improving their networks for higher data transmission speeds, as well as using datacommunications solutions to support interactive learning systems.
- Original Equipment Manufacturers. We private label a number of our copper connectivity products for other major manufacturers of copper connectivity, including major competitors. Additionally, we license and cross-license a number of our patents with other major manufacturers of copper connectivity.

Our extensive technology base and versatile manufacturing processes enable us to respond to diverse customer needs.

Employees

As of October 31, 2009, we employed a total of 311 persons (excluding independent sales representatives and firms and employees of Centric Solutions). None of our employees is represented by a labor union. We have experienced no work stoppages and we continue to take steps we believe appropriate to ensure our employee relations are good.

Item 1A. RISK FACTORS

Not required for a "smaller reporting company" as defined in Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

We own our facility located in Roanoke County, Virginia, and the land on which our Roanoke facility is located. Our Roanoke facility houses our corporate headquarters, our fiber optic cable manufacturing, our fiber optic cable product development function and our fiber optic cable warehouse. Our Roanoke facility is situated on approximately 23 acres of land near the Roanoke, Virginia airport and major trucking company facilities. Our Roanoke facility building is approximately 146,000 square feet.

We own our facility near Asheville, North Carolina (in Swannanoa, North Carolina) and the land on which our Asheville facility is located. Our Asheville facility houses administrative offices, our enterprise connectivity manufacturing, our enterprise connectivity product development function and our enterprise connectivity warehouse. Our Asheville facility is situated on approximately 13 acres of land located east of Asheville, North Carolina. The Asheville facility includes two buildings totaling approximately 64,000 square feet.

We lease our facility near Dallas, Texas (in Plano, Texas). Our Dallas facility houses administrative offices, our applied interconnect systems manufacturing and testing operations and warehouse space. Our Dallas facility is located in an industrial complex of suites with expansion options available. The space leased is approximately 21,000 square feet.

We believe that we are currently operating at approximately 50% of our production equipment capacity on average at our manufacturing facilities.

Additional personnel would need to be hired and trained, and additional warehousing space may be needed to utilize our excess production equipment capacity at all of our facilities. We can provide no assurance as to the time required to complete the process of hiring and training personnel or our ability to secure additional warehousing space, necessary to utilize our excess capacity.

Centric Solutions leases a facility near Dallas, Texas (in Coppell, Texas). This Coppell facility houses administrative offices, manufacturing operations and warehouse space. The space leased is approximately 23,000 feet.

Item 3. LEGAL PROCEEDINGS

Applied Optical Systems (“AOS”) is currently a defendant in a patent infringement lawsuit in the U.S. District Court for the Eastern District of Texas, Marshall Division, styled *Fiber Systems International, Inc. v. Applied Optical Systems Inc.*, Civil Action No. 2:06-cv-473. In the suit, filed November 14, 2006, Fiber Systems International, a subsidiary of Amphenol Corporation (“AFSI”), claimed that specific multi-channel tactical fiber optic connector assemblies that AOS manufactures and sells, directly or indirectly, primarily to the United States Government, infringed certain of the plaintiff’s patent rights. The suit sought monetary damages as well as a permanent injunction enjoining AOS from making sales of the accused products. On November 19, 2009, a jury in the U.S. District Court for the Eastern District of Texas unanimously determined that one of the AOS fiber optic connector designs that was the subject of the suit does not infringe on AFSI’s U.S. Patent 6,305,849. In an earlier U.S. District Court ruling, the two other AOS fiber optic connector designs that were at issue in the suit were found not to infringe on the patent as a matter of law.

The Court, on motion of AFSI, had previously entered a preliminary injunction enjoining AOS from making sales of the accused products. However, the preliminary injunction specifically excludes products sold to the U.S. Government or sold for ultimate delivery to the U.S. Government. A motion to dissolve the preliminary injunction, in light of the jury verdict, is pending before the Court.

Final judgment has not yet been entered in the case because AOS still has counterclaims pending for inequitable conduct and violation of U.S. antitrust laws which were severed from the trial of the infringement issues. These counterclaims are currently set for trial in April 2010. If AOS is successful on these counterclaims it could recover monetary damages and, potentially, recover some or all of the attorney’s fees and expenses it has incurred.

Because no final judgment has been entered, AFSI may still pursue post-trial motions relating to the infringement claims. No such motions have yet been filed, but AFSI has indicated in at least one court filing that it intends to pursue some unspecified post-trial motions which presumably will request the Court to set aside the jury verdict and grant a new trial. Additionally, AFSI could appeal from the final judgment in the case once it is entered. In the event AFSI were to pursue such an appeal, it could be entitled to seek reversal of the District Court's judgment and request that the appellate court remand the case for a new trial and/or request that the appellate court enter judgment in its favor on the issue of infringement and remand the case for trial only on the issue of damages. Should AOS ultimately prevail on its counterclaims it is anticipated that any appeal by AFSI would also raise issues related to the counterclaims.

In the event either the District Court or the appellate court were to order a new trial, the evidence adduced at the first trial indicated that AFSI's claimed damages were no more than $160,000 based on certain pretrial rulings by the District Court. The amount of damages sought in a retrial could potentially be higher. Additionally, in the event a new trial were ordered, a finding of infringement could result in entry of a permanent injunction that would preclude AOS from selling the infringing products.

The Company does not believe this matter will have a material adverse effect on the Company's financial position, results of operations or liquidity.

From time to time, we are involved in other various claims, legal actions and regulatory reviews arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on its financial position, results of operations or liquidity.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the year ended October 31, 2009.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information pertaining to shareholders beneficially owning more than five percent of the Company's common stock and the security ownership of management, which is set forth under the caption "Beneficial Ownership of Common Stock" in the Proxy Statement for the 2010 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

Issuer Purchases of Equity Securities

The following table summarizes the Company's purchases of its common stock for the three months ended October 31, 2009:

Period	Total number of shares purchased (1)	Average price paid per share (2)	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plan or programs (1)
August 1, 2009 – August 31, 2009	—	—	—	32,003
September 1, 2009 – September 30, 2009	10,000	$ 3.13	10,000	22,003
October 1, 2009 – October 31, 2009	22,003	$ 3.14	22,003	325,848

(1) On March 26, 2007, the Company's Board of Directors approved a plan to purchase and retire up to 300,100 shares of the Company's common stock, or approximately 5% of the shares then outstanding. The Company anticipated that the purchases would be made over a 12-month period, but there was no definite time period for repurchase. For the three month period ended October 31, 2009, the Company repurchased and retired 32,003 shares of its outstanding common stock. The repurchase, including brokerage and legal fees, for the three month period ended October 31, 2009 totaled approximately $100,000. As of October 31, 2009, the Company had completed its plan and repurchased and retired a total of 300,100 of its outstanding common stock. The repurchase of these shares and the costs associated with the repurchase, including brokerage and legal fees, totaled $1,213,748. As of October 31, 2009, 6,508,821 shares of the Company's common stock were outstanding.

(2) The average price paid per share set forth above includes the purchase price paid for the shares, and brokerage and legal fees paid by the Company. The average purchase price per share (excluding brokerage and legal fees) paid by the Company for the three months ended October 31, 2009 was $3.11.

The information contained under the caption "Corporate Information" of our Annual Report for the fiscal year ended October 31, 2009, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

On October 16, 2009, our Board of Directors approved a plan to purchase and retire up to 325,848 shares of Optical Cable Corporation's common stock, or approximately 5% of the shares then outstanding. We anticipate that the purchases will be made over a 12- to 24-month period unless the entire number of shares expected to be purchased under the plan is sooner acquired. As of October 31, 2009, no purchases were made under the plan approved by the Board of Directors on October 16, 2009.

Item 6. SELECTED FINANCIAL DATA

Not required for a "smaller reporting company" as defined in Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report for the fiscal year ended October 31, 2009, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of October 31, 2009, our financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information contained under the captions "Consolidated Financial Statements," "Notes to Consolidated Financial Statements," and "Report of Independent Registered Public Accounting Firm" of our Annual Report for the fiscal year ended October 31, 2009, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A (T). CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to be effective in providing reasonable assurance that information required to be disclosed in reports under the Exchange Act are recorded, processed and summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the "SEC"), and that such information is accumulated and communicated to management to allow for timely decisions regarding required disclosure.

In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, will be detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

As of October 31, 2009, the Company completed an evaluation, under the supervision and with the participation of management, including the chief executive officer and the chief financial officer (principal accounting officer and principal financial officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of October 31, 2009.

Management's Annual Report on Internal Control Over Financial Reporting.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and include those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may decline.

Management conducted an evaluation of the design and effectiveness of the Company's system of internal control over financial reporting as of October 31, 2009, based on the framework set forth in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that, as of October 31, 2009, the Company's internal control over financial reporting was effective.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting.

There were no changes in the Company's internal controls over financial reporting during the fourth fiscal quarter of the fiscal year covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

For information with respect to the Directors of the registrant, see "Election of Directors," "Directors," and "Executive Officers" in the Proxy Statement for the 2010 Annual Meeting of Shareholders of the Company, which information is incorporated herein by reference.

For information with respect to the executive officers of the registrant, see "Executive Officers" in the Proxy Statement for the 2010 Annual Meeting of Shareholders of the Company, which information is incorporated herein by reference.

The information with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934, which is set forth under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement for the 2010 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

The information concerning the Company's code of ethics that applies to the Company's principal executive officer and the Company's senior financial officers required by this Item is incorporated by reference to the Company's Proxy Statement under the heading "Code of Ethics."

Item 11. EXECUTIVE COMPENSATION

The information set forth under the captions "Executive Compensation," "Compensation Committee Report on Executive Compensation," and "Director Compensation" in the Proxy Statement for the 2010 Annual Meeting of Shareholders of the Company is incorporated herein by reference.

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Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)		(b) Weighted-average exercise price of outstanding options, warrants, and rights		(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)	
Equity compensation plans approved by security holders:						
1996 Stock Incentive Plan						
Stock Option Grants	163,454	shares	$	7.63	—	shares
Restricted Share Grants	29,250	shares	$	—	—	shares
Total 1996 Stock Incentive Plan	192,704	shares	$	6.47	—	shares
2005 Stock Incentive Plan	660,206	shares	$	—	62,375	shares
2004 Non-employee Directors Stock Plan	—	shares	$	—	163,696	shares
Total for approved plans	852,910	shares	$	1.46	226,071	shares
Non-employee Directors equity compensation not pursuant to a plan approved by security holders	3,123	shares	$	7.12	—	shares
Total for all plans	856,033	shares	$	1.48	226,071	shares

(1) Includes restricted shares that are issued and outstanding, but have not yet vested and are subject to forfeiture.

The term “shares” in the table above means our common shares.

During 2002 our Board of Directors approved grants of stock options to non-employee members of the Board to purchase a total of 3,123 shares of our common stock at an exercise price of $7.12 per share, the closing price at the date of the grant. These grants were not submitted to a vote of the shareholders. These grants were made to non-employee members of the Board of Directors who had not served as an executive officer during the past year as partial compensation for service by non-employee directors. Non-employee members of the Board of Directors abstained from the vote approving the grants. These options vested monthly over one year. The per share estimated fair value of stock options granted to these outside members of the Board of Directors was $6.87 on the date of grant using the Black-Scholes option-pricing model with the following assumptions: no expected cash dividend yield, risk-free interest rate of 5.34%, expected volatility of 133.6% and an expected life of 9 years.

The information concerning stock ownership by directors, executive officers and shareholders beneficially owning more than five percent of the Company’s common stock, which is set forth under the caption “Beneficial Ownership of Common Stock” in the Proxy Statement for the 2010 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

The information concerning securities authorized for issuance under equity compensation plans required by this Item, pursuant to Item 201(d) of Regulation S-K, is incorporated by reference to the Company’s Proxy Statement under the heading “Equity Compensation Plans Information.”

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information with respect to certain transactions with management of the Company, which is set forth under the caption “Certain Relationships and Related Transactions” in the Proxy Statement for the 2010 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information with respect to certain principal accountant fees and services, which is set forth under the caption “Independent Registered Public Accounting Firm” in the Proxy Statement for the 2010 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

The information concerning pre-approval policies for audit and non-audit services required by this Item is incorporated by reference to the Company’s Proxy Statement under the heading “Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm.”

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) List of documents filed as part of this report:

1. Financial statements: The Company's consolidated financial statements and related information are hereby incorporated by reference to pages 22 to 25 of the Company's Annual Report filed as Exhibit 13.1 to this Form 10-K.
2. Financial statement schedules: All schedules are omitted, as the required information is inapplicable or the information is presented in consolidated financial statements or related notes thereto.
3. Exhibits to this Form 10-K pursuant to Item 601 of Regulation S-K are as follows:

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated May 30, 2008 by and among Optical Cable Corporation, Aurora Merger Corporation, Preformed Line Products Company and Superior Modular Products Incorporated (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed June 2, 2008).
3.1	Articles of Amendment filed November 5, 2001 to the Amended and Restated Articles of Incorporation, as amended through November 5, 2001 (incorporated herein by reference to Exhibit 1 to the Company's Form 8-A filed with the Commission on November 5, 2001).
3.2	Bylaws of Optical Cable Corporation, as amended (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2004 (file number 0-27022)).
4.1	Form of certificate representing Common Stock (incorporated herein by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2004 (file number 0-27022)).
4.2	Rights Agreement dated as of November 2, 2001 (incorporated herein by reference to Exhibit 4 to the Company's Form 8-A filed with the Commission on November 5, 2001).
4.3	Form of certificate representing preferred share purchase right (incorporated herein by reference to Exhibit 5 to the Company's Form 8-A filed with the Commission on November 5, 2001).
4.16	Credit Agreement dated May 30, 2008 by and between Optical Cable Corporation and Superior Modular Products Incorporated as borrowers and Valley Bank as lender in the amount of $17,000,000 consisting of a Revolver in the amount of $6,000,000; Term Loan A in the amount of $2,240,000; Term Loan B in the amount of $6,500,000; and a Capital Acquisitions Term Loan in the amount of $2,260,000 (incorporated herein by reference to Exhibit 4.16 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008).

4.17	Credit Line Deed of Trust dated May 30, 2008 between Optical Cable Corporation as Grantor, LeClairRyan as Trustee and Valley Bank as Beneficiary (incorporated herein by reference to Exhibit 4.17 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008).
4.18	Deed of Trust, Security Agreement and Fixtures Filing dated May 30, 2008 by and between Superior Modular Products Incorporated as Grantor, LeClairRyan as Trustee and Valley Bank as Beneficiary (incorporated herein by reference to Exhibit 4.18 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008).
4.19	Security Agreement dated May 30, 2008 between Optical Cable Corporation and Superior Modular Products Incorporated and Valley Bank (incorporated herein by reference to Exhibit 4.19 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008).
4.20	Revolving Loan Note in the amount of $6,000,000 by Optical Cable Corporation and Superior Modular Products Incorporated dated May 30, 2008 (incorporated herein by reference to Exhibit 4.20 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008).
4.21	Term Loan A Note in the amount of $2,240,000 by Optical Cable Corporation and Superior Modular Products Incorporated dated May 30, 2008 (incorporated herein by reference to Exhibit 4.21 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008).
4.22	Term Loan B Note in the amount of $6,500,000 by Optical Cable Corporation and Superior Modular Products Incorporated dated May 30, 2008 (incorporated herein by reference to Exhibit 4.22 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008).
4.23	Capital Acquisitions Term Note in the amount of $2,260,000 by Optical Cable Corporation and Superior Modular Products Incorporated dated May 30, 2008 (incorporated herein by reference to Exhibit 4.23 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008).
10.1*	Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective November 1, 2002 (incorporated by reference to Exhibit 10.1 to our Amended Quarterly Report on Form 10-Q/A for the quarterly period ended January 31, 2003 (file number 0-27022)).
10.2*	Employment Agreement dated December 10, 2004 by and between Optical Cable Corporation and Tracy G. Smith (incorporated by reference herein to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 24, 2005 (file number 0-27022)).
10.4*	Employment Agreement by and between Superior Modular Products Incorporated and William R. Reynolds effective May 30, 2008 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2008 (file number 0-27022)).

10.5*	Optical Cable Corporation Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the period ended July 31, 1998 (file number 0-27022)).
10.6*	Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 28.1 to the Company's Registration Statement on Form S-8 No. 333-09733).
10.7*	Optical Cable Corporation Amended 2004 Non-Employee Directors Stock Plan (incorporated herein by reference to Appendix B to the Company's definitive proxy statement on Form 14A filed February 23, 2005).
10.8*	Form of December 17, 2004 restricted stock award agreement under the Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed January 24, 2005).
10.9*	Form of December 17, 2004 restricted stock award agreement under the Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed January 24, 2005).
10.10*	Form of award agreement under the Optical Cable Corporation Amended 2004 Non-Employee Directors Stock Plan (incorporated herein by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K for the period ended October 31, 2004).
10.11*	Optical Cable Corporation 2005 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed February 23, 2005).
10.12*	Form of time vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
10.13*	Form of stock performance (Company stock performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
10.14*	Form of operational performance (individual participant performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
10.15*	Form of operational performance (Company financial performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2007).
10.16	Redemption Agreement by and between Optical Cable Corporation and

	BB&T Investment Services, Inc. dated March 27, 2007 (incorporated herein by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2007).
10.17*	Amendment No. 1 dated December 31, 2008 to Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective November 1, 2002 (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed January 6, 2009).
10.18*	Amendment No. 1 dated December 31, 2008 to Employment Agreement by and between Optical Cable Corporation and Tracy G. Smith effective December 10, 2004 (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed January 6, 2009).
10.19*	Amendment No. 1 dated December 31, 2008 to Employment Agreement by and between Superior Module Products Incorporated and William R. Reynolds effective May 30, 2008 (incorporated herein by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed January 6, 2009).
10.20*	Form of operational performance (Company financial performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.20 of the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2009).
10.21	Notice of Exercise of Warrant by the Company to purchase 98,741 shares of common stock of Applied Optical Systems, Inc. dated October 30, 2009. FILED HEREWITH.
10.22	Stock Purchase Agreement dated October 31, 2009 by and among the Company, as buyer and G. Thomas Hazelton, Jr. and Daniel Roehrs as sellers. FILED HEREWITH.
10.23*	Employment agreement dated October 31, 2009, between Applied Optical Systems, Inc. and G. Thomas Hazelton, Jr. FILED HEREWITH.
10.24*	Employment Agreement dated October 31, 2009, by and between Applied Optical Systems, Inc. and Daniel Roehrs. FILED HEREWITH.
10.25	Buy-Sell Agreement dated October 31, 2009, by and between G. Thomas Hazelton, Jr., as guarantor, and the Company. FILED HEREWITH.
10.26	Buy-Sell Agreement dated October 31, 2009, by and between Daniel Roehrs, as guarantor, and the Company. FILED HEREWITH.
10.27	Indemnification Agreement dated October 31, 2009, between the Company and Applied Optical Systems, Inc. FILED HEREWITH.
10.28	Supplemental Agreement dated October 31, 2009, by and among the

Company, as buyer, Applied Optical Systems, Inc., George T. Hazelton Family Trust, G. Thomas Hazelton, Jr., and Daniel Roehrs. FILED HEREWITH.

10.29 Termination Agreement dated October 31, 2009, by and among Applied Optical Systems, Inc., the Company, as lender, and G. Thomas Hazelton, Jr. and Daniel Roehrs. FILED HEREWITH.

10.30 Warrant Exercise Agreement between the Company and Applied Optical Systems, Inc. dated October 30, 2009. FILED HEREWITH.

11.1 Statement regarding computation of per share earnings (incorporated by reference to note 15 of the Notes to Financial Statements contained herein).

13.1 Annual Report. FILED HEREWITH.

23.1 Consent of Independent Registered Public Accounting Firm. FILED HEREWITH.

31.1 Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.

31.2 Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.

32.1 Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.

32.2 Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.

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* Management contract or compensatory plan or agreement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OPTICAL CABLE CORPORATION

Date: January 29, 2010	By:	/S/ NEIL D. WILKIN, JR. **Neil D. Wilkin, Jr.** **Chairman of the Board of Directors,** **President and Chief Executive Officer**
Date: January 29, 2010	By:	/S/ TRACY G. SMITH **Tracy G. Smith** **Senior Vice President and Chief Financial Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of January 29, 2010.

Date: January 29, 2010	/S/ NEIL D. WILKIN, JR. **Neil D. Wilkin, Jr.** **Chairman of the Board of Directors,** **President and Chief Executive Officer**
Date: January 29, 2010	/S/ RANDALL H. FRAZIER **Randall H. Frazier** **Director**
Date: January 29, 2010	/S/ JOHN M. HOLLAND **John M. Holland** **Director**
Date: January 29, 2010	/S/ CRAIG H. WEBER **Craig H. Weber** **Director**
Date: January 29, 2010	/S/ JOHN B. WILLIAMSON, III **John B. Williamson, III** **Director**

Exhibit 10.21

Optical Cable Corporation

NOTICE OF EXERCISE

As of October 30, 2009,
at 11:15 pm, Plano, Texas time

Applied Optical Systems, Inc.
1700 Capital Avenue, Suite 50
Plano, Texas 75074
Attention: G. Thomas Hazelton, Jr.

Whitlow & Youell, PLC
26 West Kirk Avenue
Roanoke, Virginia 24011
Attention: C. Cooper Youell, IV, Esq.

Optical Cable Corporation ("OCC") hereby elects to purchase 98,741 shares of common stock of Applied Optical Systems, Inc. (the "Company") from G. Thomas Hazelton, Jr. and 37,623 shares of common stock of the Company from Daniel Roehrs (collectively, the "Shares") pursuant to Section 4.2 of the Shareholders and Lenders Rights Agreement dated April 22, 2005, by and among the Company, OCC, G. Thomas Hazelton, Jr., Daniel Roehrs and R.M. Flower, as amended from time to time through September 9, 2009 (the "Lenders Rights Agreement").

Pursuant to the Lenders Rights Agreement, the purchase price for the Shares shall be 10% of the Company's Enterprise Value (as defined on Schedule A attached hereto and made a part hereof) determined as of September 30, 2009. OCC has calculated the Company's Enterprise Value as of such date to be Zero Dollars ($0), so the purchase price for the Shares is Zero Dollars ($0). The date and time of closing for the purchase and sale of the Shares shall be as of October 30, 2009 at 11:15pm Plano, Texas time.

By signing below, the Company, G. Thomas Hazelton, Jr. and Daniel Roehrs each hereby acknowledge receipt of this written notice, waive any right to receive at least thirty days notice prior to closing and agree to the closing date set forth above. G. Thomas Hazelton, Jr. and Daniel Roehrs each further (i) acknowledge that OCC has properly exercised its right to purchase the Shares in accordance with the Lenders Rights Agreement, (ii) agree that the Company's Enterprise Value and purchase price both as set forth above are correct, and (iii) waive any right to disagree with the same and any requirement for receipt of a copy of this notice or any other notice from the Company with respect to the purchase of the Shares by OCC.

OPTICAL CABLE CORPORATION

BY: /S/ NEIL D. WILKIN, JR.
Name: Neil D. Wilkin, Jr.
Its: Chairman, President & CEO

SEEN, ACKNOWLEDGED AND AGREED:

APPLIED OPTICAL SYSTEMS, INC.

By: /S/ G. THOMAS HAZELTON, JR. Date: October 31, 2009
Name: G. Thomas Hazelton, Jr.
Title: General Manager

/S/ G. THOMAS HAZELTON, JR. Date: October 31, 2009
G. Thomas Hazelton, Jr.

/S/ DANIEL ROEHRS
Daniel Roehrs Date: October 31, 2009

Schedule A

"Enterprise Value" shall be the value equal to:

(1) the product of EBIT of the Company, multiplied by five (5);

LESS

(2) the total amount of any outstanding indebtedness for borrowed money (including both current and non-current amounts) as of the last day of the calendar month through which EBIT is determined, as determined on a GAAP basis;

LESS

(3) the total amount of current liabilities as of the last day of the calendar month through which EBIT is determined, as determined on a GAAP basis, that either are delinquent relative to the repayment terms offered by the vendor (excluding any early payment discounts) or have repayment terms greater than 60 days, but excluding any amounts included in clause (2) above;

PLUS

(4) the amount equal to (y) the total amount of current assets as of the last day of the calendar month through which EBIT is determined, as determined on a GAAP basis, LESS (z) three (3) times the total amount of current liabilities as of such day (excluding any amounts included in clause (3) above), as determined on a GAAP basis. This amount may be positive or negative, and is intended to adjust the Enterprise Value based on a normalized net working capital amount needed to sustain Company's earning capacity assumed in the multiple of EBIT calculation.

Enterprise Value will always be calculated as of the last day of the month of the most recently completed calendar month, which each element of the calculation being determined on a GAAP basis.

"EBIT" means the amount, during the prior twelve (12) full, consecutive calendar month period, equal to: net income or net loss, plus any interest expense related to long-term indebtedness, less any interest income, plus any income tax expense, and less any income tax benefit, of the Company, as determined using GAAP. EBIT will always be calculated as of the last day of the month of the most recently completed calendar month.

Exhibit 10.22

STOCK PURCHASE AGREEMENT

By and Among

OPTICAL CABLE CORPORATION

and

G. THOMAS HAZELTON, JR. and DANIEL ROEHRS

Made effective as of October 31, 2009

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (the "Agreement") is made and entered into as of this 31st day of October, 2009, by and among Optical Cable Corporation, a Virginia corporation ("Buyer"), and G. Thomas Hazelton, Jr. and Daniel Roehrs (each a "Stockholder" and collectively, the "Stockholders"), and provides as follows:

BACKGROUND

The Stockholders in the aggregate own all of the issued and outstanding capital stock of Applied Optical Systems, Inc. (the "Company") prior to the exercise of the Warrant (defined below). Buyer has loaned funds to the Company from time to time pursuant to a Loan and Security Agreement dated April 22, 2005, as amended (the "AOS Loan" or "Loan").

As of October 30, 2009, at 11:15pm (Plano, Texas time), Buyer exercised its right to purchase a fifty-six percent (56%) equity interest in the Company on a fully diluted, as converted basis, pursuant to the terms of a certain Warrant issued to the Buyer by the Company dated April 22, 2005, as amended (the "Warrant"), and contemporaneously therewith, Buyer exercised its rights to acquire an additional 10% equity interest in the Company on a fully diluted, as converted basis, in addition to the exercise of the Warrant, bringing Buyer's equity interest in the Company to 66% on a fully diluted, as converted basis. Company and Buyer entered into a Loan and Security Agreement dated April 22, 2005, as amended, in connection with the AOS Loan.

This Agreement contemplates a transaction in which Buyer will purchase from the Stockholders and the Stockholders will sell to Buyer all of the outstanding capital stock of the Company, except for capital stock acquired by Buyer immediately prior to the execution of this Agreement as set forth above (the "Stock"), for the consideration set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

1. STOCK PURCHASE

1.1 **<u>Stock</u>.** Subject to the terms and conditions of this Agreement, at the Closing (as defined below), the Stockholders will sell to Buyer, and Buyer will purchase from the Stockholders, the Stock, free and clear of all Liens (as defined below), for the Purchase Price, payable in the manner set forth in this Agreement.

1.2 **<u>Purchase Price</u>**. For purposes of this Agreement, the "Purchase Price" shall mean the amounts payable to the Stockholders by Buyer for the Stock as set forth below in this Section 1.2, calculated in the following manner:

(i) $250,000 in cash or immediately available funds payable to the Stockholders at Closing.

(ii) The payment of certain contingent amounts to the Stockholders based upon the Derived EBITDA (as defined below) of the Company, calculated and paid as specifically set forth in Section 1.6 hereof (the "Earn Out Amount").

(iii) Termination of the existing personal guaranties of the AOS Loan by the Stockholders.

1.3 **Indemnification for Certain Litigation Expenses.** The Stockholders shall jointly and severally pay to Buyer, as an adjustment to the Purchase Price, any costs or expenses paid by the Company after the date of this Agreement of any kind or nature relating to the litigation disclosed on Schedule 3.7 attached hereto (collectively the "Litigation Expenses").

1.4 **Exchange of Certificates and Payment of Cash.**

(a) Cash Payment. At Closing and in exchange for the Stock, Buyer shall cause to be paid to the Stockholders pro rata according to their ownership interest as set forth on Schedule 3.6(a), by wire transfer: $250,000 in accordance with the provisions of Section 1.2(i). Notwithstanding the foregoing, said wire transfer may be made to Stockholder's counsel on or before Closing to be held in escrow pursuant to a Side Letter dated the date hereof and shall not be disbursed to Stockholders unless and until permitted under said Side Letter.

(b) Certificate Delivery Requirements. At the Closing, the Stockholders shall deliver to Buyer the certificates (the "Certificates") representing the Stock, duly endorsed in blank by the Stockholders, or accompanied by blank stock powers in form acceptable to the Company duly executed by the Stockholders and with all necessary transfer tax and other revenue stamps, acquired at the Stockholders' expense, affixed and canceled. The Stockholders shall promptly cure any deficiencies with respect to the endorsement of the Certificates or other documents of conveyance with respect to the stock powers accompanying such Certificates.

(c) No Further Ownership Rights in Capital Stock of the Company. The payments of the cash amount to Stockholders at Closing (pursuant to Section 1.2(i)), and the contractual agreement of Buyer to be obligated to pay to Stockholders any Earn Out Amount pursuant to Section 1.2(ii), if earned, all upon the surrender for exchange of shares of the Stock in accordance with the terms hereof shall be deemed to have been delivered in full satisfaction of all rights pertaining to such shares of Stock, and following the Closing, the Stockholders shall have no further rights to, or ownership in, shares of capital stock of the Company.

1.5 **Stockholders Representative.**

(a) The Stockholders, by signing this Agreement, designate G. Thomas Hazelton, Jr. to be the "Stockholders Representative" for purposes of this Agreement. The Stockholders shall be bound by any and all actions taken by the Stockholders Representative on their behalf.

(b) Buyer shall be entitled to rely upon any communication or writings given or executed by the Stockholders Representative. All communications or writings to be sent to Stockholders pursuant to this Agreement may be addressed to the Stockholders Representative and any communication or writing so sent shall be deemed notice to all of the Stockholders

hereunder. The Stockholders hereby consent and agree that the Stockholders Representative is authorized to accept deliveries, including any notice, on behalf of the Stockholders pursuant hereto.

(c) The Stockholders Representative is hereby appointed and constituted the true and lawful attorney-in-fact of each Stockholder, with full power in his or her name and on his or her behalf to act according to the terms of this Agreement in the absolute discretion of the Stockholders Representative; and in general to do all things and to perform all acts including, without limitation, executing and delivering all agreements, certificates, receipts, instructions and other instruments contemplated by or deemed advisable in connection with this Agreement and the Closing of any and all transactions contemplated in connection with this Agreement. This power of attorney and all authority hereby conferred is granted subject to the interest of the other Stockholders hereunder and in consideration of the mutual covenants and agreements made herein, and shall be irrevocable and shall not be terminated by any act of any Stockholder or by operation of law; provided, however, in the event that G. Thomas Hazelton, Jr. dies or becomes disabled and unable to serve in such capacity, the Stockholders designate Daniel Roehrs to be the Stockholders Representative.

1.6 **<u>Post-Closing Earn-Out Amount</u>.**

(a) The Earn Out Amount will be equal to:

(i) 30% multiplied by the amount equal to:

(y) one-fifth (1/5) of the sum of:

the derived enterprise value of Company's operations during each of the fiscal years ending October 31, 2012, 2013, 2014, 2015 and 2016 with such derived enterprise value for each such fiscal year (each a "Fiscal Year Enterprise Valuation") calculated as 5.5 times Derived EBITDA (as the term is defined below) for such fiscal year;

(z) LESS $8.2 million reduced dollar for dollar by any litigation recovery ordered by a court of competent jurisdiction and actually received by the Company for the litigation set forth on Schedule 3.7 hereof (any "Recovery");

—in other words: 30% multiplied by: [(one-fifth of the sum of [(FY 2012 Derived EBITDA*5.5)+(FY 2013 Derived EBITDA*5.5)+(FY 2014 Derived EBITDA*5.5)+(FY 2015 Derived EBITDA*5.5)+ (FY 2016 Derived EBITDA*5.5)]) less [$8.2 million reduced dollar for dollar by any Recovery]

and

(ii) LESS any unpaid indemnified liabilities (including, without limitation, any owed pursuant to Article 8 of this Agreement), unpaid Litigation Expenses calculated in accordance with Section 1.3, or other amounts owed to Buyer by the Stockholders as set forth in this Purchase Agreement.

(b) "Derived EBITDA" for each fiscal year ending October 31, 2012, 2013, 2014, 2015 and 2016 will be calculated as set forth on Schedule 1.6 (b) attached hereto (and subject to the other provisions of this Section 1.6 and Section 1.7).

(c) Subject to the adjustments contemplated by Section 1.6(a)(ii) and Section 1.7, the Earn Out Amount payable to the Stockholders will be a minimum of $750,000 and a maximum of $14.75 million. Any Earn Out Amount owed shall be payable in the following manner: (i) first, $100,000 to Daniel Roehrs, and (ii) then any remaining Earn Out Amount to the Stockholders pro rata according to their ownership interest as set forth on Schedule 3.6(a), and shall be paid on or before January 31, 2017. The Earn Out Amount shall be payable by Buyer, at its election, in either immediately available funds or in common stock of Buyer, or a combination thereof as determined by Buyer. In the event that any portion of the Earn Out Amount is paid in common stock of Buyer, then: (x) the price of such common stock of Buyer shall be deemed to be the average closing price on the stock exchange on which such stock is then listed during the period commencing November 1, 2016 and ending January 25, 2017; (y) Buyer agrees to register such common stock of Buyer with the Securities and Exchange Commission, and agrees to file the required registration statement with the Security and Exchange Commission within ninety (90) days of payment of the Earn Out Amount in common stock; and (z) the common stock shall be subject to the Buy-Sell Agreement (defined below) entered into by the Stockholders as of the date of this Agreement on behalf of themselves and on behalf of their estates, heirs, successors or assigns. Notwithstanding any contrary provision in this Section 1.6(c), in the event that Buyer's common stock is not available for trading on any national exchange or listing service at the time the Earn Out Amount is paid, then Buyer agrees to pay the entire Earn Out Amount, if any, in immediately available funds.

(d) As promptly as practicable after the end of each fiscal years ended October 31, 2012, 2013, 2014, 2015 and 2016, but in no event later than the January 31 following the end of each such fiscal year, Buyer will prepare a statement of the Fiscal Year Enterprise Valuation of the Company for such fiscal year, computed in accordance with the provisions of Section 1.6(a)(i)(y). Further, on or before January 31, 2017, Buyer shall prepare a statement of the Earn Out Amount owed by Buyer to the Stockholders and shall pay such Earn Out Amount to the Stockholders as provided in this Agreement; provided, however, that if there is a disagreement among Buyer and the Stockholders as to the Earn Out Amount, then the Earn Out Amount shall be payable in immediately available funds within ten (10) days following final determination of the Earn Out Amount as provided in this Agreement.

(e) If Stockholders' Representative disagrees with the calculation of the Derived EBITDA for any fiscal year as calculated pursuant to Section 1.6(b) (including the appropriate revenues or expenses including therein), the Fiscal Year Enterprise Valuation or, when applicable, the Earn Out Amount, Stockholders' Representative shall notify Buyer in writing of such disagreement within seven (7) business days after receipt thereof (such notice

setting forth the basis for such disagreement in reasonable detail) and the Stockholders' Representative and Buyer shall thereafter negotiate in good faith to resolve any such disagreements. If the Stockholders' Representative and Buyer are unable to resolve any such disagreements within 30 days, the Stockholders' Representative and Buyer shall refer such disagreement to the Auditor (as defined below), and shall cooperate to assist the Auditor to resolve all disagreements as soon as practicable.

The "Auditor" shall be an audit partner of a certified public accounting firm which employs on a full-time basis at least 75 accountants and which is authorized to audit public companies as a PCAOB qualified firm. The Auditor will be selected by mutual agreement by Buyer and Stockholders' Representative. In the event that Buyer and Stockholders' Representative cannot agree on the selection of an auditor, then each shall select an auditor and the two auditors selected shall choose a third auditor to serve as the Auditor who shall be an audit partner in the Atlanta, Georgia offices of Grant Thornton, LLP. The resolution of such disagreements by the Auditor shall be final and binding on Buyer and the Stockholders. The fees and expenses of the Auditor shall be shared equally by Buyer and the Stockholders.

(f) The obligations of Buyer to pay the Earn Out Amount shall survive and, except as otherwise agreed to in writing by Buyer and Stockholders, Derived EBITDA shall continue to be calculated precisely as contemplated by Section 1.6(b), in the event of any sale, acquisition or merger of Company and/or Buyer, including, but not limited to, instances of Company being merged into Buyer or any direct or indirect subsidiary of Buyer such that the Company is not the surviving corporation under applicable law.

(g) Except as otherwise agreed to in writing by Buyer and the Stockholders, the Earn Out Amount shall only be payable with respect to positive financial contributions in the form of Derived EBITDA by the Company to Buyer without including any other entity hereafter merged into or otherwise consolidated with the Company, except as set forth in Section 1.6(h) below. In the event that Buyer causes any entity to merge or otherwise consolidate into the Company such that the Company is the surviving corporation under applicable law, the Company shall maintain such financial reporting systems as are necessary to accurately calculate the Derived EBITDA and the Earn Out Amount without taking into account the results of any other operations of the Company or any such other entity.

(h) In the event Buyer is acquired by or acquires stock or assets or otherwise combines with an entity which manufactures, designs or sells products which, after such acquisition or combination would be included in the definition of "AOS Products" (as defined in Schedule 1.6(b) attached hereto) (such entity, a "Competitive Entity"), in order to avoid any artificial increase in the Earn Out Amount as a result of such acquisition or combination and to avoid any artificial decrease in the Earn Out Amount as a result of the replacement of a line of AOS Products offered by the Company with an equivalent product line offered by the Competitive Entity after such acquisition or combination, then for purposes of calculating Derived EBITDA, all net sales of products (after such acquisition or combination) meeting the definition of AOS Products (whether sold by the Company or the Competitive Entity) shall be considered net sales of AOS Products; provided, however, that the net sales of AOS Products included in the calculation of Derived EBITDA and the Earn Out Amount after such acquisition or combination will be equal to the total of sales of all products meeting the definition of AOS

Products (whether sold by the Company or the Competitive Entity), multiplied by a fraction, the numerator of which is equal to the net sales of AOS Products sold by the Company during the prior twelve months immediately prior to such acquisition or combination and the denominator of which is equal to the total of sales of all products meeting the definition of AOS Products (whether sold by the Company or the Competitive Entity) during the prior twelve months immediately prior to such acquisition or combination.

1.7 Notwithstanding anything in Section 1.6 to the contrary, the Earn Out Amount payable to any Stockholder shall be calculated as follows (and there shall be no increase in the Earn Out Amount payable to the other Stockholder) in the event that (i) a Stockholder voluntarily resigns or Stockholder otherwise terminates his employment with the Company and/or Buyer, as applicable (including any successors), other than a termination arising from death or Severe Disability (as defined below) and other than a termination arising from a "Resignation for Good Reason" (as defined below), or (ii) such Stockholder's employment with the Company and/or Buyer, as applicable (including any successors) is terminated for Cause (as defined below): the Earn Out Amount that otherwise would have been payable to such Stockholder shall be multiplied by a fraction the denominator of which is 72 (reflecting the number of months between November 1, 2010 and October 31, 2016) and the numerator of which is the number of months between November 1, 2010 and October 31, 2016, if any, in which such Stockholder was an employee of the Company and/or Buyer, as applicable.

For purposes of this Section 1.7, termination for "Cause" shall include termination of employment for (i) intentional nonperformance or misperformance of his duties as an employee, or his refusal to abide by or comply with the reasonable directives of the person to whom he reports, which actions continue for a period of at least thirty (30) days after receipt by Stockholder of written notice of the need to cure or cease, (ii) Stockholder's willful dishonesty, fraud or misconduct with respect to the business or affairs of Company and/or Buyer (including any successors), that in the reasonable judgment of the CEO of Buyer at Closing, or in the event CEO is no longer employed by Buyer then in the unanimous judgment of the then Board of Directors of Buyer (including any successor) materially and adversely affects the Company and/or Buyer (including any successors), (iii) Stockholder's conviction of, or plea of nolo contendere to, a felony, and/or (iv) any intentional breach or material breach as a result of gross negligence of Stockholder, of any confidentiality, nonsolicitation and/or noncompetition agreements entered into with Buyer.

For purposes of this Section 1.7, "Severe Disability" shall be deemed to occur at the point in time in which both of the following are the case: (i) Stockholder is unable to perform the essential functions of his position, with reasonable accommodation, for at least 30 hours per week either (y) during a continuous period of 180 days or (z) for 270 days (whether or not continuous) during any continuous period of 540 days, and further that it is not expected, in the reasonable judgment of CEO of Buyer that the Stockholder's situation is likely to improve sufficiently within ninety (90) days after such inability that Stockholder will be able to perform the essential functions of his position, with reasonable accommodation, for such periods set forth in clauses (y) and (z) above on a prospective basis; and (ii) Stockholder is determined to be disabled by a physician in accordance with the Company's and/or Buyer's policies and practices, as applicable, regarding designing an employee as disabled.

For purposes of this Section 1.7, "Resignation for Good Reason" shall be deemed to occur in the event that a Stockholder resigns his position with the Company as a result of being asked or directed by the CEO or President of Buyer to commit a felony, and CEO or President, as the case may be, of Buyer does not with thirty (30) days withdraw his request after being provided with prior written notice by Stockholder that Stockholder considers such act a felony.

1.8 Notwithstanding anything in Section 1.6 or Section 1.7 to the contrary, in the event of a Change in Control (as defined below) prior to payment of the Earn Out Amount, the acquiring entity shall be required to join in the obligations of Buyer under this Agreement by signing a joinder or assumption agreement and it will be considered a breach of this Agreement for any such acquiring entity to transfer assets out of the Company or the Buyer, or takes such other action, in either case designed for the purpose of artificially avoiding the payment of an Earn Out Amount that would otherwise be due to the Stockholders. Within 10 business days after a Change in Control (as defined below), the Stockholders shall be provided (i) written notice of any proposed Change in Control (as defined below), and (ii) a copy of the signed joinder or assumption agreement. For purposes of this Section 1.8, "Change in Control" occurs if, after the date of this Agreement, (i) any person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the owner or beneficial owner of securities of the Buyer having 100% of the combined voting power of the then outstanding securities of the Buyer that may be cast for the election of the Buyer's directors; or (ii) as result of a merger or other business combination, a sale of assets, or any combination of these events, the persons who were directors of the Buyer before such events cease to constitute a majority of the Buyer's Board, or any successor's board. For purposes of this Agreement, a Change of Control occurs on the date on which an event described in (i) or (ii) occurs. If a Change of Control occurs on account of a series of transactions or events, the Change of Control occurs on the date of the last of such transactions or events.

2. CLOSING

The consummation of the transfer of the Stock by Stockholders to Buyer and payment by Buyer of the Purchase Price to Stockholders and the consummation of other related transactions contemplated by this Agreement to occur at the same time (the "Closing") shall occur after the delivery by Buyer of a written notice to Stockholders' Representative indicating (i) the date upon which the Closing will occur and (ii) that all conditions to Closing have been satisfied or waived, at which point the Closing will occur at noon eastern time on such date (which date or such other date as the parties hereto mutually agree upon shall be referred to as the "Closing Date"), and all of the transactions contemplated herein to be effected at Closing shall be effected.

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE STOCKHOLDERS

To induce Buyer to enter into this Agreement and consummate the transactions contemplated hereby, each of the Stockholders, jointly and severally, represents and warrants to Buyer as follows (for purposes of this Agreement, the phrases "knowledge of the Company" or the "Company's knowledge," or words of similar import, mean the knowledge of the Stockholders, and R. M. Flower, including facts of which any of them should, in the prudent exercise of their duties, be aware):

3.1 **Corporate Status.** The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has the corporate power to own and operate its properties, to carry on its business as now conducted and to enter into and to perform its obligations under this Agreement. The Company is duly qualified to conduct business and is in good standing in each state in which a failure to be so qualified would have a materially adverse effect on the Company's financial position or its ability to conduct its business in the manner now conducted.

3.2 **Subsidiaries.** The Company has no subsidiaries and has no direct or indirect ownership interests in any other entity.

3.3 **Authorization.** The Company has the full legal right, power and authority to enter into and perform its obligations under this Agreement, without the consent or approval of any other person, firm, governmental agency or other legal entity. The execution and delivery of this Agreement, the performance by the Company of its obligations hereunder and the consummation of the transactions contemplated hereby are within its corporate powers and have been duly authorized by all necessary corporate action properly taken, have received all necessary governmental approvals, if any were required, and do not and will not contravene or conflict with any provision of law, any applicable judgment, ordinance, regulation or order of any court or governmental agency, the Certificate of Incorporation, as amended, or Bylaws, as amended, of the Company or any agreement binding upon it or its properties or either Stockholder. The officer(s) executing this Agreement is (are) duly authorized to act on behalf of the Company. Each Stockholder has the full legal right and authority to enter into this Agreement and the transactions contemplated hereby and to perform his respective obligations pursuant to the terms of this Agreement.

3.4 **Validity and Binding Effect.** This Agreement is the legal, valid and binding obligation of the Company and each Stockholder, enforceable in accordance with its terms.

3.5 **No Defaults.** Consummation of the transactions hereby contemplated and the performance of the obligations of the Company and the Stockholders hereunder will not result in any breach of, or constitute a default under, the Certificate of Incorporation or Bylaws of the Company or any mortgage, security deed or agreement, deed of trust, lease, loan or credit agreement, partnership agreement, license, franchise or any other material instrument or agreement to which the Company or either of the Stockholders is a party or by which the Company or its properties or either of the Stockholders may be bound or affected.

3.6 **Capitalization; Issuance of Preferred Shares.** After the exercise of the Warrant by the Buyer and the acquisition of an additional 10% of the Company's capital stock on a fully diluted, as converted basis, the authorized capital stock of the Company is set forth on Schedule 3.6(b) and the issued and outstanding capital stock of the Company, as well as any rights to acquire any capital stock of the Company, is set forth on Schedule 3.6(b). All of the issued and outstanding shares of the capital stock of the Company have been duly authorized and validly issued, are fully paid and nonassessable and are owned of record and beneficially by the Stockholders in the amounts set forth on Schedule 3.6(b) free and clear of all Liens (defined below). All of the issued and outstanding shares of the capital stock of the Company were offered, issued, sold and delivered by the Company in compliance with all applicable state and

federal laws concerning the issuance of securities. Further, none of such shares was issued in violation of any preemptive rights. There are no voting agreements or voting trusts with respect to any of the outstanding shares of the capital stock of the Company. Other than any rights of Buyer (i) there are no options, warrants or rights to acquire any shares of capital stock of the Company authorized, issued or outstanding, nor is the Company obligated in any other manner to issue such shares and (ii) the Company does not have any shares reserved for issuance. There are no restrictions on the transfer of such shares of the Company other than those imposed by applicable state and federal securities laws. Except for the Buyer, no holder of any security of the Company is entitled to any preemptive or similar statutory or contractual rights, either arising pursuant to any agreement or instrument to which the Company is a party or that is otherwise binding upon the Company with respect to the issuance of any such shares of the Company. The Company has no obligation (contingent or otherwise) to purchase, redeem or otherwise acquire any of its equity securities or any interests therein or to pay any dividend or make any distribution in respect thereof. As a result of the transactions contemplated by this Agreement, Buyer will be the record and beneficial owner of all outstanding capital stock of the Company and all rights to acquire any capital stock of the Company. For purposes of this Agreement, “Lien” and “Liens” means, excluding those in favor of Buyer, any mortgage, security interest, pledge, hypothecation, claim, assignment, deposit arrangement, encumbrance, lien (statutory or otherwise), charge, preference, priority or other security agreement, option, warrant, attachment, right of first refusal, preemptive, conversion, put, call or other claim or right, restriction on transfer (other than restrictions imposed by federal and state securities laws), or preferential arrangement of any kind or nature whatsoever (including any restriction on the transfer of any assets, any conditional sale or other title retention agreement, any financing lease involving substantially the same economic effect as any of the foregoing and the filing of any financing statement under the Virginia Uniform Commercial Code or comparable law of any jurisdiction).

3.7 **Litigation.** Except as described on Schedule 3.7, there are no actions, suits or proceedings pending, or, to the knowledge of the Company, threatened, against or affecting the Company or its business or prospects, at law or in equity, or before any governmental or administrative agency, except actions, suits and proceedings that are fully covered by insurance and that, if adversely determined, would not impair the ability of the Company to perform each and every one of its obligations hereunder; and the Company is not in default with respect to any order, writ, injunction, decree or demand of any court or any governmental authority.

3.8 **Confidentiality Agreements.** All of the employees of the Company and any consultants with access to any proprietary or confidential information have executed confidentiality, nonsolicitation and noncompete agreements with the Company, true and complete copies of which have been provided to Buyer.

3.9 **Financial Statements.** The Company has delivered to Buyer a balance sheet of the Company as at October 31, 2008 (the “Balance Sheet Date”), and the related statements of income, changes in stockholders’ equity, and cash flow for the fiscal year then ended (together with the notes thereto) as audited by an independent accounting firm (the “Audited FY 2008 Financials), and a balance sheet of the Company as of September 30, 2009, and the related statement of income for the seven months then ended (the “Interim Financial Statements”). The Audited FY 2008 Financial Statements (i) fairly present the financial condition and the results of operations, changes in stockholders’ equity, and cash flow of the Company at and for the fiscal

year ended October 31, 2008, in accordance with generally accepted accounting principles used in the United States, applied on a consistent basis ("GAAP"), (ii) are correct and complete, and (iii) are consistent with the books and records of the Company (which books and records are correct and complete). The Interim Financial Statements (i) fairly present the financial condition and the results of operations of the Company at and for the seven (7) months ended September 30, 2009, in accordance with GAAP, except that the Interim Financial Statements exclude notes, do not include statements of cash flow and changes in stockholders' equity, and do not include an appropriate classification of certain expenses between cost of goods sold and selling, general and administrative expenses, (ii) are correct and complete, and (iii) are consistent with the books and records of the Company (which books and records are correct and complete). No financial statements of any person or entity other than the Company are required by GAAP to be included in the Audited FY 2008 Financial Statements or the Interim Financial Statements. The Audited FY 2008 Financial Statements and the Interim Financial Statements reflect the consistent application of accounting principles throughout the periods involved.

3.10 **Compliance With Law.** Except as set forth in Schedule 3.10, the Company has to its knowledge, obtained all licenses, permits and governmental approvals and authorizations necessary or proper in order to conduct its business and affairs as heretofore conducted and as hereafter intended to be conducted. To its knowledge, the Company is in compliance with all laws, regulations, decrees and orders applicable to it (including, but not limited to, laws, regulations, decrees and orders relating to export compliance, environmental, occupational and health standards and controls, antitrust, monopoly, restraint of trade or unfair competition), except where failure to comply would not have a material adverse effect on the Company or the Company's assets or financial condition; and any noncompliance, in the aggregate, cannot reasonably be expected to have an adverse effect on its business, operations, property or financial condition.

3.11 **Taxes.** Except as set forth on Schedule 3.11, the Company has filed or caused to be filed all tax returns that are required to be filed (except for returns that have been appropriately extended), and has paid all taxes shown to be due and payable on said returns and all other taxes, impositions, assessments, fees or other charges imposed on it by any governmental authority, agency or instrumentality, prior to any delinquency with respect thereto (other than taxes, impositions, assessments, fees and charges currently being contested in good faith by appropriate proceedings, for which appropriate amounts have been reserved). No tax liens have been filed against the Company or any of its assets or property.

3.12 **Certain Transactions.** Except as disclosed in Schedule 3.12, the Company is not indebted, directly or indirectly, to any of its officers, directors, employees or Stockholders, or to their spouses, children or other immediate family members or to any entity or trust affiliated with or directly or indirectly controlled by any of the foregoing; none of said officers, directors, employees and Stockholders or any members of their immediate families or such entities or trusts are indebted to the Company or have any direct or indirect ownership interest in any firm, corporation or other entity with which the Company is affiliated or with which the Company has a business relationship, or any firm, corporation or other entity that competes with the Company. No officer, director, employee or Stockholder of the Company or any member of their immediate families, is, directly or indirectly, interested in any material contract with the Company.

3.13 **Title to Property and Leases.**

(a) The Company does not own any real property and leases only the real property disclosed in Schedule 3.13(a). The real property leases set forth on Schedule 3.13(a) are in full force and effect and constitute valid and binding agreements of the Company, and neither the Company nor any other party is in breach of any of their terms. None of said real property leases requires the consent of any party thereto in connection with the consummation of the transactions contemplated hereby. Except as set forth in Schedule 3.13(a) all structures and all structural, mechanical and other physical systems thereof that constitute part said leased real property, including but not limited to the walls, roofs and structural elements thereof and the heating, ventilation, air conditioning, plumbing, electrical, mechanical, sewer, waste water, storm water, paving and parking equipment, systems and facility included therein, and other material items at said leased real property, taken as a whole are, to the knowledge of the Company, free of defects and are in good operating condition and repair given the age and use of such assets.

(b) Except as set forth in Schedule 3.13(b), the Company has good and marketable title to all of the personal property used in its business, free and clear of any and all claims, liens, encumbrances, equities and restrictions of every kind and nature whatsoever, except for such claims, liens, encumbrances, equities and restrictions as are not in the aggregate material to the business, operations or financial condition of the Company and neither the Stockholders nor R.M. Flower own any interest in any personal property located on any real property owned, leased or otherwise used in connection with the Company’s business.

(c) All of the machinery, equipment and other personal property of the Company taken as a whole, are, to the knowledge of the Company, in good working order and condition, ordinary wear and tear excepted. All fixed assets used by the Company that are material to the operation of its business are either owned by the Company or leased under an agreement listed on Schedule 3.13(c).

3.14 **Intellectual Property.**

(a) Schedule 3.14(a) identifies all of the following that are used or held for use by the Company in the course of its business or in which the Company claims any ownership rights: (i) all trademarks, service marks, certification marks, trade names, corporate names, brand names, trade dress, logos, internet domain names and all other indicia of origin, including all common law marks, together with all translations, adaptations, derivations, and combinations thereof (collectively, “Trademarks”), together with all registrations and pending applications in any jurisdiction to register any such rights; (ii) all patents, patent applications and patent disclosures (collectively, “Patents”); (iii) all registered copyrights and applications to register copyrights in any jurisdiction; and (iv) all licenses of rights to use any computer software, Trademarks, patents, copyrights and other intellectual property, whether to or by the Company, except licenses to use “off-the-shelf” third-party software products acquired in the ordinary course of business. The term “Intellectual Property,” as used in this Agreement, shall mean all assets described or required to be described in Schedule 3.14(a), and any and all other intellectual property, proprietary rights, technology, and know-how that is owned by the Company or used in any way by the Company or held for use by the Company, in each case to conduct the Company’s business or otherwise design or produce any of the Company’s products, as used in accordance

with past practices, as presently conducted and as presently proposed to be conducted, including, without limitation, all Trademarks and Patents, the goodwill associated therewith and registrations in any jurisdiction, and applications in any jurisdiction to register, each of the foregoing, including any extension, modification or renewal of any such registration or application; all inventions (whether or not reduced to practice), all improvements thereto, discoveries, ideas, designs, processes and dies whether patentable or not; all patents, applications for patents (including, without limitation, divisions, continuations, continuations in part and renewal applications), and any renewals, extensions, reexaminations or reissues thereof, in any jurisdiction; all nonpublic information, know-how, trade secrets, confidential business information (including research and development, formulas, compositions, manufacturing and production techniques, technical data, designs, drawings, specifications, research records, records of inventions, test information, customer and supplier lists, pricing and cost information, and business and marketing plans and proposals and similar information) and confidential information and rights in any jurisdiction to limit the use or disclosure thereof by any person; all proprietary writings, artwork and other works of authorship, whether copyrightable or not, in any jurisdiction; all registrations or applications for registration of copyrights in any jurisdiction, and any renewals or extensions thereof; and any other intellectual property or proprietary rights. The Company has taken all actions, made all filings and paid all fees to maintain registration for all issued Patents and all registered trademarks, service marks and registered copyrights listed in Schedule 3.14(a). The Company has the exclusive right to file, prosecute and maintain all applications and registrations with respect to any Intellectual Property owned by it.

(b) Except with respect to any license agreement described in Schedule 3.14(b), the Company owns free and clear of any Liens and free and clear of any and all rights, title and interest of any other party, all right, title and interest to, or has validly licensed or otherwise valid rights to use all Intellectual Property used in any way by, held for use by or necessary for the conduct of the Company's business as used in accordance with past practices, as presently conducted and as presently proposed to be conducted.

(c) Except as described in Schedule 3.14(c), the Company has not received any notice of any claim of infringement, misappropriation or violation of the intellectual property or other proprietary rights of any person and no person has asserted or, to the knowledge of the Company, threatened to assert any challenge with respect to any Intellectual Property used by the Company. To the knowledge of the Company, except as described in Schedule 3.14(c), no third party has asserted ownership rights in any of the Intellectual Property (except to the extent that such Intellectual Property is owned by a third party and has been properly licensed to the Company). No Intellectual Property owned, used and/or licensed by the Company is being used or enforced in a manner that by itself would result in the abandonment, cancellation or unenforceability of or any other loss, diminishment or impairment of rights in such Intellectual Property.

(d) No license pursuant to which the Company acquired the right to use any Intellectual Property is subject to termination or cancellation or change in its terms or provisions, nor are the Company's rights thereunder diminished or impaired, nor are the Company's obligations thereunder increased, as a result of this Agreement or the consummation of the transactions contemplated by this Agreement. To the knowledge of the Company, no other person claims the right to use in connection with similar or closely related goods and in the same geographic area any mark which is identical or confusingly similar to any of the Trademarks.

(e) The use of any Intellectual Property by the Company does not infringe on or otherwise violate the rights of any person and is otherwise being used only in accordance with any applicable license pursuant to which the Company acquired the right to use any Intellectual Property. To the knowledge of the Company and the Stockholders, no person has infringed upon or violated or is currently infringing or otherwise violating any right of the Company with respect to any Intellectual Property. The Company has the legal right to use all copies of all computer software currently used or held for use by the Company. The Intellectual Property constitutes all of the intangible property used or held for use by the Company to conduct its business consistent with past practices, as presently conducted and as presently proposed to be conducted.

(f) Any and all rights any of the Stockholders and/or R.M. Flower may have had or currently has to any Intellectual Property have been previously assigned to the Company without obligation by the Company to pay any royalty or make any other payment whatsoever therefor, and none of the Stockholders or R.M. Flower have any individual rights of any kind to any Intellectual Property.

(g) Neither the Company nor either of the Stockholders nor any employees, former employees or agents of the Company have violated any non-compete agreements with third parties or taken or improperly used any trade secrets of any third party.

3.15 **Environmental Compliance.** The Company has not caused or allowed, nor has it contracted with any party for, the generation, use, transportation, treatment, storage or disposal of any Hazardous Substance (as defined below) in violation of the law in connection with the operations of its business or otherwise. The Company is and has been in compliance with all applicable Environmental Laws (as defined below) and orders or directives or any governmental authorities having jurisdiction under such Environmental Laws, including, without limitation, any Environmental Laws or orders or directives with respect to any cleanup or remediation of any release or threat of release of Hazardous Substances, except where failure to comply would not have a material adverse effect on the Company or the Company’s assets or financial condition. The Company has not received any citation, directive, letter or other communication, written or oral, or any notice of any proceedings, claims or lawsuits, from any person, entity or governmental authority arising out of the conduct of its operations, nor is it aware of any basis therefor. The Company has obtained and is maintaining in full force and effect all necessary permits, licenses and approvals required by any Environmental Laws applicable to the business operations of the Company and is in compliance with all such permits, licenses and approvals, except where failure to do so would not have a material adverse effect on the Company or the Company’s assets or financial condition. For purposes of this Agreement, the term “Environmental Laws” shall mean any federal, state or local law, ordinance or regulation pertaining to the protection of human health or the environment, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. 9601 et seq., Emergency Planning and Community Right-to-Know Act, 42 U.S.C. 11001 et seq., and the Resource Conservation and Recovery Act, 42 U.S.C. 6901 et seq. For purposes of this Agreement, the term “Hazardous Substances” shall include oil and petroleum products, asbestos, polychlorinated biphenyls and urea formaldehyde, and any other materials classified as hazardous or toxic under any Environmental Laws.

3.16 **OSHA Compliance.** The Company is in compliance with the Federal Occupational Safety and Health Act, as amended, and all regulations thereunder, except where failure to comply would not have a material adverse effect on the Company or the Company's assets or financial condition.

3.17 **ERISA Compliance.** With respect to the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder ("ERISA"):

(a) Plans. Schedule 3.17 sets forth any and all "employee benefit plans" maintained by or on behalf of the Company or any ERISA Affiliates as defined in Section 3(3) of ERISA (a "Plan"), including, but not limited to, any defined benefit pension plan, profit sharing plan, money purchase pension plan, savings or thrift plan, stock bonus plan, employee stock ownership plan, Multiemployer Plan, or any plan, fund, program, arrangement or practice providing for medical (including post-retirement medical), hospitalization, accident, sickness, disability, or life insurance benefits. For purposes of this Agreement, "ERISA Affiliate" shall mean each trade or business (whether or not incorporated) which, together with the Company, is treated as a single employer under Section 414(b), (c), (m) or (o) of the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and the rulings issued thereunder (the "Code"); and "Multiemployer Plan" shall mean a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA. Neither the Company nor any ERISA Affiliate maintains or contributes to, or has maintained or contributed to, any defined benefit pension plan or Multiemployer Plan.

(b) Compliance. Each Plan has at all times been maintained, by its terms and in operation, in accordance in all material respects with all applicable laws, and no fact that might constitute grounds for the involuntary termination of the Plan, or for the appointment by the appropriate United States District Court of a trustee to administer the Plan, exists at the time of execution of this Agreement.

(c) Liabilities. Except for liabilities and expenses which become payable and are timely paid pursuant to the terms and usual operations of the Plans, the Company is not currently and, to the best of the Stockholders' knowledge, will not become subject to any material liability (including withdrawal liability), tax or penalty whatsoever to any person whomsoever with respect to any Plan including, but not limited to, any material tax, penalty or liability arising under Title I or Title IV of ERISA or Chapter 43 of the Code.

(d) Funding. The Company and each ERISA Affiliate has made full and timely payment of all amounts (i) required to be contributed under the terms of each Plan and applicable law and (ii) required to be paid as expenses of each Plan. No Plan or Plans have an "amount of unfunded benefit liabilities" (as defined in Section 4001 (a)(18) of ERISA) which, in the aggregate, exceeds $5,000.

3.18 **<u>Indebtedness</u>.** Except as set forth on the Financial Statements, the Company is not obligated in respect of any indebtedness or other liability (whether absolute, accrued, contingent or otherwise) that GAAP would require to be included in determining total liabilities on a balance sheet. <u>Schedule 3.18</u> lists all the indebtedness for borrowed money of the Company (including the Loan and all Related Party Loans), as will be in effect immediately after the execution of this Agreement.

3.19 **<u>Statements Not False or Misleading</u>.** No representation or warranty given by the Stockholders contained in this Agreement or any schedule or any exhibit attached hereto or any statement in any document, certificate or other instrument furnished or to be furnished to Buyer pursuant hereto or pursuant to the transactions contemplated by this Agreement, taken as a whole, contains or will contain any untrue statement of a material fact, or omits or will omit to state any material fact that is necessary in order to make the statements contained therein not misleading.

3.20 **<u>Complete Copies of Materials</u>.** The Stockholders have delivered to Buyer true and complete copies of each agreement, contract, commitment or other document (or summaries thereof) that is referred to in the Schedules or that has been requested by Buyer.

3.21 **<u>Absence of Claims Against Company</u>.** Except as set forth on <u>Schedule 3.21</u>, no Stockholder, customer or supplier has any claims against the Company.

3.22 **<u>Books and Records</u>.** The Company has made and kept books and records and accounts, which, in reasonable detail, accurately and fairly reflect the activities of the Company. The Company has not engaged in any transaction, maintained any bank account, or used any corporate funds except for transactions, bank accounts, and funds which have been and are reflected in its normally maintained books and records.

3.23 **<u>Powers of Attorney</u>.** <u>Schedule 3.23</u> sets forth a complete and accurate list as of the date of this Agreement, of the name of each person, corporation, firm or other entity holding a general or special power of attorney from the Company and a description of the terms of such power.

3.24 **<u>Material Contracts and Commitments</u>.**

(a) The Stockholders have delivered to Buyer true, complete and correct copies of all contracts, commitments, leases, instruments, agreements, licenses or permits, to which the Company is a party or by which it or its properties are bound (including without limitation joint venture or partnership agreements, contracts with any labor organizations, employment agreements, consulting agreements, loan agreements, indemnity or guaranty agreements, bonds, mortgages, options to purchase land, liens, pledges or other security agreements) (i) to which the Company and any affiliate of the Company or any officer, director or stockholder of the Company are parties (“Related Party Agreements”); (ii) that may give rise to obligations or liabilities, or (iii) that may generate significant revenues or income (collectively with the Related Party Agreements, the “Material Contracts”). <u>Schedule 3.24(a)</u> sets forth a complete list of all Material Contracts of the Company.

(b) Except to the extent set forth on Schedule 3.24(b), (i) the Company has complied with all of its commitments and obligations and is not in default under any of the Material Contracts, and no notice of default has been received with respect to any thereof, and (ii) there are no Material Contracts that were not negotiated at arm's length. Except to the extent set forth on Schedule 3.24(b), the Company has not received any material customer complaints concerning its products and/or services, nor has it had any of its products returned by a purchaser thereof except for normal warranty returns consistent with past history and those returns that would not result in a reversal of any material revenue.

(c) Each Material Contract is valid and binding on the Company and is in full force and effect and to the knowledge of the Company is not subject to any default thereunder by any party obligated to the Company pursuant thereto. The Company has obtained all necessary consents, waivers and approvals of parties to any Material Contracts that are required in connection with any of the transactions contemplated hereby, or are required by any governmental agency or other third party or are advisable in order that any such Material Contract remain in effect without modification after the transactions contemplated by this Agreement and without giving rise to any right to termination, cancellation or acceleration or loss of any right or benefit ("Third Party Consents"), including, without limitation, the Third Party Consents set forth on Schedule 3.24(c) except as waived by Buyer in writing.

3.25 **Insurance.** The Stockholders have delivered to Buyer true, complete and correct copies of all current insurance policies, all of which are in full force and effect. All premiums payable under all such policies have been paid and the Company is otherwise in full compliance with the terms of such policies. Such policies of insurance are of the type and in amounts customarily carried by persons conducting businesses similar to that of the Company. To the knowledge of the Company, there have been no threatened terminations of, or material premium increases with respect to, any of such policies since the Balance Sheet Date.

3.26 **Labor and Employment Matters.** With respect to employees of and service providers to the Company (i) the Company is and has been in compliance in all material respects with all applicable laws respecting employment and employment practices, terms and conditions of employment and wages and hours, including without limitation any such laws respecting employment discrimination, workers' compensation, family and medical leave, the Immigration Reform and Control Act, and occupational safety and health requirements, and has not and is not engaged in any unfair labor practice; (ii) there is not now, nor within the past three (3) years has there been, any unfair labor practice complaint against the Company pending or, to the Company's knowledge, threatened, before the National Labor Relations Board or any other comparable authority; (iii) there is not now, nor within the past three (3) years has there been, any labor strike, slowdown or stoppage actually pending or, to the Stockholders' knowledge, threatened, against or directly affecting the Company; (iv) to the Stockholders' knowledge, no labor representation organization effort exists nor has there been any such activity within the past three (3) years; (v) no grievance or arbitration proceeding arising out of or under collective bargaining agreements is pending and, to the Stockholders' knowledge, no claims therefor exist or have been threatened; (vi) the employees of the Company are not and have never been represented by any labor union, and no collective bargaining agreement is binding and in force against the Company or currently being negotiated by the Company; and (vii) all persons classified by the Company as independent contractors do satisfy and have satisfied the requirements of law to be so classified, and the Company has fully and accurately reported their compensation on IRS Forms 1099 when required to do so.

3.27 **<u>Absence of Changes</u>.** Since October 31, 2008, the Company has conducted its business in the ordinary course and, except as contemplated herein, or as set forth on <u>Schedule 3.27</u>, there has not been (i) any damage, destruction or loss (whether or not covered by insurance) adversely affecting the properties or business of the Company; (ii) any change in the authorized capital of the Company or in its outstanding securities or any change in its ownership interests or any grant of any options, warrants, calls, conversion rights or commitments; (iii) any declaration or payment of any dividend or distribution in respect of the capital stock, or any direct or indirect redemption, purchase or other acquisition of any of the capital stock of the Company; (iv) any increase in the compensation, bonus, sales commissions or fee arrangements payable or to become payable by the Company to any of its officers, directors, Stockholders, employees, consultants or agents, except for ordinary and customary bonuses and salary increases for employees in accordance with past practice and disclosed to Buyer; (v) any work interruptions, labor grievances or claims filed, or any similar event or condition of any character, materially adversely affecting the business or future prospects of the Company; (vi) any sale or transfer, or any agreement to sell or transfer, any material assets, property or rights of the Company to any person, including without limitation the Stockholders and their affiliates; (vii) any cancellation, or agreement to cancel, any indebtedness or other obligation owing to the Company, including without limitation any indebtedness or obligation of the Stockholders and their affiliates, <u>provided</u> that the Company may negotiate and adjust bills in the course of good faith disputes with customers in a manner consistent with past practice; (viii) any plan, agreement or arrangement granting any preferential rights to purchase or acquire any interest in any of the assets, property or rights of the Company or requiring consent of any party to the transfer and assignment of any such assets, property or rights; (ix) any purchase or acquisition of, or agreement, plan or arrangement to purchase or acquire, any property, rights or assets outside of the ordinary course of business of the Company; (x) any waiver of any material rights or claims of the Company; (xi) any breach, amendment or termination of any material contract, agreement, license, permit or other right to which the Company is a party; (xii) any transaction by the Company outside the ordinary course of business; (xiii) any capital commitment by the Company, either individually or in the aggregate, exceeding $10,000; (xiv) any change in accounting methods or practices (including any change in depreciation or amortization policies or rates) by the Company or the revaluation by the Company of any of its assets; (xv) any creation or assumption by the Company of any mortgage, pledge, security interest or lien or other encumbrance on any asset (other than liens arising under existing lease financing arrangements which are not material and liens for Taxes not yet due and payable); (xvi) any loan by the Company to any person or entity, incurring by the Company of any indebtedness, guaranteeing by the Company of any indebtedness, issuance or sale of any debt securities of the Company or guaranteeing of any debt securities of others; (xvii) the commencement or notice or, to the knowledge of the Stockholders, threat of commencement, of any lawsuit or proceeding against, or investigation of, the Company or any of its affairs; or (xviii) negotiation or agreement by the Company or any officer or employee thereof to do any of the things described in the preceding clauses (a) through (s) (other than negotiations with Buyer and its representatives regarding the transactions contemplated by this Agreement).

3.28 **Disclosure.**

(a) All written agreements, lists, schedules, instruments, exhibits, documents, certificates, reports, statements and other writings furnished to Buyer pursuant hereto or in connection with this Agreement or the transactions contemplated hereby, are and will be complete and accurate in all material respects.

(b) There is no fact known to any Stockholder that has specific application to such Stockholder (other than general economic or industry conditions) and that materially adversely affects the assets, financial condition, or results of operations of the Company that has not been set forth in this Agreement or any Schedule hereto.

3.29 **Predecessor Status; Etc.** Schedule 3.29 sets forth a listing of all legal names, trade names, fictitious names or other names (including, without limitation, any names of divisions or operations) of the Company and all of its predecessor companies during the five-year period immediately preceding the date hereof, including without limitation the names of any entities from whom the Company has acquired material assets. During the five (5) year period immediately preceding the date hereof, the Company has operated only under the names set forth on Schedule 3.29 in the jurisdiction or jurisdictions set forth on Schedule 3.29 and has not been a subsidiary or division of another corporation or a part of an acquisition which was later rescinded.

3.30 **Location of Chief Executive Offices.** Schedule 3.30 sets forth the location of the Company's chief executive offices.

3.31 **Location of Equipment and Inventory.** All inventory and equipment held by the Company is located at one of the locations shown on Schedule 3.31. For purposes of this Agreement, (a) the term "inventory" shall mean any inventory of whatever nature owned by the Company, and, in any event, shall include, but shall not be limited to, all merchandise, inventory and goods wherever located, together with all goods, supplies, incidentals, packaging materials and any other items used or usable in manufacturing, processing, packaging or shipping the same; in all stages of production — from raw materials through work-in-process to finished goods; and (b) the term "equipment" shall mean any "equipment" of any nature owned by the Company, and, in any event, shall include, but shall not be limited to, all machinery, equipment, furnishings, fixtures and vehicles owned by the Company, wherever located, together with all attachments, components, parts, equipment and accessories installed thereon or affixed thereto.

3.32 **Indebtedness.** Schedule 3.32 accurately sets forth the following: (a) the balance of the AOS Loan, (b) any and all indebtedness owed (including principal, interest and fees, if any) to Buyer or others for borrowed money, other than the AOS Loan, (c) all other net amounts owed to Buyer by the Company, (d) all Related Party Loans, (e) any trade accounts payable of the Company (other than owed to Buyer) in excess of $0.75 million, and (f) any cash on hand at the Company. Schedule 5.1(a) accurately sets forth balances as of October 27, 2009 on Company credit cards to which either of the Stockholders is obligated and all out-of-pocket business expenses incurred by Stockholders through October 31, 2009. Schedule 5.1(b) accurately sets forth all deferred salaries and commissions owed to the Stockholders through October 31, 2009. Schedule 5.1(c) accurately sets forth all Related Party Loans (as hereinafter defined).

4. REPRESENTATIONS AND WARRANTIES OF BUYER

To induce the Company and the Stockholders to enter into this Agreement and consummate the transactions contemplated hereby, Buyer represents and warrants to the Company and the Stockholders as follows:

4.1 **Corporate Status**. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia.

4.2 **Authorization**. Buyer has full legal right, power and authority to enter into and perform its obligations under this Agreement. The execution and delivery of this Agreement, the performance by Buyer of its obligations hereunder and the consummation of the transactions contemplated hereby are within its corporate powers and have been duly authorized by all necessary corporate action properly taken and do not and will not contravene or conflict with any provision of law, any applicable judgment, ordinance, regulation or order of any court or governmental agency, the Certificate of Incorporation, as amended, or Bylaws, as amended, of Buyer or any agreement binding upon it. The officer executing this Agreement is duly authorized to act on behalf of Buyer.

4.3 **Validity and Binding Effect**. This Agreement is the legal, valid and binding obligation of Buyer, enforceable in accordance with its terms.

5. COVENANTS

5.1 **Payment of Related Party Loans and Certain Expenses.**

(a) Within sixty (60) days after the date hereof, Buyer will cause Company to: (i) pay off any balances as of October 27, 2009 on Company credit cards to which either of the Stockholders is obligated in the amounts set forth on Schedule 5.1(a), subject to the terms and conditions of the Employment Agreements, and (ii) reimburse Stockholders for any out-of-pocket expenditures incurred for Company business expenses (subject to proper documentation and verification of appropriate business purpose) in the amounts set forth on Schedule 5.1(a).

(b) The payment of certain commissions due to the Stockholders which constitute Related Party Loans and deferred salaries, all as listed on Schedule 5.1(b) shall be as set forth in that certain Supplemental Agreement dated the date hereof between Buyer, the Stockholders and the other parties thereto (the “Supplemental Agreement”).

(c) The payment of all employee and related party loans, net, owed by the Company, including, without limitation, net amounts owed to the Stockholders, to R.M. Flower, and to the George T. Hazelton Family Trust, all as listed on Schedule 5.1(c) attached hereto (the “Related Party Loans”) less any amount paid pursuant to Section 5.1(a) or (b) above shall be paid as set forth in the Supplemental Agreement; provided, however, that payment of any amount owed to R.M. Flower is conditioned upon R.M. Flower first executing an employment agreement with Company in form reasonably satisfactory to Buyer. Nothing in this Agreement or the

transactions contemplated herein or the exercise of the Warrant shall be deemed to require payment of such loans at any earlier time. In the event that any Stockholder, R.M. Flower, related party or employee owes the Company any amount (net of any amounts owed by the Company to such person) as of October 31, 2009, then such person shall pay in full to the Company all such amounts (net) owed to Company within ten (10) business days after the date hereof.

5.2 **Employment Agreements.** As of the date of this Agreement, each of G. Thomas Hazelton, Jr. and Daniel Roehrs agree to enter into a new employment agreement with the Company in the forms attached hereto as Exhibits B-1 and B-2 (each, an "Employment Agreement").

5.3 **Buy-Sell Agreements.** As of the date of this Agreement, each of G. Thomas Hazelton, Jr. and Daniel Roehrs agree to enter into a buy-sell agreement with Buyer granting Buyer the right to purchase any shares of Buyer's capital stock owned now or in the future by an Stockholder, in the form attached hereto as Exhibit C (a "Buy-Sell Agreement").

5.4 **Employee Innovations and Proprietary Rights Assignment and Confidentiality Agreement.** As of the date of this Agreement, each of the Stockholders agree to enter into an Employee Innovations and Proprietary Rights Assignment and Confidentiality Agreement with the Company in the form attached hereto as Exhibit D (a "Rights Assignment Agreement"), which shall be incorporated into each Stockholder's Employment Agreement.

5.5 **Employee Benefit Plans.** If requested by Buyer, the Company shall terminate any Company Plan or Company Benefit Arrangement substantially contemporaneously with the Closing.

5.6 **Cooperation.** The Company, the Stockholders, and Buyer shall each deliver or cause to be delivered to the other on the Closing Date, and at such other times and places as shall be reasonably agreed to, such instruments as the other may reasonably request for the purpose of carrying out this Agreement. The Stockholders shall cause the officers, directors and employees of the Company to cooperate with Buyer on and after the Closing Date in furnishing information and other assistance in connection with any filing obligations, actions, proceedings, arrangements or disputes of any nature with respect to matters pertaining to all periods prior to the Closing Date. Each party hereto shall cooperate in obtaining all consents and approvals required under this Agreement to effect the transactions contemplated hereby.

5.7 **Access to Information; Public Disclosure.**

(a) Between the date of this Agreement and the Closing Date, the Company will afford to the officers and authorized representatives of Buyer access to (i) all of the sites, properties, books and records of the Company and (ii) such additional financial and operating data and other information as to the business and properties of the Company as Buyer may from time to time reasonably request, including without limitation, access upon reasonable request to the Company's employees, customers, vendors, suppliers and creditors for due diligence inquiry. No information or knowledge obtained in any investigation pursuant to this Section 5.7 shall affect or be deemed to modify any representation or warranty contained in this Agreement or the conditions to the obligations of the parties to consummate the transactions contemplated herein.

(b) Prior to the Closing Date, neither the Company nor any Stockholder shall make any disclosure (whether or not in response to an inquiry) of the subject matter of this Agreement unless previously approved by Buyer in writing.

5.8 **Conduct of Business Pending Closing.** Between the date of this Agreement and the Closing Date, the Company will (except as requested or agreed by Buyer): (i) carry on its business in substantially the same manner as it has heretofore and not introduce any material new method of management, operation or accounting; (ii) maintain its properties and facilities, including those held under leases, in as good working order and condition as at present, ordinary wear and tear excepted; (iii) perform all of its obligations under agreements relating to or affecting its respective assets, properties or rights; (iv) keep in full force and effect present insurance policies or other comparable insurance coverage; (v) use all commercially reasonable efforts to maintain and preserve its business organization intact, retain its present officers and key employees and maintain its relationships with suppliers, vendors, customers, creditors and others having business relations with it; (vi) maintain compliance with all permits, laws, rules and regulations, consent orders, and all other orders of applicable courts, regulatory agencies and similar governmental authorities; (vii) maintain present debt and lease instruments and not enter into new or amended debt or lease instruments; (viii) except as otherwise provided in this Agreement, maintain present salaries and commission levels for all officers, directors, employees, agents, representatives and independent contractors, except for ordinary and customary bonuses and salary increases for employees (other than employees who are also Stockholders) in accordance with past practice, and maintain salaries and compensation levels for Stockholders in accordance with the Employment Agreements; provided that Buyer shall approve all criteria for bonuses and Stockholders will only be eligible for equity compensation after the Closing; and (ix) Stockholders shall, and shall cause the Company to, comply with all provisions of the AOS Loan and all other written agreements with Buyer.

5.9 **Notification of Certain Matters.** Each party hereto shall give prompt notice to the other parties hereto of (a) the occurrence or non-occurrence of any event the occurrence or non-occurrence of which would be likely to cause any representation or warranty of it contained herein to be untrue or inaccurate in any material respect at or prior to the Closing and (b) any material failure of such party to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by such party hereunder. The delivery of any notice pursuant to this Section 5.9 shall not, without the express written consent of the other parties be deemed to (x) modify the representations or warranties hereunder of the party delivering such notice, (y) modify the conditions set forth in Articles 6 and 7, or (z) limit or otherwise affect the remedies available hereunder to the party receiving such notice.

5.10 **Agreements Regarding Sales of Certain Products.** Buyer and Stockholders agree that Company will not sell any products found to infringe on the rights of any third party. The Company and each of the Stockholders believe that the Company's Mil-Prf 83526/16 and Mil-Prf 83526/17 connectors, plugs, related parts and cable assemblies and higher channel count versions of these products (collectively, "M83526 Connectors") and the Company's EZ-MATE™ connectors, plugs, related parts and cable assemblies (collectively, "EZ-MATE Connectors"), do not infringe on the rights of any third party. Until Buyer notifies the Company in writing to the contrary, neither Buyer nor any of Buyer's subsidiaries (excluding the Company) or affiliates (collectively, the "Buyer Companies") will offer to sell, sell, use, assist

with or encourage the sale of any M83526 Connectors or any EZ-MATE Connectors. Further, until Buyer notifies the Company in writing to the contrary, no employee, agent, representative, officer, director or personnel of the Buyer Companies will offer to sell, sell, use, assist with or encourage the sale of any M83526 Connectors or any EZ-MATE Connectors.

5.11 **Sublease.** On or before the date of this Agreement, the Stockholders will cause the Company, as subtenant, to enter into a certain Sublease Agreement with Buyer, as sublandlord, with respect to premises consisting of approximately 20,697 square feet located at 1700 Capital Avenue, Suite 150, Plano, Texas, which sublease shall be subject to a certain Lease Agreement to be entered into on or before the date hereof between Cabot Industrial Properties, L.P., as lessor, and Buyer, as lessee, with respect to said premises.

5.12 **Opinion.** As of the date of this Agreement, the Shareholders will cause the counsel of the Company to provide an opinion in form reasonably satisfactory to Buyer.

6. CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYER

The obligation of Buyer to effect the transactions contemplated by this Agreement is subject to the satisfaction or waiver, at or before the Closing Date, of the following conditions and deliveries:

6.1 **Representations and Warranties; Performance of Obligations.** All of the representations and warranties of the Stockholders contained in this Agreement shall be true, correct and complete on and as of the date hereof; all of the terms, covenants, agreements and conditions of this Agreement to be complied with, performed or satisfied by the Stockholders on or before the Closing Date shall have been duly complied with, performed or satisfied; Stockholders shall not be in breach of this Agreement or any related agreements contemplated by this Agreement; and a certificate to the foregoing effects dated the Closing Date and signed on behalf of each of the Stockholders shall have been delivered to Buyer.

6.2 **No Litigation.** No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or provision challenging Buyer’s proposed acquisition of the Company, or limiting or restricting Buyer’s conduct or operation of the business of the Company (or its own business) following the transactions contemplated by this Agreement shall be in effect or threatened, nor shall any proceeding brought by an administrative agency or commission or other governmental authority or instrumentality, domestic or foreign, seeking any of the foregoing be pending or threatened. There shall be no action, suit, claim or proceeding of any nature pending or threatened against Buyer, the Stockholders or the Company, their respective properties or any of their officers or directors, that could materially and adversely affect the business, assets, liabilities, financial condition, results of operations or prospects of the Company.

6.3 **No Material Adverse Change.** There shall have been no material adverse changes in the business, operations, affairs, prospects, properties, assets, existing and potential liabilities, obligations, profits or condition (financial or otherwise) of the Company, taken as a whole, since the Balance Sheet Date.

6.4 **Consents and Approvals.** All necessary consents of, and filings with, any governmental authority or agency or third party, relating to the consummation by the Company and the Stockholders of the transactions contemplated hereby, shall have been obtained and made.

6.5 **Opinion of Counsel.** Buyer shall have received an opinion from counsel to the Company, dated the Closing Date, in a form reasonably satisfactory to Buyer.

6.6 **Charter Documents.** Buyer shall have received (a) a copy of the Articles of Incorporation of the Company certified by an appropriate authority in the state of its incorporation and (b) a copy of the Bylaws of the Company certified by the Secretary of the Company, and such documents shall be in form and substance reasonably acceptable to Buyer.

6.7 **Due Diligence Review.** The Company shall have made such deliveries as are called for by this Agreement. Buyer shall be fully satisfied in its sole discretion with the results of its review of all of the Schedules, whether delivered before or after the execution hereof, and such deliveries, and its review of, and other due diligence investigations with respect to, the business, operations, affairs, prospects, properties, assets, existing and potential liabilities, obligations, profits and condition (financial or otherwise) of the Company.

6.8 **Fairness Opinion.** Buyer shall have received a fairness opinion from an independent valuation firm in a form satisfactory to Buyer in its sole discretion.

6.9 **Lender Consent.** Buyer shall have received the consent of Valley Bank, to the extent necessary or desirable in Buyer's discretion, to the transactions contemplated by this Agreement.

6.10 **Board Approval.** Buyer's board of directors shall have approved this Agreement and the transactions contemplated in this Agreement.

7. CONDITIONS PRECEDENT TO OBLIGATIONS OF THE STOCKHOLDERS

The obligation of the Stockholders and the Company to effect the transactions contemplated by this Agreement are subject to the satisfaction or waiver, at or before the Closing Date, of the following conditions and deliveries:

7.1 **Representations and Warranties; Performance of Obligations.** All of the representations and warranties of Buyer contained in this Agreement shall be true, correct and complete on and as of the date hereof; all of the terms, covenants, agreements and conditions of this Agreement to be complied with, performed or satisfied by Buyer on or before the Closing Date shall have been duly complied with, performed or satisfied.

8. INDEMNIFICATION

8.1 **General Indemnification by the Stockholders.** The Stockholders jointly and severally covenant and agree to indemnify, defend, protect and hold harmless Buyer and the Company and their respective officers, directors, employees, stockholders, assigns, successors and affiliates (other than the Stockholders and R. M. Flower) (individually, an "Indemnified Party" and collectively, "Indemnified Parties") from, against and in respect of:

(a) all liabilities, losses, claims, damages, punitive damages, causes of action, lawsuits, administrative proceedings (including informal proceedings), investigations, audits, demands, assessments, adjustments, judgments, settlement payments, deficiencies, penalties, fines, interest (including interest from the date of such damages) and costs and expenses (including without limitation reasonable attorneys' fees and disbursements of every kind, nature and description) (but excluding Litigation Expenses) (collectively, "Damages") suffered, sustained, incurred or paid by any Indemnified Parties in connection with, resulting from or arising out of, directly or indirectly (i) any breach of any representation or warranty of the Stockholders set forth in this Agreement or any Schedule or certificate, delivered by or on behalf of any Stockholder in connection herewith; (ii) any nonfulfillment of any covenant or agreement by the Stockholders under this Agreement; (iii) the business, operations or assets of the Company prior to the date hereof or the actions or omissions of the Stockholders or the Company's directors, officers, stockholders, employees or agents prior to the date hereof; (iv) any liabilities and obligations set forth in Schedule 8.1(a)(iv) ("Excluded Liabilities") or (v) any breach or default by any person of a certain Lease Agreement dated August 19, 1999 between Cabot Industrial Properties, L.P., successor in interest to Primera Palisades, LP, and Probity Electronics, Inc. or that certain Sublease Agreement dated August 31, 2004, between Probity Electronics, Inc. and Company;

(b) any and all Damages incident to any of the foregoing or to the enforcement of this Section 8.1; and

(c) any and all Damages arising from any litigation or disputes arising from any actions or events occurring in periods prior to the Closing Date.

The Stockholders shall have no obligation to make any indemnification payment required under this Section 8.1 for any amount in excess of the Indemnification Cap (as hereinafter defined), other than any claim resulting from actual fraud, any breach of any representation or warranty contained in any of the Excluded Representations, any knowing breach of any representation or warranty contained in Sections 3.11, 3.15, 3.16, 3.17 or 3.26 of this Agreement, any breach of any covenant, obligation or agreement set forth in Articles I, II, V or VIII of this Agreement or any breach of any confidentiality, non-disclosure or noncompete covenant, obligation or agreement set forth in the Employment Agreements, the Rights Assignment Agreements or any other agreement to which either of the Stockholders and either the Company or Buyer are parties. The "Excluded Representations" include those set forth Sections 3.1, 3.2, 3.3, 3.4, 3.6, 3.7, 3.8, 3.12, 3.13(b) and 3.18 of this Agreement. The "Indemnification Cap" shall be equal to the Purchase Price including, without limitation, the Earn Out Amount, plus the aggregate amount of the Related Party Loans as set forth in Schedule 5.1(b) actually paid (excluding commissions and salary due to the Stockholders for periods prior to the date hereof as set forth in Schedule 5.1(b)) plus any other amount received by any of the Stockholders in cash, stock, reduction of indebtedness or otherwise under this Agreement, the transactions contemplated herein or the purchase of the additional 10% equity interest in the Company by Buyer from the Shareholders.

8.2 **General Indemnification by the Buyer.** Buyer covenants and agrees to indemnify, defend, protect and hold harmless each Stockholder from, against and in respect of all liabilities, losses, claims, damages, punitive damages, causes of action, lawsuits, administrative proceedings (including informal proceedings), investigations, audits, demands, assessments, adjustments, judgments, settlement payments, deficiencies, penalties, fines, interest (including interest from the date of such damages) and costs and expenses (including without limitation reasonable attorneys' fees and disbursements of every kind, nature and description) (collectively, "Damages") suffered, sustained, incurred or paid by the Indemnified Parties in connection with, resulting from or arising out of, directly or indirectly (i) any breach of any representation or warranty of the Buyer set forth in this Agreement or certificate, delivered by or on behalf of Buyer in connection herewith; or (ii) any nonfulfillment of any covenants or agreement by the Buyer set forth in this Agreement.

8.3 **Indemnification Procedures.** All claims or demands for indemnification under this Article 8 ("Claims") shall be asserted and resolved as follows:

(a) In the event that any Indemnified Party has a Claim against any party obligated to provide indemnification pursuant to Section 8.1 hereof (the "Indemnifying Party") which does not involve a Claim being asserted against or sought to be collected by a third party, the Indemnified Party shall with reasonable promptness notify the Stockholders Representative of such Claim, specifying the nature of such Claim and the amount or the estimated amount thereof to the extent then feasible (the "Claim Notice"). If the Stockholders Representative does not notify the Indemnified Party within thirty (30) days after the date of delivery of the Claim Notice that the Indemnifying Party disputes such Claim, with a detailed statement of the basis of such position, the amount of such Claim shall be conclusively deemed a liability of the Indemnifying Party hereunder. In case an objection is made in writing in accordance with this Section 8.3(a), the Indemnified Party shall respond in a written statement to the objection within thirty (30) days and, for sixty (60) days thereafter, attempt in good faith to agree upon the rights of the respective parties with respect to each of such Claims (and, if the parties should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties).

(b) In the event that any Claim for which the Indemnifying Party would be liable to an Indemnified Party hereunder is asserted against an Indemnified Party by a third party (a "Third Party Claim"), the Indemnified Party shall deliver a Claim Notice to the Stockholders Representative. The Stockholders Representative shall have thirty (30) days from the date of delivery of the Claim Notice to notify the Indemnified Party (A) whether the Indemnifying Party disputes liability to the Indemnified Party hereunder with respect to the Third Party Claim, and, if so, the basis for such a dispute, and (B) if such party does not dispute liability, whether or not the Indemnifying Party desires, at the sole cost and expense of the Indemnifying Party, to defend against the Third Party Claim, provided that the Indemnified Party is hereby authorized (but not obligated) to file any motion, answer or other pleading and to take any other action which the Indemnified Party shall deem necessary or appropriate to protect the Indemnified Party's interests.

(c) In the event that Stockholders Representative timely notifies the Indemnified Party that the Indemnifying Party does not dispute the Indemnifying Party's obligation to indemnify with respect to the Third Party Claim, the Indemnifying Party shall

defend the Indemnified Party against such Third Party Claim by appropriate proceedings, provided that, unless the Indemnified Party otherwise agrees in writing, the Indemnifying Party may not settle any Third Party Claim (in whole or in part) if such settlement does not include a complete and unconditional release of the Indemnified Party. If the Indemnified Party desires to participate in, but not control, any such defense or settlement the Indemnified Party may do so at its sole cost and expense. If the Indemnifying Party elects not to defend the Indemnified Party against a Third Party Claim, whether by failure of such party to give the Indemnified Party timely notice as provided herein or otherwise, then the Indemnified Party, without waiving any rights against such party, may settle or defend against such Third Party Claim in the Indemnified Party's sole discretion and the Indemnified Party shall be entitled to recover from the Indemnifying Party the amount of any settlement or judgment and, on an ongoing basis, all indemnifiable costs and expenses of the Indemnified Party with respect thereto, including interest from the date such costs and expenses were incurred.

(d) Nothing herein shall be deemed to prevent the Indemnified Party from making a Claim, and an Indemnified Party may make a Claim hereunder, for potential or contingent Damages provided the Claim Notice sets forth the specific basis for any such potential or contingent claim or demand to the extent then feasible and the Indemnified Party has reasonable grounds to believe that such Claim may be made.

(e) The Indemnified Party's failure to give reasonably prompt notice as required by this Section 8.3 of any actual, threatened or possible claim or demand which may give rise to a right of indemnification hereunder shall not relieve the Indemnifying Party of any liability which the Indemnifying Party may have to the Indemnified Party unless the failure to give such notice materially and adversely prejudiced the Indemnifying Party.

(f) The parties will make appropriate adjustments for any Tax benefits, Tax detriments or insurance proceeds in determining the amount of any indemnification obligation under this Article 8, provided that no Indemnified Party shall be obligated to continue pursuing any payment pursuant to the terms of any insurance policy.

8.4 **Survival of Representations Warranties and Covenants.** All representations, warranties and covenants made by the Stockholders, and Buyer in or pursuant to this Agreement or in any document delivered pursuant hereto shall be deemed to have been made on the date of this Agreement (except as otherwise provided herein) and, if a Closing occurs, as of the Closing Date. The representations of the Company and the Stockholders will survive the Closing.

8.5 **Remedies Cumulative.** The remedies set forth in this Article 8 are cumulative and shall not be construed to restrict or otherwise affect any other remedies that may be available to the Indemnified Parties under any other agreement or pursuant to statutory or common law.

8.6 **Right to Set Off.** Buyer shall set off, in whole or in part, against the Earn Out Amount to be paid pursuant to Section 1.2(ii) up to the amount of the minimum Earn Out Amount set forth in Section 1.6(c) hereof, amounts owed by the Stockholders to Buyer under this Article 8 and for Litigation Expenses. Buyer shall have the right, but not the obligation, to set off, in whole or in part, against any Earn Out Amount in excess of said minimum Earn Out Amount, amounts owed by the Stockholders to Buyer under this Article 8.

8.7 **Waiver**. Notwithstanding anything to the contrary herein, the Stockholders hereby waive any and all right to indemnification by the Company and its successors and assigns, whether arising by agreement, under applicable law or otherwise, with respect to Damages (as defined hereinabove) suffered, sustained, incurred or paid by either or both of the Stockholders in connection with, resulting from, or arising from time to time out of, directly or indirectly, events occurring prior to the date hereof or as a result of any act or omission of either of the Stockholders. The Stockholders agree that the execution of this Agreement, the exercise of the Warrant and the transactions contemplated herein shall not be deemed to create a default or trigger any acceleration or other remedy in connection with any indebtedness due to either of them by the Company.

9. GENERAL

9.1 **Termination.** This Agreement may be terminated at any time prior to the Closing Date solely (a) by mutual consent of the Buyer and the Stockholders; (b) by the Stockholders or by Buyer if the Closing shall not have occurred on or before February 15, 2012; (c) by the Stockholders as a group, on the one hand, or by Buyer in its sole discretion, on the other hand, if there is or has been a breach, failure to fulfill or default on the part of the other party (with the Stockholders deemed to be a single party for this purpose) of any of the representations and warranties contained herein or in the due and timely performance and satisfaction of any of the covenants, agreements or conditions to Closing contained herein; (d) by Buyer if there shall be an order of a federal or state court in effect preventing consummation of the transactions contemplated by this Agreement; or there shall be any action taken, or any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the transactions contemplated by this Agreement by any governmental entity which would make the consummation of the transactions contemplated by this Agreement illegal; (e) by Buyer if any of the conditions in Section 6 has not been satisfied as of October 31, 2009 or if satisfaction of such a condition is or becomes impossible (other than through the failure of Buyer to comply with its obligations under this Agreement) and Buyer has not waived such condition on or before the Closing Date; or (f) by Stockholders if any of the conditions in Section 7 has not been satisfied as of October 31, 2009 or if satisfaction of such a condition is or becomes impossible (other than through the failure of Sellers to comply with their obligations under this Agreement) and Stockholders have not waived such condition on or before the Closing Date.

9.2 **Effect of Termination**. In the event of the termination of this Agreement pursuant to Section 9.1, this Agreement shall forthwith become ineffective, and there shall be no liability or obligation on the part of any party hereto or its officers, directors or stockholders. Notwithstanding the foregoing sentence, each party shall remain liable for any breach of this Agreement by such party prior to its termination.

9.3 **Successors and Assigns.** This Agreement and the rights and obligations of the parties hereunder may not be assigned, except (a) by operation of law and (b) that Buyer may assign any of its rights or obligations under this Agreement to any direct or indirect subsidiary or to any affiliate in its sole and absolute discretion; provided, however, that Buyer shall not be released from liability for the timely performance of Buyer’s obligations hereunder. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, the successors and assigns of Buyer, and the heirs and legal representatives of the Stockholders.

9.4 **Entire Agreement; Amendment; Waiver.** This Agreement sets forth the entire understanding of the parties hereto with respect to the transactions contemplated hereby. Each of the Schedules to this Agreement is incorporated herein by this reference and expressly made a part hereof. Any and all previous agreements and understandings between or among the parties regarding the subject matter hereof, whether written or oral, are superseded by this Agreement. This Agreement shall not be amended or modified except by a written instrument duly executed by each of the parties hereto. Any extension or waiver by any party of any provision hereto shall be valid only if set forth in an instrument in writing signed on behalf of such party.

9.5 **Counterparts.** This Agreement may be executed in any number of counterparts and any party hereto may execute any such counterpart, each of which when executed and delivered shall be deemed to be an original, and all of which counterparts taken together shall constitute but one and the same instrument.

9.6 **Brokers and Agents.** The Stockholders and the Buyer each represents and warrants to the other that it has not employed any broker or agent in connection with the transactions contemplated by this Agreement and covenants and agrees to indemnify the other against all losses, damages or expenses relating to or arising out of claims for fees or commission of any broker or agent employed or alleged to have been employed by such party.

9.7 **Expenses.** Buyer will pay the fees, expenses and disbursements of Buyer and its agents, representatives, accountants and counsel incurred in connection with the subject matter of this Agreement. The Stockholders (and not the Company) have and will pay the fees, expenses and disbursements of the Stockholders, the Company and their agents, representatives, financial advisers, accountants and counsel incurred in connection with the subject matter of this Agreement; provided, however, that Buyer shall pay directly to Whitlow & Youell, PLC legal fees up to $25,000 upon the closing of the transactions contemplated herein including the full execution of this Agreement and all other documents to be executed in connection herewith and the exercise of the Warrant and the additional 10% equity interest after receiving a detailed invoice therefore reasonably satisfactory to Buyer less any amount previously paid to Whitlow & Youell, LLP as aforesaid.

9.8 **Notices.** Any notice, request, claim, demand, waiver, consent, approval or other communication which is required or permitted hereunder shall be in writing and shall be deemed given if delivered personally or sent by telefax (with confirmation of receipt), by registered or certified mail, postage prepaid, or by recognized courier service, as follows:

If to Buyer to:

Optical Cable Corporation
5290 Concourse Drive
Roanoke, VA 24019
Attention: Neil D. Wilkin, Jr., Chairman, President and CEO

with a copy to:

Woods Rogers PLC
Wachovia Tower, Suite 1400
10 S. Jefferson Street
Roanoke, Virginia 24011
Attention: Nicholas C. Conte, Esq.

If to any Stockholder to Stockholders Representative:

G. Thomas Hazelton, Jr.
1700 Capital Avenue, Suite 150
Plano, Texas 75074
(Telefax: (972) 509-9009)

with a copy to:

Whitlow & Youell, PLC
26 West Kirk Avenue
Roanoke, Virginia 24011
Attention: C. Cooper Youell, IV, Esq.
(Telefax: (866) 684-7836)

or to such other address as the person to whom notice is to be given may have specified in a notice duly given to the sender as provided herein. Such notice, request, claim, demand, waiver, consent, approval or other communication shall be deemed to have been given as of the date so delivered, telefaxed, mailed or dispatched and, if given by any other means, shall be deemed given only when actually received by the addressees.

9.9 **Governing Law.** This Agreement shall be governed by and construed, interpreted and enforced in accordance with the laws of Virginia, excluding its principles of conflicts of laws. Any disputes arising out of this Agreement or any of the transactions contemplated hereby shall be adjudicated in a State or Federal court of competent civil jurisdiction sitting in the City of Roanoke, Virginia and nowhere else. Each of the parties hereto hereby irrevocably submits to the jurisdiction of such court for the purposes of any proceeding arising out of this Agreement or any of the transactions contemplated hereby.

9.10 **Severability.** If any provision of this Agreement or the application thereof to any person or circumstances is held invalid or unenforceable in any jurisdiction, the remainder hereof, and the application of such provision to such person or circumstances in any other jurisdiction, shall not be affected thereby, and to this end the provisions of this Agreement shall be severable.

9.11 **<u>Absence of Third Party Beneficiary Rights</u>.** No provision of this Agreement is intended, nor will any provision be interpreted, to provide or to create any third party beneficiary rights or any other rights of any kind in any client, customer, affiliate, shareholder, employee or partner of any party hereto or any other person or entity.

9.12 **<u>Mutual Drafting; Person</u>.** This Agreement is the mutual product of the parties hereto, and each provision hereof has been subject to the mutual consultation, negotiation and agreement of each of the parties, and shall not be construed for or against any party hereto. As used in this Agreement, the term "person" shall mean an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

[Execution Page Following]

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

BUYER:

OPTICAL CABLE CORPORATION

By: /S/ NEIL D. WILKIN, JR.
Name: Neil D. Wilkin, Jr.
Title: Chairman, President and CEO

STOCKHOLDERS:

/S/ G. THOMAS HAZELTON, JR.
G. Thomas Hazelton, Jr.

/S/ DANIEL ROEHRS
Daniel Roehrs

APPLIED OPTICAL SYSTEMS, INC.
EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of October 31, 2009, by and between APPLIED OPTICAL SYSTEMS, INC., a Delaware corporation, hereinafter called "Company", and G. Thomas Hazelton, Jr. called "Executive", and provides as follows:

RECITALS

WHEREAS, Company is a designer, manufacturer, assembler and seller of fiber optic connectivity products;

WHEREAS, Executive together with Daniel Roehrs were the sole shareholders of the Company until October 30, 2009 at 11:15 pm, Plano, Texas time, when 66% equity ownership of the Company was purchased by Optical Cable Corporation, a Virginia corporation ("OCC" or "Parent");

WHEREAS, Executive has entered into a Stock Purchase Agreement, dated as of the date hereof (the "Stock Purchase Agreement"), regarding the purchase all of the remaining 34% equity ownership of the Company by OCC, which together with its subsidiaries (including the Company), designs, manufactures and sells cabling and connectivity products for the data communications enterprise market, including specialty products designed for harsh environment and military applications;

WHEREAS, Executive has agreed to enter into this Agreement as an inducement to OCC to enter into the Stock Purchase Agreement and to acquire a 100% equity ownership in the Company and whereas, OCC was only willing to enter into the Stock Purchase Agreement and to acquire a majority equity interest in the Company if Executive agreed to enter into this Agreement;

WHEREAS, Executive possesses managerial experience, knowledge, skills and expertise required by Company;

WHEREAS, the employment of Executive by Company is in the best interests of Company and Executive; and

WHEREAS, the parties have mutually agreed upon the terms and conditions of Executive's continued employment by Company as hereinafter set forth;

TERMS OF AGREEMENT

NOW, THEREFORE, for and in consideration of the premises and of the mutual promises and undertakings of the parties as hereinafter set forth, and other good and valuable consideration, receipt of which is hereby acknowledged, the parties covenant and agree as follows:

Section 1. Employment.

Executive shall be employed as Vice President and General Manager of the Specialty Connectivity Group and Vice President of the Company and shall report to the President and CEO of the Company or the CEO of OCC. Executive shall discharge such duties and responsibilities as may be required of him from time to time by the Company.

Section 2. Term of Employment.

The initial term of this Agreement shall end on December 31, 2010. However, on January 1, 2010 and each January 1 thereafter the term of this Agreement shall be renewed and extended by one year unless Executive or Company notifies the other in writing thirty (30) days prior to such date(s) that the term shall not be renewed and extended, or unless this Agreement or Executive's employment is terminated earlier as set forth in Section 11 below.

Section 3. Exclusive Service.

Executive shall devote his best efforts and full time to rendering services on behalf of the Company and OCC in furtherance of its best interests and will not take any action which is detrimental to the Company or OCC. Executive shall comply with all policies, standards and regulations of the Company and OCC now or hereafter promulgated, and shall perform his duties under this Agreement to the best of his abilities and in accordance with standards of conduct applicable to an executive officer. Executive shall comply with all state and federal laws applicable to him in regard to his employment with Company and he shall report all actual or suspected violations of such laws or policies and procedures of Company (by the Executive or other employees, officers or agents of Company) to the CEO and President of OCC.

Section 4. Salary.

(a) Except as set forth in Section 7, as compensation while employed hereunder, Executive, during his faithful performance of this Agreement, shall receive an annual base salary of $125,000 (or $10,416.67 per month), payable on such terms and in such installments as the parties may from time to time mutually agree upon. Executive's base salary may increase during any term of this Agreement based on business factors such as, but not limited to, Executive's performance and the profitability of the Company and OCC.

(b) Company shall withhold state and federal income taxes, social security taxes and such other payroll deductions as may from time to time be required by law or agreed upon in writing by Executive and Company. Company shall also withhold and remit to the proper party any amounts agreed to in writing by Company and Executive for participation in any corporate sponsored benefit plans for which a contribution is required.

(c) Except as otherwise expressly set forth herein or as otherwise required by law, no compensation shall be paid pursuant to this Agreement subsequent to any termination of Executive's employment by Company, irrespective of whether the termination is voluntary or involuntary.

Section 5. Corporate Benefit Plans.

During Executive's employment, Executive shall be entitled to participate in or become a participant in any employee health, welfare and benefit plans maintained by Company for similarly situated executives and for which he is or will become eligible based on the terms of those plans.

Section 6. Bonuses.

Except as set forth in Section 7, beginning with the fiscal year ending October 31, 2010, Executive shall be eligible to participate in bonus programs, as established from time to time and in the discretion of the President and CEO of OCC or Compensation Committee of the Board of Directors of OCC (the "Compensation Committee"), as the case may be, for employees holding similar positions. The President and CEO of OCC, or the Compensation Committee, will determine the terms of any such bonus programs.

Except as set forth in Section 7 beginning with the fiscal year ending October 31, 2010, Executive will be provided with an annual target bonus opportunity (as a percentage of annual base salary) of at least 25%, which will be contingent on the achievement of quantified and other corporate and team goals as determined by the President and CEO of OCC, or the Compensation Committee.

Unless otherwise specified in the terms and conditions of the bonus program, Executive must be employed by the Company at the time annual bonuses are paid to receive a bonus under the bonus program.

Section 7. Transition Compensation During 2009.

Notwithstanding any contrary provision contained in this Agreement and in lieu of the compensation set forth in Sections 4 and 6: (a) Executive will continue to be paid through October 31, 2009, the same base salary he is receiving from the Company prior to this Agreement, and (b) the same monthly bonuses he is receiving from the Company prior to this Agreement based on the sales bonus plan through October 31, 2009 (whether paid before or after October 31, 2009); provided that in no event will Executive be paid or have payable to him more than a total of $130,000 in base salary and bonus for his service during 12-month period ending October 31, 2009.

Subject to other provisions herein, beginning November 1, 2009, Executive will be paid an annual base salary as set forth in Section 4, and will be eligible to receive a bonus with respect to fiscal year 2010 performance goals consistent with Section 6.

Notwithstanding any contrary provision contained in this Agreement, through December 31, 2009, Executive will receive the same health care and similar benefits he is receiving from the Company prior to this Agreement.

Section 8. Equity Compensation.

As of the date hereof, Executive will be eligible to participate in grants of long-term equity compensation awarded from time to time to employees pursuant to any equity participation plans of Company. Grants under such plans are based on recommendations of the President and CEO of OCC, and are subject to approval by the Compensation Committee. Long-term equity awards will typically be subject to various vesting requirements, including time-vesting and performance-vesting requirements, as well as other terms and conditions.

Section 9. Expense Account.

Company shall reimburse Executive for reasonable and customary business expenses incurred in the conduct of Company's business. Such expenses will include business meals, out-of-town lodging and travel expenses. Executive agrees to timely submit records and receipts of reimbursable items and agrees that Company can adopt reasonable rules and policies regarding such reimbursement. Company agrees to make prompt payment to Executive following receipt and verification of such receipts. No reimbursement will be made for expenses not supported by adequate records or receipts.

Section 10. Paid Time Off (PTO).

Executive shall be entitled to receive under Company's Paid Time Off ("PTO") program (or under any alternative program adopted in the future for vacation and sick time) the greater of (i) 21 days of time away from work with continued compensation (PTO days) or (ii) the number of days other similarly positioned employees would be eligible to receive based on years of service. Company's PTO program covers both vacation and sick time off with pay. The PTO days for any calendar year will be earned during the year, but will be available for use beginning January 1 of such calendar year. At the end of each calendar year, Executive shall be entitled to carry-over up to 10 unused PTO days to the next calendar year. Accrued but unused PTO will be paid out at the termination of Executive's employment. Notwithstanding the foregoing, the Company reserves the right to change its PTO, vacation and/or sick time programs and policies from time to time.

Section 11. Termination.

Executive's employment may be terminated during any term of this Agreement for the reasons specified below.

(a) *Termination by Executive (without Good Reason).*

Executive may voluntarily terminate his employment with Company without Good Reason (as defined below) by giving both the President and CEO of OCC thirty (30) days prior written

notice of the effective date of his voluntary termination. At the option of Company, such termination may be effective immediately upon receipt of such notice. In the event of such voluntary termination, Executive will be entitled to his salary pursuant to Section 4(a) which otherwise would be payable to Executive through the effective date of his voluntary termination.

(b) *Termination by Company for Cause*.

Company shall have the right to terminate Executive's employment under this Agreement at any time for Cause, which termination shall be effective immediately. Termination for "Cause" shall include termination for (i) material breach by Executive of this Agreement and/or the Applied Optical Systems, Inc. Employee Innovations and Proprietary Rights Assignment and Confidentiality Agreement (attached hereto as Exhibit A); (ii) Executive's gross negligence in the performance of his material duties hereunder; (iii) intentional nonperformance or misperformance of such duties, or refusal to abide by or comply with the reasonable directives of his superior officers, or Company's policies and procedures, which actions continue for a period of at least thirty (30) days after receipt by Executive of written notice of the need to cure or cease; (iv) Executive's willful dishonesty, fraud or misconduct with respect to the business or affairs of Company, OCC or any affiliate of OCC, that in the reasonable judgment of the President and CEO of OCC as of the date of this Agreement or, in the event he is no longer serving in such capacity, then the Board of Directors of OCC, materially and adversely affects Company, OCC or any affiliate of OCC; (v) Executive's conviction of, or a plea of nolo contendere to, a felony or other crime involving moral turpitude; or (vi) any other action or inaction by Executive which in the reasonable judgment of the President and CEO of OCC and/or the Board of Directors of OCC is materially detrimental to Company, OCC or any affiliate of OCC, and Executive has not cured or ceased such action or inaction within thirty (30) days after receipt by Executive of written notice of the need to cure or cease. In the event Executive's employment under this Agreement is terminated for Cause, Executive shall thereafter have no right to receive compensation or other benefits under this Agreement except for salary owed for work performed prior to the termination and continuation of benefits as required by law.

(c) *Termination by Company without Cause or by Executive for Good Reason*.

(1) Company may terminate Executive's employment other than for Cause (as defined above) at any time upon written notice to Executive, which termination shall be effective immediately. Executive may resign thirty (30) days after written notice to the President and CEO of OCC for Good Reason. "Good Reason" shall mean Company's failure to comply with any material term of this Agreement that remains uncured for a period of thirty (30) days after written notice to Company by Executive of such failure to comply.

(2) In the event Executive's employment is terminated either: by Company other than for Cause; or by Executive for Good Reason, then Executive shall receive: (i) a monthly amount equal to one-twelfth (1/12) the rate of his annual base salary in effect immediately preceding such termination for six (6) months after the date of such termination at the times such payments would have been made in accordance with Section 4(a), and (ii) an amount equal to six-twelfths (6/12) of his annual bonus opportunity in effect immediately

preceding such termination pursuant to Section 6 at the time such payment would have otherwise been made; provided that the Executive endorses an appropriate separation agreement as provided by Company which, at a minimum, contains an appropriate release of liability (other than monetary obligations of the Company and/or OCC by contract or law), and further provided that Executive continues to comply with any provisions of this Agreement that survive his termination, Executive continues to comply with the provisions of the "Applied Optical Systems, Inc. Employee Innovations and Proprietary Rights Assignment and Confidentiality Agreement" attached hereto as Exhibit A, and Executive takes no actions detrimental to the bests interest of Company.

(d) *Termination Upon Executive's Death*.

This Agreement shall terminate upon death of Executive; provided, however, that in such event Company shall pay to the estate of Executive his compensation including: (i) salary pursuant to Section 4(a) which otherwise would be payable to Executive through the end of the month in which his death occurs, and (ii) a prorata portion of his annual bonus opportunity pursuant to Section 6 in effect immediate preceding such termination, through the end of the month in which his death occurs.

(e) *Termination Upon Disability*.

Company may terminate Executive's employment under this Agreement at any time Executive is unable to perform the essential functions of his position, with or without reasonable accommodation, as a result of a disability.

In the event Executive's employment is terminated as a result of his disability, Company shall pay to Executive the following: (i) salary pursuant to Section 4(a) which otherwise would be payable to Executive through the end of the month in which his employment is terminated, and (ii) a prorata portion of his annual bonus opportunity pursuant to Section 6 in effect immediate preceding such termination, through the end of the month in which his employment is terminated.

(f) *Obligations Survive Termination or Expiration*.

Notwithstanding the termination of Executive's employment pursuant to any provision of this Agreement (including any expiration of this Agreement), the parties shall be required to carry out any provisions of this Agreement or the "Applied Optical Systems, Inc. Employee Innovations and Proprietary Rights Assignment and Confidentiality Agreement," attached hereto as Exhibit A, which contemplate performance by them subsequent to such termination. No termination of employment shall terminate the obligation of Company to make payments of any vested benefits provided hereunder or the obligations of Executive under the "Applied Optical Systems, Inc. Employee Innovations and Proprietary Rights Assignment and Confidentiality Agreement" attached hereto as Exhibit A.

Section 12. Confidentiality/Nondisclosure/Inventions and Unfair Competition.

(a) Executive hereby acknowledges that Executive's employment with Company places Executive in a position of confidence and trust with respect to the business, operations, vendors, customers, prospects, and personnel of Company, OCC and OCC's other affiliates, and that Executive will be given access to, among other things, trade secrets and confidential and proprietary business information of Company, OCC and OCC's other affiliates.

(b) As a material condition of his employment with Company and Company's agreement to provide Executive access to its confidential and proprietary information and to train Executive concerning some or all of the following: Executive's use of Company's confidential databases, Company's unique sales and business methods, Company's confidential product information and Company's confidential pricing and profit margin information, Executive agrees to endorse and abide by the terms of an "Applied Optical Systems, Inc. Employee Innovations and Proprietary Rights Assignment and Confidentiality Agreement" attached hereto as Exhibit A.

Section 13. Assignability.

This Agreement may be assigned by the Company without prior notice to Executive and without payment of any additional consideration to Executive. Executive further understands and agrees that the duties and obligations of Executive hereunder are of a personal nature and may not be assigned in whole or in part by Executive.

Section 14. Governing Law/Venue.

This Agreement shall be governed in all respects by the laws of the State of Texas, without respect to its conflict of laws provisions. Executive and the Company irrevocably consent to the exclusive personal jurisdiction of the state courts located in Collin County, Texas or the United States District Court for the Eastern District of Texas, Sherman Division, as applicable, for any matter arising out of or relating to this Agreement, except that in actions seeking to enforce any order or any judgment of such federal or state courts located in Texas, such personal jurisdiction shall be nonexclusive.

Section 15. Notices.

Any and all notices, designations, consents, offers, acceptance or any other communications provided for herein shall be given in writing and shall be deemed properly delivered if delivered in person or by registered or certified mail, return receipt requested, addressed (i) in the case of Company to both the registered office of OCC to the attention of the President and CEO; or (ii) in the case of Executive to his last known address.

Section 16. Entire Agreement.

(a) This Agreement (along with any attached Exhibits) constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the subject matter hereof.

(b) This Agreement may be executed in one or more counterparts, each of which shall be considered an original copy of this Agreement, but all of which together shall evidence only one agreement.

Section 17. Amendment and Waiver.

This Agreement may not be amended except by an instrument in writing signed by or on behalf of each of the parties hereto. No waiver of any provision of this Agreement shall be valid unless in writing and signed by the person or party to be charged. No person other than the President and CEO of OCC shall have the authority to amend this Agreement or waive any provision of this Agreement on behalf of Company.

Section 18. Severability.

If any provision of this Agreement is determined to be in violation of any law, rule or regulation or otherwise unenforceable, such determination will not affect the validity of any other provision of this Agreement, which will remain in full force and effect. Each section, provision, paragraph and subparagraph of this Agreement is severable from every other section, provision, paragraph and subparagraph and constitutes a separate and distinct covenant.

Section 19. Warranty.

Executive warrants that he is under no contractual, judicial or other restraint, which impairs his right or legal ability to enter into this Agreement and to carry out his duties and responsibilities hereunder.

Section 20. Case and Gender.

Wherever required by the context of this Agreement, the singular or plural case and the masculine, feminine and neuter genders shall be interchangeable.

Section 21. Captions.

The captions used in this Agreement are intended for descriptive and reference purposes only and are not intended to affect the meaning of any Section hereunder.

Section 22. Miscellaneous.

Executive understands that the existence of any claim or cause of action by Executive against Company, OCC or any other affiliate of OCC, whether predicated on this Agreement or otherwise, shall not constitute a defense to Executive's responsibilities hereunder or to the enforcement by Company of the terms, obligations or covenants contained in this Agreement or attachments hereto. Executive also agrees that the language used in this Agreement is not to be construed in favor of or against any party solely because such party or their counsel may have drafted the Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Company has caused this Agreement to be signed by its duly authorized representative and Executive has signed this Agreement on the day and year first above written.

EXECUTIVE

/S/ G. THOMAS HAZELTON, JR.
G. Thomas Hazelton, Jr.

APPLIED OPTICAL SYSTEMS, INC.

By: /S/ G. THOMAS HAZELTON, JR.
Name: G. Thomas Hazelton, Jr.
Title: General Manager

ACKNOWLEDGED AND AGREED:

OPTICAL CABLE CORPORATION

By: /S/ NEIL D. WILKIN, JR.
Name: Neil D. Wilkin, Jr.
Title: President and CEO

Exhibit 10.24

APPLIED OPTICAL SYSTEMS, INC.
EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this “Agreement”) is made and entered into as of October 31, 2009, by and between APPLIED OPTICAL SYSTEMS, INC., a Delaware corporation, hereinafter called “Company”, and Daniel Roehrs called “Executive”, and provides as follows:

RECITALS

WHEREAS, Company is a designer, manufacturer, assembler and seller of fiber optic connectivity products;

WHEREAS, Executive together with G. Thomas Hazelton, Jr. were the sole shareholders of the Company until October 30, 2009 at 11:15 pm, Plano, Texas time, when 66% equity ownership of the Company was purchased by Optical Cable Corporation, a Virginia corporation (“OCC” or “Parent”);

WHEREAS, Executive has entered into a Stock Purchase Agreement, dated as of the date hereof (the “Stock Purchase Agreement”), regarding the purchase all of the remaining 34% equity ownership of the Company by OCC, which together with its subsidiaries (including the Company), designs, manufactures and sells cabling and connectivity products for the data communications enterprise market, including specialty products designed for harsh environment and military applications;

WHEREAS, Executive has agreed to enter into this Agreement as an inducement to OCC to enter into the Stock Purchase Agreement and to acquire a 100% equity ownership in the Company and whereas, OCC was only willing to enter into the Stock Purchase Agreement and to acquire a majority equity interest in the Company if Executive agreed to enter into this Agreement;

WHEREAS, Executive possesses managerial experience, knowledge, skills and expertise required by Company;

WHEREAS, the employment of Executive by Company is in the best interests of Company and Executive; and

WHEREAS, the parties have mutually agreed upon the terms and conditions of Executive’s continued employment by Company as hereinafter set forth;

TERMS OF AGREEMENT

NOW, THEREFORE, for and in consideration of the premises and of the mutual promises and undertakings of the parties as hereinafter set forth, and other good and valuable consideration, receipt of which is hereby acknowledged, the parties covenant and agree as follows:

Section 1. Employment.

Executive shall be employed as Vice President of Specialty Connectivity Engineered Solutions of the Company. Executive shall report to the Vice President and General Manager of the Specialty Connectivity Group of the Company, shall lead the Specialty Connectivity Engineered Solutions Team, shall lead the Inside Sales Team for the Specialty Connectivity Group, shall work closely and collaboratively with the entire OCC's sales team, and shall discharge such duties and responsibilities as may be required of him from time to time by the Company.

Section 2. Term of Employment.

The initial term of this Agreement shall end on December 31, 2010. However, on January 1, 2010 and each January 1 thereafter the term of this Agreement shall be renewed and extended by one year unless Executive or Company notifies the other in writing thirty (30) days prior to such date(s) that the term shall not be renewed and extended, or unless this Agreement or Executive's employment is terminated earlier as set forth in Section 11 below.

Section 3. Exclusive Service.

Executive shall devote his best efforts and full time to rendering services on behalf of the Company and OCC in furtherance of its best interests and will not take any action which is detrimental to the Company or OCC. Executive shall comply with all policies, standards and regulations of the Company and OCC now or hereafter promulgated, and shall perform his duties under this Agreement to the best of his abilities and in accordance with standards of conduct applicable to an executive officer. Executive shall comply with all state and federal laws applicable to him in regard to his employment with Company and he shall report all actual or suspected violations of such laws or policies and procedures of Company (by the Executive or other employees, officers or agents of Company) to the CEO and President of OCC.

Section 4. Salary.

(a) Except as set forth in Section 7, as compensation while employed hereunder, Executive, during his faithful performance of this Agreement, shall receive an annual base salary of $125,000 (or $10,416.67 per month), payable on such terms and in such installments as the parties may from time to time mutually agree upon. Executive's base salary may increase during any term of this Agreement based on business factors such as, but not limited to, Executive's performance and the profitability of the Company and OCC.

(b) Company shall withhold state and federal income taxes, social security taxes and such other payroll deductions as may from time to time be required by law or agreed upon in writing by Executive and Company. Company shall also withhold and remit to the proper party any amounts agreed to in writing by Company and Executive for participation in any corporate sponsored benefit plans for which a contribution is required.

(c) Except as otherwise expressly set forth herein or as otherwise required by law, no compensation shall be paid pursuant to this Agreement subsequent to any termination of Executive's employment by Company, irrespective of whether the termination is voluntary or involuntary.

Section 5. Corporate Benefit Plans.

During Executive's employment, Executive shall be entitled to participate in or become a participant in any employee health, welfare and benefit plans maintained by Company for similarly situated executives and for which he is or will become eligible based on the terms of those plans.

Section 6. Bonuses.

Except as set forth in Section 7, beginning with the fiscal year ending October 31, 2010, Executive shall be eligible to participate in bonus programs, as established from time to time and in the discretion of the President and CEO of OCC or Compensation Committee of the Board of Directors of OCC (the "Compensation Committee"), as the case may be, for employees holding similar positions. The President and CEO of OCC, or the Compensation Committee, will determine the terms of any such bonus programs.

Except as set forth in Section 7, beginning with the fiscal year ending October 31, 2010, Executive will be provided with an annual target bonus opportunity (as a percentage of annual base salary) of at least 25%, which will be contingent on the achievement of quantified and other corporate and team goals as determined by the President and CEO of OCC, or the Compensation Committee.

Unless otherwise specified in the terms and conditions of the bonus program, Executive must be employed by the Company at the time annual bonuses are paid to receive a bonus under the bonus program.

Section 7. Transition Compensation During 2009.

Notwithstanding any contrary provision contained in this Agreement and in lieu of the compensation set forth in Sections 4 and 6: (a) Executive will continue to be paid through October 31, 2009, the same base salary he is receiving from the Company prior to this Agreement, and (b) the same monthly bonuses he is receiving from the Company prior to this Agreement based on the sales bonus plan through October 31, 2009 (whether paid before or after October 31, 2009); provided that in no event will Executive be paid or have payable to him more than a total of $130,000 in base salary and bonus for his service during 12-month period ending October 31, 2009.

Subject to other provisions herein, beginning November 1, 2009, Executive will be paid an annual base salary as set forth in Section 4, and will be eligible to receive a bonus with respect to fiscal year 2010 performance goals consistent with Section 6.

Notwithstanding any contrary provision contained in this Agreement, through December 31, 2009, Executive will receive the same health care and similar benefits he is receiving from the Company prior to this Agreement.

Section 8. Equity Compensation.

As of the date hereof, Executive will be eligible to participate in grants of long-term equity compensation awarded from time to time to employees pursuant to any equity participation plans of Company. Grants under such plans are based on recommendations of the President and CEO of OCC, and are subject to approval by the Compensation Committee. Long-term equity awards will typically be subject to various vesting requirements, including time-vesting and performance-vesting requirements, as well as other terms and conditions.

Section 9. Expense Account.

Company shall reimburse Executive for reasonable and customary business expenses incurred in the conduct of Company’s business. Such expenses will include business meals, out-of-town lodging and travel expenses. Executive agrees to timely submit records and receipts of reimbursable items and agrees that Company can adopt reasonable rules and policies regarding such reimbursement. Company agrees to make prompt payment to Executive following receipt and verification of such receipts. No reimbursement will be made for expenses not supported by adequate records or receipts.

Section 10. Paid Time Off (PTO).

Executive shall be entitled to receive under Company’s Paid Time Off (“PTO”) program (or under any alternative program adopted in the future for vacation and sick time) the greater of (i) 21 days of time away from work with continued compensation (PTO days) or (ii) the number of days other similarly positioned employees would be eligible to receive based on years of service. Company’s PTO program covers both vacation and sick time off with pay. The PTO days for any calendar year will be earned during the year, but will be available for use beginning January 1 of such calendar year. At the end of each calendar year, Executive shall be entitled to carry-over up to 10 unused PTO days to the next calendar year. Accrued but unused PTO will be paid out at the termination of Executive’s employment. Notwithstanding the foregoing, the Company reserves the right to change its PTO, vacation and/or sick time programs and policies from time to time.

Section 11. Termination.

Executive’s employment may be terminated during any term of this Agreement for the reasons specified below.

(a) *Termination by Executive (without Good Reason).*

Executive may voluntarily terminate his employment with Company without Good Reason (as defined below) by giving both the President and CEO of OCC thirty (30) days prior written notice of the effective date of his voluntary termination. At the option of Company, such termination may be effective immediately upon receipt of such notice. In the event of such voluntary termination, Executive will be entitled to his salary pursuant to Section 4(a) which otherwise would be payable to Executive through the effective date of his voluntary termination.

(b) *Termination by Company for Cause.*

Company shall have the right to terminate Executive's employment under this Agreement at any time for Cause, which termination shall be effective immediately. Termination for "Cause" shall include termination for (i) material breach by Executive of this Agreement and/or the Applied Optical Systems, Inc. Employee Innovations and Proprietary Rights Assignment and Confidentiality Agreement (attached hereto as Exhibit A); (ii) Executive's gross negligence in the performance of his material duties hereunder; (iii) intentional nonperformance or misperformance of such duties, or refusal to abide by or comply with the reasonable directives of his superior officers, or Company's policies and procedures, which actions continue for a period of at least thirty (30) days after receipt by Executive of written notice of the need to cure or cease; (iv) Executive's willful dishonesty, fraud or misconduct with respect to the business or affairs of Company, OCC or any affiliate of OCC, that in the reasonable judgment of the President and CEO of OCC as of the date of this Agreement or, in the event he is no longer serving in such capacity, then the Board of Directors of OCC, materially and adversely affects Company, OCC or any affiliate of OCC; (v) Executive's conviction of, or a plea of nolo contendere to, a felony or other crime involving moral turpitude; or (vi) any other action or inaction by Executive which in the reasonable judgment of the President and CEO of OCC and/or the Board of Directors of OCC is materially detrimental to Company, OCC or any affiliate of OCC, and Executive has not cured or ceased such action or inaction within thirty (30) days after receipt by Executive of written notice of the need to cure or cease. In the event Executive's employment under this Agreement is terminated for Cause, Executive shall thereafter have no right to receive compensation or other benefits under this Agreement except for salary owed for work performed prior to the termination and continuation of benefits as required by law.

(c) *Termination by Company without Cause or by Executive for Good Reason*.

(1) Company may terminate Executive's employment other than for Cause (as defined above) at any time upon written notice to Executive, which termination shall be effective immediately. Executive may resign thirty (30) days after written notice to the President and CEO of OCC for Good Reason. "Good Reason" shall mean Company's failure to comply with any material term of this Agreement that remains uncured for a period of thirty (30) days after written notice to Company by Executive of such failure to comply.

(2) In the event Executive's employment is terminated either: by Company other than for Cause; or by Executive for Good Reason, then Executive shall receive: (i) a monthly amount equal to one-twelfth ($^{1}/_{12}$) the rate of his annual base salary in effect

immediately preceding such termination for six (6) months after the date of such termination at the times such payments would have been made in accordance with Section 4(a), and (ii) an amount equal to six-twelfths (6/12) of his annual bonus opportunity in effect immediately preceding such termination pursuant to Section 6 at the time such payment would have otherwise been made; provided that the Executive endorses an appropriate separation agreement as provided by Company which, at a minimum, contains an appropriate release of liability (other than monetary obligations of the Company and/or OCC by contract or law), and further provided that Executive continues to comply with any provisions of this Agreement that survive his termination, Executive continues to comply with the provisions of the "Applied Optical Systems, Inc. Employee Innovations and Proprietary Rights Assignment and Confidentiality Agreement" attached hereto as Exhibit A, and Executive takes no actions detrimental to the bests interest of Company.

(d) *Termination Upon Executive's Death.*

This Agreement shall terminate upon death of Executive; provided, however, that in such event Company shall pay to the estate of Executive his compensation including: (i) salary pursuant to Section 4(a) which otherwise would be payable to Executive through the end of the month in which his death occurs, and (ii) a prorata portion of his annual bonus opportunity pursuant to Section 6 in effect immediate preceding such termination, through the end of the month in which his death occurs.

(e) Termination Upon Disability.

Company may terminate Executive's employment under this Agreement at any time Executive is unable to perform the essential functions of his position, with or without reasonable accommodation, as a result of a disability.

In the event Executive's employment is terminated as a result of his disability, Company shall pay to Executive the following: (i) salary pursuant to Section 4(a) which otherwise would be payable to Executive through the end of the month in which his employment is terminated, and (ii) a prorata portion of his annual bonus opportunity pursuant to Section 6 in effect immediate preceding such termination, through the end of the month in which his employment is terminated.

(f) Obligations Survive Termination or Expiration.

Notwithstanding the termination of Executive's employment pursuant to any provision of this Agreement (including any expiration of this Agreement), the parties shall be required to carry out any provisions of this Agreement or the "Applied Optical Systems, Inc. Employee Innovations and Proprietary Rights Assignment and Confidentiality Agreement," attached hereto as Exhibit A, which contemplate performance by them subsequent to such termination. No termination of employment shall terminate the obligation of Company to make payments of any vested benefits provided hereunder or the obligations of Executive under the "Applied Optical Systems, Inc. Employee Innovations and Proprietary Rights Assignment and Confidentiality Agreement" attached hereto as Exhibit A.

Section 12. <u>Confidentiality/Nondisclosure/Inventions and Unfair Competition</u>.

(a) Executive hereby acknowledges that Executive's employment with Company places Executive in a position of confidence and trust with respect to the business, operations, vendors, customers, prospects, and personnel of Company, OCC and OCC's other affiliates, and that Executive will be given access to, among other things, trade secrets and confidential and proprietary business information of Company, OCC and OCC's other affiliates.

(b) As a material condition of his employment with Company and Company's agreement to provide Executive access to its confidential and proprietary information and to train Executive concerning some or all of the following: Executive's use of Company's confidential databases, Company's unique sales and business methods, Company's confidential product information and Company's confidential pricing and profit margin information, Executive agrees to endorse and abide by the terms of an "Applied Optical Systems, Inc. Employee Innovations and Proprietary Rights Assignment and Confidentiality Agreement" attached hereto as Exhibit A.

Section 13. <u>Assignability.</u>

This Agreement may be assigned by the Company without prior notice to Executive and without payment of any additional consideration to Executive. Executive further understands and agrees that the duties and obligations of Executive hereunder are of a personal nature and may not be assigned in whole or in part by Executive.

Section 14. <u>Governing Law/Venue</u>.

This Agreement shall be governed in all respects by the laws of the State of Texas, without respect to its conflict of laws provisions. Executive and the Company irrevocably consent to the exclusive personal jurisdiction of the state courts located in Collin County, Texas or the United States District Court for the Eastern District of Texas, Sherman Division, as applicable, for any matter arising out of or relating to this Agreement, except that in actions seeking to enforce any order or any judgment of such federal or state courts located in Texas, such personal jurisdiction shall be nonexclusive.

Section 15. <u>Notices</u>.

Any and all notices, designations, consents, offers, acceptance or any other communications provided for herein shall be given in writing and shall be deemed properly delivered if delivered in person or by registered or certified mail, return receipt requested, addressed (i) in the case of Company to both the registered office of OCC to the attention of the President and CEO; or (ii) in the case of Executive to his last known address.

Section 16. Entire Agreement.

(a) This Agreement (along with any attached Exhibits) constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the subject matter hereof.

(b) This Agreement may be executed in one or more counterparts, each of which shall be considered an original copy of this Agreement, but all of which together shall evidence only one agreement.

Section 17. Amendment and Waiver.

This Agreement may not be amended except by an instrument in writing signed by or on behalf of each of the parties hereto. No waiver of any provision of this Agreement shall be valid unless in writing and signed by the person or party to be charged. No person other than the President and CEO of OCC shall have the authority to amend this Agreement or waive any provision of this Agreement on behalf of Company.

Section 18. Severability.

If any provision of this Agreement is determined to be in violation of any law, rule or regulation or otherwise unenforceable, such determination will not affect the validity of any other provision of this Agreement, which will remain in full force and effect. Each section, provision, paragraph and subparagraph of this Agreement is severable from every other section, provision, paragraph and subparagraph and constitutes a separate and distinct covenant.

Section 19. Warranty.

Executive warrants that he is under no contractual, judicial or other restraint, which impairs his right or legal ability to enter into this Agreement and to carry out his duties and responsibilities hereunder.

Section 20. Case and Gender.

Wherever required by the context of this Agreement, the singular or plural case and the masculine, feminine and neuter genders shall be interchangeable.

Section 21. Captions.

The captions used in this Agreement are intended for descriptive and reference purposes only and are not intended to affect the meaning of any Section hereunder.

Section 22. Miscellaneous.

Executive understands that the existence of any claim or cause of action by Executive against Company, OCC or any other affiliate of OCC, whether predicated on this Agreement or otherwise, shall not constitute a defense to Executive's responsibilities hereunder or to the enforcement by Company of the terms, obligations or covenants contained in this Agreement or attachments hereto. Executive also agrees that the language used in this Agreement is not to be construed in favor of or against any party solely because such party or their counsel may have drafted the Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Company has caused this Agreement to be signed by its duly authorized representative and Executive has signed this Agreement on the day and year first above written.

EXECUTIVE

/S/ DANIEL ROEHRS

Daniel Roehrs

APPLIED OPTICAL SYSTEMS, INC.

By: /S/ G. THOMAS HAZELTON, JR.

Name: G. Thomas Hazelton, Jr.

Title: General Manager

ACKNOWLEDGED AND AGREED:

OPTICAL CABLE CORPORATION

By: /S/ NEIL D. WILKIN, JR.

Name: Neil D. Wilkin, Jr.

Title: President and CEO

Exhibit 10.25

BUY-SELL AGREEMENT

THIS BUY-SELL AGREEMENT (this "Agreement") is dated as of October 31, 2009, by and between G. Thomas Hazelton, Jr. ("Grantor") and Optical Cable Corporation, a Virginia corporation (the "Corporation").

WITNESSETH:

WHEREAS, the Corporation and Grantor have entered into that certain Stock Purchase Agreement dated as of October 31, 2009, by and among the Corporation, Grantor and Daniel Roehrs (the "Stock Purchase Agreement"), pursuant to which upon Closing (as defined in the Stock Purchase Agreement) all of the capital stock of Applied Optical Systems, Inc., a Delaware corporation ("AOS") will be transferred to the Corporation, including shares of the capital stock of AOS held by Grantor.

WHEREAS, a condition to the Corporation's willingness to enter into the Stock Purchase Agreement is that Grantor enter into this Agreement.

WHEREAS Grantor is or may become the owner of shares of common stock of the Corporation.

WHEREAS the parties desire to make provision for a right of first refusal in favor of the Corporation with respect to the Shares (as hereinafter defined);

NOW, THEREFORE, in consideration of the premises and good and valuable mutual consideration, the receipt and sufficiency of all of which is hereby acknowledged, the parties agree as follows:

ARTICLE I
DEFINITIONS

For purposes of this Agreement, the definitions set forth below will apply.

(a) "Sale" means the sale, merger, transfer or other disposition or transaction involving all or substantially all of the stock or the assets of the Corporation.

(b) "Shares" shall refer to all shares of common stock of the Corporation of which Grantor is the legal and/or beneficial owner, shares hereafter acquired from any source, and any shares hereafter issued by way of stock dividend, stock split, or recapitalization.

(c) "Transfer" shall mean assign, transfer, bequeath, devolution by operation of law, pledge, charge, encumber or otherwise dispose of, including the granting of any voting right.

ARTICLE II
RESTRICTION ON TRANSFER

Grantor shall not Transfer all or part of the Shares (i) except pursuant to a Sale, and/or (ii) except as provided in Articles III and IV hereof.

ARTICLE III
RIGHT OF FIRST REFUSAL

Section 3.1. Right of First Refusal of Corporation. Grantor agrees that at such time(s) as Grantor shall choose to sell any Shares then held by Grantor, Grantor shall first offer such Shares that Grantor has chosen to sell (the “Offered Shares”) to the Corporation by giving notice of such intention to the Corporation specifying the number of Offered Shares (the “Offer Notice”). The Corporation or its assignee shall have ten (10) business days from the Corporation’s receipt of the Offer Notice to elect to purchase the Offered Shares from Grantor for cash at a per share price equal to the average of the high and low sales prices of a share of common stock of the Corporation, as reported by any reputable financial reporting service selected by the Corporation, as of the last day on which such common stock is traded preceding the date of the Offer Notice. The Corporation or its assignee shall exercise the option by written notice thereof delivered or mailed, as applicable, to Grantor. Exercise of the option shall constitute a binding obligation to buy and sell the Offered Shares as of the date of exercise.

Section 3.2. Sale to Third Party. If the Corporation does not exercise its right to purchase, then Grantor shall have the right to sell the Shares to any other person provided (i) such sale shall be only for cash at a price not less than the price offered to the Corporation, and (ii) transfer of title to another person shall occur within ninety days after Grantor shall have initially given notice to the Corporation in accordance with the foregoing.

Section 3.3. Failure to Consummate Sale to Third Party. Should the Corporation fail to exercise its right to purchase in accordance with Section 3.1, and should Grantor not have consummated a sale to another person within ninety days after having initially given notice, then the Shares shall again be subject to this Agreement (including the foregoing rights of refusal).

ARTICLE IV
PUBLIC COMPANY STANDSTILL

Grantor agrees that unless such shall have been specifically requested in writing by the Board of Directors of Corporation or a committee thereof, neither Grantor nor any of Grantor’s representatives will in any manner, directly or indirectly, (i) effect or seek, offer or propose (whether publicly or otherwise) to effect, or cause or participate in or in any way assist any other person to effect or seek, offer or propose (whether publicly or otherwise) to effect or participate in, (A) any acquisition of any securities (or beneficial ownership thereof) of Corporation or any of its subsidiaries, (B) any tender or exchange offer or merger or other business combination involving Corporation or its subsidiaries, (C) any recapitalization, restructuring, liquidation, dissolution or other extraordinary transaction with respect to Corporation or any of its subsidiaries or (D) any “solicitation” of “proxies” (as such terms are used in the proxy rules of

the Securities and Exchange Commission) or consents to vote, or seek to advise or influence any person with respect to the voting of, any voting securities of Corporation, (ii) form, join or in any way participate in a "group" (as defined under the Securities Exchange Act of 1934, as amended), (iii) otherwise act, alone or in concert with others, to seek to control or influence the Board of Directors of Corporation, (iv) take any action which might force Corporation to make a public announcement regarding any of the types of matters set forth in (i), (ii) or (iii) above, or (v) enter into any discussions or arrangements with or advise, assist or encourage, any third party with respect to any of the foregoing, or disclose any intention, plan or arrangement inconsistent with the foregoing. Grantor also agrees during any such period not to request Corporation (or its directors, officers, employees or agents), directly or indirectly, to amend or waive any provision of this paragraph (including this sentence). If at any time Grantor is approached by any third party concerning Grantor's or such third party's participation in any of the activities described in (i), (ii) or (iii) above, Grantor will promptly inform Corporation of the nature of such contact and the parties thereto. Notwithstanding this Article IV, clause (i)(A) above, Grantor is permitted to purchase or hold in aggregate less than 3% of outstanding capital shares of Corporation directly or indirectly, for individual investment purposes, provided that Grantor complies with all other sections of this Article IV.

ARTICLE V
ARBITRATION

If the parties are unable to agree on whether the Corporation has the right to purchase, then either party shall thereafter have the right to demand that such issue be determined by arbitration by written notice to the other. If the parties interested cannot mutually agree on a method of arbitration within thirty (30) days after such demand, then either party may submit the matter to arbitration as follows: Either party shall notify the other in writing of the identity of his, her or its arbitrator, and within twenty (20) days thereafter the other shall notify in writing the party initiating arbitration of the identity of his, her or its arbitrator. The two arbitrators shall promptly select a third arbitrator who shall serve as chairman of the arbitration. In the event the two arbitrators shall for any reason fail to select a third arbitrator willing to serve within thirty (30) days of the notification of the appointment of the first arbitrator, either party shall be entitled to ask the Circuit Court of the City of Roanoke, Virginia to appoint and designate such third arbitrator. The arbitration shall take place in Atlanta, Georgia. The arbitrators may employ the services of such accountants and agents as they may deem desirable. The parties may present to the arbitrators such evidence as either may deem appropriate. The expenses of arbitration shall be borne equally by the parties, except each party shall bear the expenses of his, her or its arbitrator, attorney and witness. Except as otherwise provided herein, the provisions of the Virginia Uniform Arbitration Act shall be applicable to the arbitration. Judgment upon the award rendered by the arbitrators may be entered in a court having competent jurisdiction.

ARTICLE VI
LEGEND

All stock certificates now or hereafter evidencing ownership of the Shares subject to this Agreement shall have placed thereon the following legend: "THIS STOCK IS SUBJECT TO A BUY-SELL AGREEMENT WITH THE CORPORATION."

ARTICLE VII
SPECIFIC PERFORMANCE

The parties declare that it is impossible to measure in money the damages which will accrue to one party by reason of a failure by another party to perform any of the obligations hereunder or by breach hereof. Therefore, the contract shall be specifically enforceable. If any party shall institute any action or proceeding to enforce the provisions hereof, the party against whom such action or proceeding is brought hereby waives the claim or defense therein that the party instituting the action or proceeding has an adequate remedy at law, and such party shall not allege in any such action or proceeding the claim or defense that such a remedy at law exists.

ARTICLE VIII
GENERAL PROVISIONS

Section 8.1. Notices. All notices given hereunder shall be in writing and shall be sent by registered or certified mail or delivered by hand. All notices shall be deemed to be given on the date posted, if by registered mail, the dated received if by certified mail or, if delivered personally, on the date delivered.

Section 8.2. Binding on Successors. This Agreement shall be binding upon and inure to the benefit of the parties hereto, their personal representatives, heirs, successors and assigns.

Section 8.3. Governing Law. This Agreement shall be construed and enforced in accordance with the internal laws of the Commonwealth of Virginia without giving effect to the principals of conflicts of law.

Section 8.4. Amendment. This Agreement may only be amended with the consent of all parties hereto.

[Execution Page Following]

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

OPTICAL CABLE CORPORATION,
a Virginia corporation

By: /S/ NEIL D. WILKIN, JR.
Name: Neil D. Wilkin, Jr.
Title: President & CEO

GRANTOR

/S/ G. THOMAS HAZELTON, JR.
Name: G. Thomas Hazelton, Jr.

BUY-SELL AGREEMENT

THIS BUY-SELL AGREEMENT (this "Agreement") is dated as of October 31, 2009, by and between Daniel Roehrs ("Grantor") and Optical Cable Corporation, a Virginia corporation (the "Corporation").

WITNESSETH:

WHEREAS, the Corporation and Grantor have entered into that certain Stock Purchase Agreement dated as of October 31, 2009, by and among the Corporation, Grantor and G. Thomas Hazelton, Jr. (the "Stock Purchase Agreement"), pursuant to which upon Closing (as defined in the Stock Purchase Agreement) all of the capital stock of Applied Optical Systems, Inc., a Delaware corporation ("AOS") will be transferred to the Corporation, including shares of the capital stock of AOS held by Grantor.

WHEREAS, a condition to the Corporation's willingness to enter into the Stock Purchase Agreement is that Grantor enter into this Agreement.

WHEREAS Grantor is or may become the owner of shares of common stock of the Corporation.

WHEREAS the parties desire to make provision for a right of first refusal in favor of the Corporation with respect to the Shares (as hereinafter defined);

NOW, THEREFORE, in consideration of the premises and good and valuable mutual consideration, the receipt and sufficiency of all of which is hereby acknowledged, the parties agree as follows:

ARTICLE I
DEFINITIONS

For purposes of this Agreement, the definitions set forth below will apply.

(a) "Sale" means the sale, merger, transfer or other disposition or transaction involving all or substantially all of the stock or the assets of the Corporation.

(b) "Shares" shall refer to all shares of common stock of the Corporation of which Grantor is the legal and/or beneficial owner, shares hereafter acquired from any source, and any shares hereafter issued by way of stock dividend, stock split, or recapitalization.

(c) "Transfer" shall mean assign, transfer, bequeath, devolution by operation of law, pledge, charge, encumber or otherwise dispose of, including the granting of any voting right.

ARTICLE II
RESTRICTION ON TRANSFER

Grantor shall not Transfer all or part of the Shares (i) except pursuant to a Sale, and/or (ii) except as provided in Articles III and IV hereof.

ARTICLE III
RIGHT OF FIRST REFUSAL

Section 3.1. Right of First Refusal of Corporation. Grantor agrees that at such time(s) as Grantor shall choose to sell any Shares then held by Grantor, Grantor shall first offer such Shares that Grantor has chosen to sell (the “Offered Shares”) to the Corporation by giving notice of such intention to the Corporation specifying the number of Offered Shares (the “Offer Notice”). The Corporation or its assignee shall have ten (10) business days from the Corporation’s receipt of the Offer Notice to elect to purchase the Offered Shares from Grantor for cash at a per share price equal to the average of the high and low sales prices of a share of common stock of the Corporation, as reported by any reputable financial reporting service selected by the Corporation, as of the last day on which such common stock is traded preceding the date of the Offer Notice. The Corporation or its assignee shall exercise the option by written notice thereof delivered or mailed, as applicable, to Grantor. Exercise of the option shall constitute a binding obligation to buy and sell the Offered Shares as of the date of exercise.

Section 3.2. Sale to Third Party. If the Corporation does not exercise its right to purchase, then Grantor shall have the right to sell the Shares to any other person provided (i) such sale shall be only for cash at a price not less than the price offered to the Corporation, and (ii) transfer of title to another person shall occur within ninety days after Grantor shall have initially given notice to the Corporation in accordance with the foregoing.

Section 3.3. Failure to Consummate Sale to Third Party. Should the Corporation fail to exercise its right to purchase in accordance with Section 3.1, and should Grantor not have consummated a sale to another person within ninety days after having initially given notice, then the Shares shall again be subject to this Agreement (including the foregoing rights of refusal).

ARTICLE IV
PUBLIC COMPANY STANDSTILL

Grantor agrees that unless such shall have been specifically requested in writing by the Board of Directors of Corporation or a committee thereof, neither Grantor nor any of Grantor’s representatives will in any manner, directly or indirectly, (i) effect or seek, offer or propose (whether publicly or otherwise) to effect, or cause or participate in or in any way assist any other person to effect or seek, offer or propose (whether publicly or otherwise) to effect or participate in, (A) any acquisition of any securities (or beneficial ownership thereof) of Corporation or any of its subsidiaries, (B) any tender or exchange offer or merger or other business combination involving Corporation or its subsidiaries, (C) any recapitalization, restructuring, liquidation, dissolution or other extraordinary transaction with respect to Corporation or any of its subsidiaries or (D) any “solicitation” of “proxies” (as such terms are used in the proxy rules of

the Securities and Exchange Commission) or consents to vote, or seek to advise or influence any person with respect to the voting of, any voting securities of Corporation, (ii) form, join or in any way participate in a "group" (as defined under the Securities Exchange Act of 1934, as amended), (iii) otherwise act, alone or in concert with others, to seek to control or influence the Board of Directors of Corporation, (iv) take any action which might force Corporation to make a public announcement regarding any of the types of matters set forth in (i), (ii) or (iii) above, or (v) enter into any discussions or arrangements with or advise, assist or encourage, any third party with respect to any of the foregoing, or disclose any intention, plan or arrangement inconsistent with the foregoing. Grantor also agrees during any such period not to request Corporation (or its directors, officers, employees or agents), directly or indirectly, to amend or waive any provision of this paragraph (including this sentence). If at any time Grantor is approached by any third party concerning Grantor's or such third party's participation in any of the activities described in (i), (ii) or (iii) above, Grantor will promptly inform Corporation of the nature of such contact and the parties thereto. Notwithstanding this Article IV, clause (i)(A) above, Grantor is permitted to purchase or hold in aggregate less than 3% of outstanding capital shares of Corporation directly or indirectly, for individual investment purposes, provided that Grantor complies with all other sections of this Article IV.

ARTICLE V
ARBITRATION

If the parties are unable to agree on whether the Corporation has the right to purchase, then either party shall thereafter have the right to demand that such issue be determined by arbitration by written notice to the other. If the parties interested cannot mutually agree on a method of arbitration within thirty (30) days after such demand, then either party may submit the matter to arbitration as follows: Either party shall notify the other in writing of the identity of his, her or its arbitrator, and within twenty (20) days thereafter the other shall notify in writing the party initiating arbitration of the identity of his, her or its arbitrator. The two arbitrators shall promptly select a third arbitrator who shall serve as chairman of the arbitration. In the event the two arbitrators shall for any reason fail to select a third arbitrator willing to serve within thirty (30) days of the notification of the appointment of the first arbitrator, either party shall be entitled to ask the Circuit Court of the City of Roanoke, Virginia to appoint and designate such third arbitrator. The arbitration shall take place in Atlanta, Georgia. The arbitrators may employ the services of such accountants and agents as they may deem desirable. The parties may present to the arbitrators such evidence as either may deem appropriate. The expenses of arbitration shall be borne equally by the parties, except each party shall bear the expenses of his, her or its arbitrator, attorney and witness. Except as otherwise provided herein, the provisions of the Virginia Uniform Arbitration Act shall be applicable to the arbitration. Judgment upon the award rendered by the arbitrators may be entered in a court having competent jurisdiction.

ARTICLE VI
LEGEND

All stock certificates now or hereafter evidencing ownership of the Shares subject to this Agreement shall have placed thereon the following legend: "THIS STOCK IS SUBJECT TO A BUY-SELL AGREEMENT WITH THE CORPORATION."

ARTICLE VII
SPECIFIC PERFORMANCE

The parties declare that it is impossible to measure in money the damages which will accrue to one party by reason of a failure by another party to perform any of the obligations hereunder or by breach hereof. Therefore, the contract shall be specifically enforceable. If any party shall institute any action or proceeding to enforce the provisions hereof, the party against whom such action or proceeding is brought hereby waives the claim or defense therein that the party instituting the action or proceeding has an adequate remedy at law, and such party shall not allege in any such action or proceeding the claim or defense that such a remedy at law exists.

ARTICLE VIII
GENERAL PROVISIONS

Section 8.1. Notices. All notices given hereunder shall be in writing and shall be sent by registered or certified mail or delivered by hand. All notices shall be deemed to be given on the date posted, if by registered mail, the dated received if by certified mail or, if delivered personally, on the date delivered.

Section 8.2. Binding on Successors. This Agreement shall be binding upon and inure to the benefit of the parties hereto, their personal representatives, heirs, successors and assigns.

Section 8.3. Governing Law. This Agreement shall be construed and enforced in accordance with the internal laws of the Commonwealth of Virginia without giving effect to the principals of conflicts of law.

Section 8.4. Amendment. This Agreement may only be amended with the consent of all parties hereto.

[Execution Page Following]

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

OPTICAL CABLE CORPORATION,
a Virginia corporation

By: /S/ NEIL D. WILKIN, JR.
Name: Neil D. Wilkin, Jr.
Title: President & CEO

GRANTOR

/S/ DANIEL ROEHRS
Name: Daniel Roehrs

Exhibit 10.27

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this "Agreement") is made as of this 31st day of October, 2009, by and between and OPTICAL CABLE CORPORATION ("OCC") and APPLIED OPTICAL SYSTEMS, INC. ("AOS").

RECITALS

A. As of October 30, 2009, at 11:15pm (Plano, Texas time), OCC exercised its right to purchase a fifty-six percent (56%) equity interest in AOS on a fully diluted, as converted basis, pursuant to the terms of a certain Warrant issued to OCC by the Company dated April 22, 2005, as amended (the "Warrant"), and contemporaneously therewith, OCC exercised its rights to acquire an additional 10% equity interest in AOS on a fully diluted, as converted basis, in addition to the exercise of the Warrant, bringing OCC's equity interest in the Company to 66% on a fully diluted, as converted basis. Pursuant to a Stock Purchase Agreement dated as of the date hereof (the "Stock Purchase Agreement") OCC is purchasing all of the remaining outstanding capital stock of the Company.

B. In connection with the Stock Purchase Agreement, AOS is willing to indemnify OCC on the terms and conditions hereinafter set forth.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. AOS covenants and agrees to indemnify, defend, protect and hold harmless OCC and its officers, directors, employees, stockholders, assigns, successors and affiliates (other than the Stockholders and R. M. Flower) (individually, an "Indemnified Party" and collectively, "Indemnified Parties") from, against and in respect of all Damages (as defined in the Stock Purchase Agreement") suffered, sustained, incurred or paid at any time by the Indemnified Parties in connection with, resulting from or arising out of, directly or indirectly, any litigation or dispute involving AOS or any of its officers, directors, employees or stockholders, including, without limitation, the litigation disclosed on Schedule 3.7 of the Stock Purchase Agreement.

2. AOS's obligations hereunder shall survive Closing (as defined in the Stock Purchase Agreement) forever. This Agreement shall be binding upon, enforceable against and inure to the benefit of, the parties hereto and their respective successors and assigns, and nothing herein is intended to confer any right, remedy or benefit upon any other person.

3. This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the Commonwealth of Virginia without giving effect to the principles of conflicts of law thereof.

4. If any provision of this Agreement is held to be invalid or unenforceable by a court of competent jurisdiction, this Agreement shall be interpreted and enforceable as if such provision were severed or limited, but only to the extent necessary to render such provision and this Agreement enforceable.

5. This Agreement may be executed by facsimile transmission and in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

6. No failure or delay by any party to exercise any right hereunder shall be deemed to be a waiver of such right, either prospectively or in the particular instance.

WITNESS the signatures and seals of the parties as of the date first above written:

APPLIED OPTICAL SYSTEMS, INC.

By: /S/ G. THOMAS HAZELTON, JR.
Name: G. Thomas Hazelton, Jr.
Title: General Manager

OPTICAL CABLE CORPORATION

By: /S/ NEIL D. WILKIN, JR.
Name: Neil D. Wilkin, Jr.
Title: President and CEO

Exhibit 10.28

SUPPLEMENTAL AGREEMENT

This Supplemental Agreement is made on October 31, 2009, by and among Optical Cable Corporation, a Virginia corporation ("Buyer"), Applied Optical Systems, Inc. ("Company"), George T. Hazelton Family Trust ("Hazelton Trust"), G. Thomas Hazelton, Jr. ("Hazelton"), and Daniel Roehrs ("Roehrs") and provides as follows:

RECITALS

A. Buyer, Hazelton and Roehrs have entered into a Stock Purchase Agreement made as of the date hereof (the "Stock Purchase Agreement").

B. Hazelton Trust and Hazelton have each entered into separate Subordination Agreements with the Company dated as of April 22, 2005 (collectively the "Subordination Agreements"), regarding notes made by the Company and held respectively by each of Hazelton Trust and Hazelton (the "Subordinated Notes"), copies of which are attached hereto as Exhibit A attached to this Agreement.

C. The Company owes Hazelton and Roehrs those amounts set forth on Schedule 5.1(b) to the Stock Purchase Agreement for deferred salaries and deferred commissions (the "Back Payment Amounts").

D. Buyer has loaned funds to the Company from time to time pursuant to a Loan and Security Agreement dated April 22, 2005, as amended from time to time prior to or after the date of this Agreement (the "Loan Agreement"), which loan is evidenced by a Promissory Note from the Company to the Buyer dated April 22, 2005, as amended from time to time prior to or after the date of this Agreement (the "AOS Loan").

E. The parties desire to make provision for payment of the Subordinated Notes and the Back Payment Amounts, subject to the provisions of the Subordination Agreements.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing premises, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Payment of Back Payment Amounts. The Back Payment Amounts shall be paid from positive operating cash flow of the Company (determined in accordance with Generally Accepted Accounting Principles ["GAAP"]), generated by the Company for periods following October 31, 2009, and such Back Payment Amounts shall be paid by the Company once the Company (a) shall have first paid Buyer $300,000, after the date of this Agreement, against any amounts owed Buyer by the Company, from positive operating cash flow of the Company (determined in accordance with GAAP), generated by the Company in periods following October 31, 2009, with any advances made on or after the date of this Agreement to the Company by Buyer treated as negative operating cash flow and (b) shall be current, at the time of any such payment of Back Payment Amounts, in its accounts payable owed by the Company to Buyer for product shipments made by Buyer to the Company on and after the date of this Agreement. The Back Payment Amounts shall be paid to Hazelton and Roehrs pro rata.

2. Payment of Subordinated Notes. Subject in all respects to the provisions of the Subordination Agreements and the Loan Agreement, and only after payment in full of the Back Payment Amounts, the Company shall begin payment of the Subordinated Notes at such time as any payments are made thereafter by the Company against the AOS Loan, (with payments against the Subordinated Notes and the AOS Loan being made pro rata based on relative account balances); provided, however, that any such payments shall only be made from positive operating cash flow of the Company determined in accordance with GAAP; and provided, further, that nothing herein shall prevent payments by the Company against the AOS Loan before payment in full of the Back Payment Amounts or from funds other than positive operating cash flow of the Company.

3. Reaffirmation of Subordination Agreements. The parties hereto (other than Roehrs, who is not a party to a Subordination Agreement) hereby agree that, except as expressly provided herein, all of the terms, provisions and conditions of their respective Subordination Agreements are hereby reaffirmed and ratified in all respects and remain in full force and effect. In the event of any conflict between this Agreement and any such Subordination Agreement, such Subordination Agreement shall control.

4. Governing Law. This Agreement shall be governed by and construed, interpreted and enforced in accordance with the laws of the Commonwealth of Virginia, excluding its principles of conflicts of laws. Any disputes arising out of this Agreement or any of the transactions contemplated hereby shall be adjudicated in a State or Federal court of competent civil jurisdiction sitting in the City of Roanoke, Virginia and nowhere else. Each of the parties hereto hereby irrevocably submits to the jurisdiction of such court for the purposes of any proceeding arising out of this Agreement or any of the transactions contemplated hereby.

5. Severability. If any provision of this Agreement or the application thereof to any person or circumstances is held invalid or unenforceable in any jurisdiction, the remainder hereof, and the application of such provision to such person or circumstances in any other jurisdiction, shall not be affected thereby, and to this end the provisions of this Agreement shall be severable.

6. Absence of Third Party Beneficiary Rights. No provision of this Agreement is intended, nor will any provision be interpreted, to provide or to create any third party beneficiary rights or any other rights of any kind in any client, customer, affiliate, shareholder, employee or partner of any party hereto or any other person or entity.

7. Mutual Drafting; Person. This Agreement is the mutual product of the parties hereto, and each provision hereof has been subject to the mutual consultation, negotiation and agreement of each of the parties, and shall not be construed for or against any party hereto. As used in this Agreement, the term “person” shall mean an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

8. Successors and Assigns. This Agreement and the rights and obligations of the parties hereunder may not be assigned, except (a) by operation of law and (b) that Buyer may assign any of its rights or obligations under this Agreement to any direct or indirect subsidiary or to any affiliate in its sole and absolute discretion; provided, however, that Buyer shall not be released from liability for the timely performance of Buyer's obligations hereunder. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, the successors and assigns of Buyer, Hazelton Trust and the Company, and the heirs and legal representatives of Roehrs and Hazelton.

9. Counterparts; Facsimile Transmission. This Agreement may be executed in any number of counterparts and any party hereto may execute any such counterpart, each of which when executed and delivered shall be deemed to be an original, and all of which counterparts taken together shall constitute but one and the same instrument. Any signatures delivered by a party by facsimile transmission shall be deemed an original signature hereto.

[Execution Page Following]

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

OPTICAL CABLE CORPORATION

By: /S/ NEIL D. WILKIN, JR.
Name: Neil D. Wilkin, Jr.
Title: Chairman, President and CEO

APPLIED OPTICAL SYSTEMS, INC.

By: /S/ G. THOMAS HAZELTON, JR.
Name: G. Thomas Hazelton, Jr.
Title: General Manager

/S/ G. THOMAS HAZELTON, JR.
G. Thomas Hazelton, Jr.

/S/ DANIEL ROEHRS
Daniel Roehrs

G. Thomas Hazelton Family Trust

By: /S/ G. THOMAS HAZELTON, JR.
Name: G. Thomas Hazelton, Jr.
Title: Trustee

Exhibit 10.29

TERMINATION AGREEMENT

THIS TERMINATION AGREEMENT (this "Agreement") is made this 31st day October, 2009, by and among Applied Optical Systems, Inc. ("Company"); Optical Cable Corporation ("Lender"), and G. Thomas Hazelton, Jr. and Daniel Roehrs (collectively, the "Existing Shareholders").

W I T N E S S E T H

WHEREAS, Company, Lender, Existing Shareholders, and R. M. Flower entered into that certain Shareholders and Lenders Rights Agreement dated as of April 22, 2005 (the "Lenders Rights Agreement");

WHEREAS, the Lenders Rights Agreement may be modified by Company, Lender and Founders (as defined in the Lenders Rights Agreement) holding a majority of the shares owned by all the Founders, and the Existing Shareholders hold all of the shares owned by all the Founders.

WHEREAS, Company, Lender and Existing Shareholders all desire to terminate the Lenders Rights Agreement.

NOW, THEREFORE, in consideration of the mutual covenants, conditions and undertakings of the parties hereto and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. The Lenders Rights Agreement is hereby terminated effective as of the date hereof at 8:00 a.m. Eastern Standard Time (the "Termination Time"), and shall thereafter be considered null and void for all purposes.

2. This Agreement shall be governed by the laws of the Commonwealth of Virginia except its conflict of law provisions.

3. This Agreement may be executed in several counterparts, and all counterparts taken together will constitute one agreement binding all parties. Signatures of the parties transmitted by facsimile or e-mail shall be deemed to be original signatures for all purposes.

[signatures are on the following page]

WITNESS the following signatures:

COMPANY:

APPLIED OPTICAL SYSTEMS, INC.

By: /S/ G. THOMAS HAZELTON, JR.
Name: G. Thomas Hazelton, Jr.
Title: General Manager

LENDER:

OPTICAL CABLE CORPORATION

By: /S/ NEIL D. WILKIN, JR.
Name: Neil D. Wilkin, Jr.
Title: President and CEO

EXISTING SHAREHOLDERS:

/S/ G. THOMAS HAZELTON, JR.
G. Thomas Hazelton, Jr.

/S/ DANIEL ROEHRS
Daniel Roehrs

Exhibit 10.30

WARRANT EXERCISE AGREEMENT

This agreement (the "Agreement") is entered into by and between Optical Cable Corporation, a Virginia corporation ("OCC"), and Applied Optical Systems, Inc. ("AOS") as of this 30th day of October, 2009, at 11:15pm Plano, Texas time, and provides as follows:

RECITALS

WHEREAS, AOS owes OCC, among other amounts, (i) trade accounts payable (net) owed by AOS to OCC of approximately $1,515,373.35 as of October 17, 2009, and (ii) out-of-pocket expenses and other reimbursable business expenses owed by AOS to OCC of approximately $355,204.24 as of October 19, 2009,and;

WHEREAS, OCC was issued a Warrant to Purchase Preferred Stock dated April 22, 2005 from AOS (the "Warrant"), which, as amended, gives OCC the right to purchase Series A Preferred Shares equal to a fifty-six percent (56%) equity interest in AOS on a fully diluted, as converted basis, for a purchase price of $1.5 million;

WHEREAS, OCC has properly exercised the Warrant on October 30, 2009 at 11:15 pm, Plano, Texas time and OCC has the right to pay the exercise price to AOS in connection with the exercise of the Warrant by offsetting amounts owed by AOS to OCC;

NOW, THEREFORE, in consideration for the mutual covenants and promises, the sufficiency of which is hereby acknowledged by the parties, the parties agree as follows:

AGREEMENT

1. **Warrant.** OCC has properly exercised the Warrant and AOS shall issue OCC Series A Preferred Shares in AOS equal to fifty six percent (56%) of the outstanding equity of AOS on a fully diluted, as converted basis effective as of the execution of this Agreement (the "Preferred Shares") in exchange for the consideration set forth in Section 2 hereof and the cancellation of the Warrant.

2. **Exercise Price.** OCC shall pay AOS the total sum of one million five hundred thousand dollars ($1,500,000) as the exercise price for the Warrant, in exchange for the Preferred Shares and cancellation of the Warrant set forth in Section 1 hereof. Such payment shall be made concurrently with the execution of this Agreement in the form of: (i) reducing the amount of trade accounts payable (net) balance owed by AOS to OCC as of close of business on October 30, 2009, (ii) reducing the amount of out-of-pocket expenses and other reimbursable business expenses owed by AOS to OCC as of the close of business on October 30, 2009, and (iii) with any remaining amount of such payment to be made in the form of cash from OCC to AOS, as set forth in Attachment 1 to this Agreement, attached hereto.

3. **Certificates**. Concurrently with the execution of this Agreement, AOS shall deliver to OCC certificates (the "Certificates") representing 763,637 Preferred Shares, which equal fifty six percent (56%) of the outstanding equity of AOS on a fully diluted, as converted basis. AOS shall promptly cure any deficiencies with respect to the endorsement of the Certificates or other documents of conveyance with respect to the stock powers accompanying such Certificates.

4. **Cancellation of Warrant.** Following the exercise of the Warrant and the issuance of the Preferred Shares, the Warrant shall be deemed cancelled.

5. **Confirmation of Representations**. AOS hereby confirms that all of the representations and warranties set forth in the Warrant are true and accurate as of the effective date of this Agreement and that AOS has performed as of the effective date of this Agreement all of the covenants to be performed by AOS pursuant to the Warrant.

6. **Entire Agreement; Amendment; Waiver.** This Agreement sets forth the entire understanding of the parties hereto with respect to the transactions contemplated hereby. Any and all previous agreements and understandings between or among the parties regarding the subject matter hereof, whether written or oral, are superseded by this Agreement. This Agreement shall not be amended or modified except by a written instrument duly executed by each of the parties hereto. Any extension or waiver by any party of any provision hereto shall be valid only if set forth in an instrument in writing signed on behalf of such party.

7. **Counterparts.** This Agreement may be executed in any number of counterparts and any party hereto may execute any such counterpart, each of which when executed and delivered shall be deemed to be an original, and all of which counterparts taken together shall constitute but one and the same instrument.

8. **Brokers and Agents.** AOS and OCC each represents and warrants to the other that it has not employed any broker or agent in connection with the transactions contemplated by this Agreement and covenants and agrees to indemnify the other against all losses, damages or expenses relating to or arising out of claims for fees or commission of any broker or agent employed or alleged to have been employed by such party.

9. **Governing Law.** This Agreement shall be governed by and construed, interpreted and enforced in accordance with the laws of Virginia, excluding its principles of conflicts of laws. Any disputes arising out of this Agreement or any of the transactions contemplated hereby shall be adjudicated in a State or Federal court of competent civil jurisdiction sitting in the City of Roanoke, Virginia and nowhere else. Each of the parties hereto hereby irrevocably submits to the jurisdiction of such court for the purposes of any proceeding arising out of this Agreement or any of the transactions contemplated hereby.

10. **Severability.** If any provision of this Agreement or the application thereof to any person or circumstances is held invalid or unenforceable in any jurisdiction, the remainder hereof, and the application of such provision to such person or circumstances in any other jurisdiction, shall not be affected thereby, and to this end the provisions of this Agreement shall be severable.

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

OPTICAL CABLE CORPORATION

By: /S/ NEIL D. WILKIN, JR.
Name: Neil D. Wilkin, Jr.
Title: Chairman, President and CEO

APPLIED OPTICAL SYSTEMS, INC.

By: /S/ G. THOMAS HAZELTON, JR.
Name: G. Thomas Hazelton, Jr.
Title: General Manager

ATTACHMENT 1
to
Warrant Exercise Agreement

The $1,500,000 exercise price paid in connection with OCC's exercise of the Warrant was paid to AOS in the following manner:

(i)	Cash*	$ 0
(ii)	Reduction of the amount of Trade Accounts Payable owed by AOS to OCC (net)	$1,500,000
(iii)	Reduction of the amount of Out-of-pocket expenses and other reimbursable business expenses owed by AOS to OCC	$ 0
	TOTAL	**$1,500,000**

Any cash was paid by transfer of funds to an account in the name of AOS to which OCC's finance team can access for the purpose of paying down accounts payable amounts owed by AOS to third parties.

EXHIBIT 13.1

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Unrivaled Integrated Solutions

2009 ANNUAL REPORT

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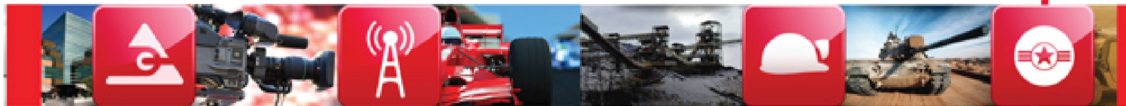

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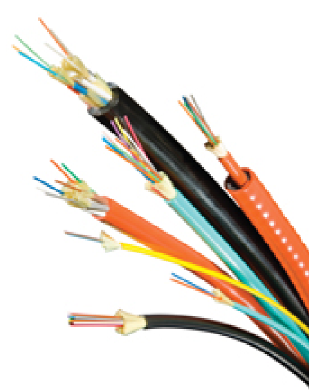

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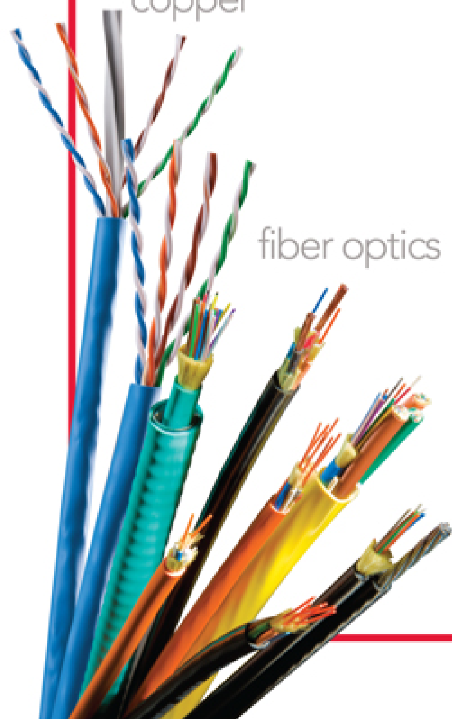

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OPTICAL CABLE CORPORATION

Annual Report

2009

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Selected Consolidated Financial Information
(in thousands, except per share data)

	Years ended October 31,				
	2009	2008	2007	2006	2005
Consolidated Statement of Operations Information:					
Net sales	$58,589	$60,998	$45,503	$45,330	$45,899
Cost of goods sold	38,748	36,838	28,333	29,908	28,067
Gross profit	19,841	24,160	17,170	15,422	17,832
Selling, general and administrative expenses	22,345	20,642	15,300	14,900	16,026
Royalty income, net	(878)	(636)	—	—	—
Amortization of intangible assets	825	469	—	—	—
Loss on impairment of intangible assets	344	—	—	—	—
Income (loss) from operations	(2,795)	3,685	1,870	522	1,806
Other income (expense), net:					
Interest income (expense), net	149	(147)	21	(10)	(21)
Other, net	16	(24)	27	(9)	37
Income (loss) before income taxes	(2,630)	3,514	1,918	503	1,822
Income tax expense (benefit)	(706)	1,302	665	152	650
Net income (loss)	$ (1,924)	$ 2,212	$ 1,253	$ 351	$ 1,172
Net income (loss) per share:					
Basic and diluted	$ (0.34)	$ 0.36	$ 0.21	$ 0.06	$ 0.20
Weighted average shares:					
Basic	5,656	6,062	6,089	5,954	5,776
Diluted	5,656	6,062	6,096	5,966	5,800
Consolidated Balance Sheet Information:					
Cash and cash equivalents	$ 1,948	$ 3,910	$ 3,139	$ 555	$ 3,290
Working capital	20,070	23,765	15,937	14,441	15,159
Total assets	50,327	54,837	37,281	34,791	34,944
Bank debt	8,536	10,953	—	991	—
Total shareholders’ equity	33,257	34,832	31,978	30,435	29,345

Letter to Shareholders

Dear Shareholders:

Tough Year. Strong Company.

As we began our fiscal year, we expected that 2009 would be challenging due to the global economic recession. Some disagreed, and forecasted an early economic rebound. Unfortunately, we were right.

The severe economic recession led to a significant contraction of the enterprise cabling and connectivity market during 2009, negatively impacting our industry, our customers and Optical Cable Corporation ("OCC").

Yes, fiscal year 2009 was a tough year. But, OCC is a strong company.

In response to external economic conditions beyond our control, OCC focused on those factors we can control—taking actions that we believe will create long-term shareholder value. We listened to our customers. We cut our costs. We executed our strategy.

OCC finished fiscal year 2009 with positive cash flow from operations, positive EBITDA (earnings before interest, taxes, depreciation and amortization), and a strong balance sheet, all despite the severe economic recession—and without compromising our long-term strategy. Further, we performed well relative to many competitors with respect to net sales, seizing the opportunity presented by the economic recession to improve market penetration in our largest product category, fiber optic cables.

During fiscal year 2008, we proved that the business model we have built generates significant cash and earnings when net sales climb above certain levels. And during fiscal year 2009, we preserved our business model, built upon it, and improved it.

A review of our quarterly results during fiscal year 2009 is telling. We saw much better bottom line results during quarters with relatively small increases in net sales. And by our fourth quarter we saw bottom line improvements on relatively lower net sales as we began to realize the benefits of cost reduction initiatives implemented earlier in the year, including workforce reductions of approximately 10%.

Our business model is solid. OCC is strong.

And we have proven that we have the right plan, products, and people to manage through this challenging economic environment.

Executing Our Strategy. Building Our Foundation.

During fiscal year 2009, we continued to execute our strategy, building on the strong foundation we previously established.

OCC acquired Applied Optical Systems, Inc. ("AOS") on October 31, 2009, the last day of our fiscal year. AOS is a designer, developer and manufacturer of top-tier, specialty fiber optic connectors, certain copper connectors, and connectivity solutions for military and harsh environment applications.

The acquisition of AOS added a product set to OCC's offering that is highly desired by customers in a number of our targeted markets—a product set that we refer to as applied interconnect systems. While OCC and AOS were already customers of each other, and OCC a lender to AOS, the acquisition of AOS enabled us to more closely work together and begin an integration process that we expect will benefit our customers, the end-users of our products, and ultimately our shareholders.

On October 31, 2009, we also merged our subsidiary SMP Data Communications (also known as Superior Modular Products Incorporated) with and into OCC, creating one entity. OCC acquired SMP Data Communications on May 30, 2008. SMP Data Communications is known as a leading developer and manufacturer of copper and fiber optic connectivity products with industry-leading performance primarily for use in the enterprise market, and is internationally recognized for its role in establishing copper connectivity data communications standards, and offering innovative and patented technologies.

The acquisition of SMP Data Communications added the enterprise connectivity product set to OCC's offering—a product set that many of our customers have requested from OCC. With many functional areas of OCC and SMP Data Communications already consolidated, the merger was the next logical step in the integration of our operations and product sets, and it was consistent with our goal of seamlessly providing our products and solutions to customers under one name.

Today, OCC has manufacturing, offices and warehouse facilities in three locations—OCC-Roanoke, OCC-Asheville and OCC-Dallas.

OCC is now much more than a leading manufacturer of the best fiber optic cables on the market. We are a leading manufacturer of a broad range of fiber optic and copper data communication cabling and connectivity products, which enable us to deliver ***unrivaled integrated solutions*** to our customers and end-users—providing our customers with the entire range of products and solutions they need—with the top-tier quality they expect from Optical Cable Corporation.

OCC's suite of high quality, warranted cabling and connectivity products, primarily for the enterprise market, operate as a system solution or seamlessly integrate with other providers' offerings. Our product offerings include designs for uses ranging from commercial, enterprise network, datacenter, residential and campus installations to customized products for specialty applications and harsh environments, including military, industrial, mining and broadcast applications. Our products include fiber optic and copper cabling, fiber optic and copper connectors, specialty fiber optic and copper connectors, fiber optic and copper patch cords, pre-

terminated fiber optic and copper cable assemblies, racks, cabinets, datacom enclosures, patch panels, face plates, multi-media boxes, and other cable and connectivity management accessories. All of our products are designed to meet the most demanding needs of end-users, delivering a high degree of reliability and outstanding performance characteristics.

Looking Forward to 2010

As we look forward, we expect that the first half of fiscal 2010 will continue to be challenging for two reasons. First, the business cycle of our industry often tends to lag the performance of the rest of the economy. Customers in our industry have a tendency to begin considering increasing investments in information technology infrastructure only after a recovery is underway. Second, the acquisition and integration of new businesses can result in new challenges and expenses. However, these growing pains are worth enduring, as the continued execution of our strategy will create a stronger OCC and long-term shareholder value. By the second half of fiscal 2010, we believe we will deliver improved financial performance, as economic recovery begins to positively impact our markets.

Whatever fiscal year 2010 brings, OCC is in an enviable position in our industry, offering a range of products and solutions needed and asked for by our customers. Importantly, we have proven that our business model generates disproportionate returns as net sales increase, while fixed production costs and necessary expenses increase at a slower rate.

We also believe OCC's strategy, business model and market position are not fully reflected in our stock price. Consistent with our belief, in November 2009, we announced that OCC was instituting another stock repurchase program since our latest stock repurchase program was completed in October 2009.

During fiscal year 2009, we focused on those aspects of our environment we can control—taking those actions that we believed would create long-term shareholder value.

We listened to our customers. We cut our costs. We executed our strategy. And OCC is better and stronger because of it.

Thank you for your trust and the privilege of allowing us to lead your company.

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.
Chairman of the Board,
President and Chief Executive Officer

January 29, 2010

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Information

This report 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 variables, uncertainties, contingencies and risks that may cause actual events to differ materially from our expectations, and such variables, uncertainties, contingencies and risks may adversely affect the Company and the Company's future results of operations and future financial condition. Factors that could cause or contribute to such differences from our expectations or could adversely affect the Company include, but are not limited to, the level of sales to key customers, including distributors; timing of certain projects and purchases by key customers; the economic conditions affecting network service providers; corporate and/or government spending on information technology; actions by competitors; fluctuations in the price of raw materials (including optical fiber, copper, gold and other precious metals, and plastics and other materials affected by petroleum product pricing); fluctuations in transportation costs; our dependence on customized equipment for the manufacture of our products and a limited number of production facilities; our ability to protect our proprietary manufacturing technology; our ability to replace royalty income as existing patented and licensed products expire by developing and licensing new products; market conditions influencing prices or pricing; our dependence on a limited number of suppliers; the loss of or conflict with one or more key suppliers or customers; an adverse outcome in litigation, claims and other actions, and potential litigation, claims and other actions against us; an adverse outcome in regulatory reviews and audits and potential regulatory reviews and audits; adverse changes in state tax laws and/or positions taken by state taxing authorities affecting us; technological changes and introductions of new competing products; changes in end-user preferences for competing technologies, relative to our product offering; economic conditions that affect the telecommunications sector, certain technology sectors or the economy as a whole; changes in demand of our products from certain competitors for which we provide private labeled connectivity products; terrorist attacks or acts of war, and any current or potential future military conflicts; changes in the level of military spending by the United States government; ability to retain key personnel; inability to recruit needed personnel; poor labor relations; the inability to successfully integrate the operations of our new subsidiaries; the impact of changes in accounting policies, including those by the Securities and Exchange Commission and the Public Company Accounting Oversight Board; our ability to continue to successfully comply with, and the cost of compliance with, the provisions of Section 404 of the Sarbanes-Oxley Act of 2002 or any revisions to that act which apply to us; the impact of changes and potential changes in federal laws and regulations adversely affecting our business and/or which results in increases in our direct and indirect costs as we comply with such laws and regulations; impact of future consolidation among competitors and/or among customers adversely affecting our position with our customers and/or our market position; actions by customers adversely affecting us in reaction to the expansion of our product offering in any manner, including, but not limited to, by offering products that compete with our customers, and/or by entering into alliances with, making investments in or with, and/or acquiring parties that compete with and/or have conflicts with customers of ours; impact of weather or natural disasters in the areas of the world in which we operate and market our products; our ability to secure financing to fund working capital needs; economic downturns and/or changes in market demand, exchange rates, productivity, or market and economic conditions in the areas of the world in which we operate and market our products, and our success in managing the risks involved in the foregoing.

We caution readers that the foregoing list of important factors is not exclusive and we incorporate by reference those factors included in current reports on Form 8-K, and/or in our other filings.

Dollar amounts presented in the following discussion have been rounded to the nearest hundred thousand, unless the amounts are less than one million, in which case the amounts have been rounded to the nearest thousand.

Overview of Optical Cable Corporation

Optical Cable Corporation (or 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, offering an integrated suite of high quality, warranted products which operate as a system solution or seamlessly integrate with other providers' offerings. Our product offerings include designs for uses ranging from commercial, enterprise network, datacenter, residential and campus installations to customized products for specialty applications and harsh environments, including military, industrial, mining and broadcast applications. Our products include fiber optic and copper cabling, fiber optic and copper connectors, specialty fiber optic and copper connectors, fiber optic and copper patch cords, pre-terminated fiber optic and copper cable assemblies, rack, cabinets, datacom enclosures, patch panels, face plates, multi-media boxes, and other cable and connectivity management accessories, and are designed to meet the most demanding needs of end-users, delivering a high degree of reliability and outstanding performance characteristics.

OCC is internationally recognized for pioneering the design and production of fiber optic cables for the most demanding military field applications, as well as of fiber optic cables suitable for both indoor and outdoor use, and creating a broad product offering built on the evolution of these fundamental technologies. OCC also is internationally recognized for its role in establishing copper connectivity data communications standards, through its innovative and patented technologies.

Founded in 1983, Optical Cable Corporation is headquartered in Roanoke, Virginia with offices, manufacturing and warehouse facilities located in Roanoke, Virginia, near Asheville, North Carolina and near Dallas, Texas. We primarily manufacture our high quality fiber optic cables at our Roanoke facility which is ISO 9001:2008 registered and MIL-STD-790F certified, our high quality enterprise connectivity products at our Asheville facility which is ISO 9001:2008 registered, and our high quality military and harsh environment connectivity products and systems at our Dallas facility which is MIL-STD-790F certified.

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

Growing Optical Cable Corporation

Our vision and strategy for Optical Cable Corporation has been to build on our strong reputation and market position in the fiber optic cable industry in commercial and specialty markets (our fiber optic cable product offering) by adding a suite of connectivity products enabling us to offer top-tier, end-to-end integrated cabling and connectivity solutions to our customers and end-users in our targeted markets. And we have done just that!

On May 30, 2008, Optical Cable Corporation acquired Superior Modular Products Incorporated, doing business as SMP Data Communications ("SMP Data Communications"), located near Asheville, North Carolina. Our Asheville team designs and manufactures fiber and copper connectivity products for the enterprise market, including a broad range of commercial and residential applications. We refer to these products as our enterprise connectivity product offering. Our Asheville team is internationally recognized for its role in establishing copper connectivity data communications standards, through innovative and patented technologies. The products manufactured at our Asheville facility are marketed and sold under the names Optical Cable Corporation and OCC by our integrated sales team. On October 31, 2009, we merged SMP Data Communications with and into Optical Cable Corporation, and SMP Data Communications ceased to exist as a separate entity.

On October 31, 2009, Optical Cable Corporation acquired Applied Optical Systems, Inc. ("AOS"), located near Dallas, Texas. Our Dallas team designs, develops and manufactures a broad range of specialty fiber optic connectors and connectivity solutions primarily for use in military and other harsh environment applications. We

refer to these products as our applied interconnect systems product offering. Founded in 2003, AOS is a wholly owned subsidiary of Optical Cable Corporation. We plan to market and sell the products manufactured at our Dallas facility under the names Optical Cable Corporation and OCC through the efforts of our integrated sales team.

By expanding OCC's product offerings with the acquisitions of SMP Data Communications and AOS, we are now able to offer a full suite of complementary cabling and connectivity products including fiber optic and copper cabling, fiber optic and copper connectors for enterprise, military and harsh environments, specialty fiber optic and copper connectors, fiber optic and copper patch cords, fiber optic and copper pre-terminated cable assemblies, racks, cabinets, datacom enclosures, patch panels, face plates, multi-media boxes, and other cable and connectivity management accessories to our customers and end-users as part of our integrated cabling and connectivity solution.

On August 1, 2008, Optical Cable Corporation acquired 70% of the authorized membership interests of Centric Solutions LLC ("Centric Solutions"). Centric Solutions is a start-up business founded in 2008 to provide turnkey cabling and connectivity solutions for the datacenter market. Centric Solutions operates and goes to market separately from Optical Cable Corporation, however, in some cases, Centric Solutions may offer products from OCC's product offering. Centric Solutions goes to market separately with its own sales team.

Acquisition of Applied Optical Systems, Inc.

On October 31, 2009, we acquired AOS in a series of transactions that resulted in our owning 100% of the equity of AOS. Additions to our net asset balances totaling $2.6 million resulting from the acquisition as of October 31, 2009 are presented in the table herein. In accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations* ("SFAS 141"), which was not included in the FASB's Codification, but still applicable for us as of October 31, 2009, the purchase price of $2.6 million has been allocated to the assets and liabilities assumed based on the fair values at the date of acquisition. This allocation, including the impact of the pre-acquisition note and accrued interest payable to OCC, resulted in the recognition of $6.5 million in intangible assets, $6.3 million of which relates to goodwill. The consideration for the transaction includes certain earn out provisions based upon the future performance of the product lines developed by our Dallas team. The agreement provides for a minimum earn out payment of $750,000 and a maximum of $14.75 million to be paid in 2017. The present value of the minimum earn out of $459,000 is included in the $2.6 million purchase price. As the transaction was effective on October 31, 2009, the results of operations of AOS will be included in consolidated results of operations beginning November 1, 2009.

	As of October 31, 2009
Trade accounts receivable, net	$ 1,159,000
Property and equipment	357,000
Inventories	1,219,000
Goodwill	6,289,000
Intangible assets	190,000
Deferred income taxes, net	1,038,000
Other assets, including cash of $20,000	41,000
Total assets	$ 10,293,000
Accounts payable and accrued expenses	2,117,000
Accrued interest payable to Optical Cable Corporation	761,000
Note payable to Optical Cable Corporation	4,536,000
Other liabilities	235,000
Total liabilities	$ 7,649,000
Total net assets	$ 2,644,000

The acquisition of AOS on October 31, 2009 was a strategic acquisition for us, allowing us to enhance the integrated fiber optic and copper datacom cabling and connectivity solutions we provide in our targeted markets and to permit us to pair AOS's innovative and unique fiber optic connectivity products with our fiber optic cabling products for military and other harsh environment applications. The acquisition of AOS adds additional products to our product offering just as the acquisition of SMP Data Communications added additional products to our product offering in 2008.

Summary of Company Performance for Fiscal Year 2009

Like others in our industry, during fiscal year 2009 we experienced the adverse effects of one of the worst world-wide economic recessions since the Great Depression of the 1930s. Despite the adverse economic conditions, OCC generated positive cash flow from operating activities of $2.8 million.

During fiscal year 2009, net sales decreased 4.0% to $58.6 million compared to $61.0 million for fiscal year 2008. Gross profit decreased 17.9% to $19.8 million in fiscal year 2009 compared to $24.2 million during fiscal year 2008.

Gross profit margins (gross profit as a percentage of net sales) decreased to 33.9% for fiscal year 2009 from 39.6% for fiscal year 2008. The decrease resulted mainly from sales of enterprise connectivity products (those products historically offered by SMP Data Communications) being consolidated for a full year during fiscal year 2009, while being consolidated for only five months during fiscal year 2008 after the May 30, 2008 acquisition of SMP Data Communications. Gross profit margins for our enterprise connectivity products are historically lower than gross profit margins for our fiber optic cable products.

Gross profit margins also suffered as fixed manufacturing costs were spread over lower production volumes for fiber optic cable products and enterprise connectivity products, with fiber optic cable gross profit margin decreasing to 38.6% for fiscal year 2009 compared to 42.5% for the prior year, and enterprise connectivity products gross profit margin decreasing to 17.8% during fiscal year 2009 compared to 20.4% for the five months ended October 31, 2008.

We reported a net loss of $1.9 million, or $0.34 per share, during fiscal year 2009, compared to net income of $2.2 million, or $0.36 per share, for last year. The majority of our loss before income taxes during fiscal year 2009 was attributable to our investment in Centric Solutions, which posted a loss before taxes of $1.6 million in fiscal year 2009.

During fiscal year 2009, we took steps to control costs including reducing aggregate head count by approximately 10% at our Roanoke and Asheville facilities, negotiated favorable shipping rates, and implementing other cost savings initiatives. The impact of these steps is reflected in our results for the fourth quarter of fiscal year 2009.

We plan to continue to take the actions we believe appropriate to improve our financial performance as quickly as possible, without jeopardizing the execution of our long-term strategy.

Results of Operations

We sell our products internationally and domestically through our sales force to our customers, which include major distributors, regional distributors, various smaller distributors, original equipment manufacturers and value-added resellers. All of our sales to customers located outside of the United States are denominated in U.S. dollars. We can experience fluctuations in the percentage of net sales to customers outside of the United States from period to period based on the timing of large orders, coupled with the impact of increases and decreases in sales to customers located in the United States.

Net sales consist of gross sales of products less discounts, refunds and returns. Revenue is recognized at the time of product shipment or delivery to the customer (including distributors) provided that the customer takes ownership and assumes risk of loss (based on shipping terms), collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and sale price is fixed or determinable. Our customers generally do not have the right of return unless a product is defective or damaged and is within the parameters of the product warranty in effect for the sale.

Cost of goods sold consists of the cost of materials, product warranty costs and compensation costs, and overhead and other costs related to our manufacturing operations. The largest percentage of costs included in cost of goods sold is attributable to costs of materials.

Our gross profit margin percentages are heavily dependent upon product mix on a quarterly basis and may deviate from expectations based on both anticipated and unanticipated changes in product mix. Additionally, gross profit margins tend to be higher when we achieve higher net sales levels, as certain fixed manufacturing costs are spread over higher sales volumes.

Selling, general and administrative expenses ("SG&A expenses") consist of the compensation costs for sales and marketing personnel, shipping costs, trade show expenses, customer support expenses, travel expenses, advertising, bad debt expense, the compensation cost for administration and management personnel, legal and accounting fees, costs incurred to settle litigation or claims and other actions against us, and other costs associated with our operations.

Royalty income, net consists of royalty income earned on licenses associated with our patented products, net of related expenses.

Amortization of intangible assets consists of the amortization of developed technology, trade name and customer list acquired in the acquisition of SMP Data Communications on May 30, 2008. Amortization of intangible assets is calculated using an accelerated method over the estimated useful lives of the intangible assets. During the fiscal year ended October 31, 2009, we discontinued marketing our connectivity products under the SMP Data Communications trade name and, as a result, we recognized an impairment charge of $190,000 to eliminate the carrying value of the trade name asset. Additionally, we recognized an impairment charge of $153,000 to eliminate the carrying value of the customer list asset.

Other income, net consists of interest income, interest expense, and other miscellaneous income and expense items not directly attributable to our operations.

The following table sets forth and highlights fluctuations in selected line items from our consolidated statements of operations for the periods indicated:

	Fiscal Years Ended October 31,		Percent	Fiscal Years Ended October 31,		Percent
	2009	2008	Change	2008	2007	Change
Net sales	$58,600,000	$61,000,000	(4.0)%	$61,000,000	$45,500,000	34.1%
Gross profit	19,800,000	24,200,000	(17.9)	24,200,000	17,200,000	40.7
SG&A expenses	22,300,000	20,600,000	8.3	20,600,000	15,300,000	34.9
Net income (loss)	(1,900,000)	2,200,000	(187.0)	2,200,000	1,300,000	76.6

Net Sales

Like others in our industry, during fiscal year 2009 we experienced the adverse effects of one of the worst world-wide economic recessions since the Great Depression of the 1930s.

Net sales decreased 4.0% to $58.6 million in fiscal year 2009 down from $61.0 million in fiscal year 2008. We experienced a decrease of 14.1% in net sales of our fiber optic cable products during fiscal year 2009, as net sales of fiber optic cables in the U.S. decreased 9.4% and net sales outside of the U.S. of fiber optic cables decreased 23.9%. Total net sales decreased less than those of the fiber optic cable product sales because net sales of enterprise connectivity products were consolidated for a full year during fiscal year 2009, while being consolidated for only five months during fiscal year 2008 after the May 30, 2008 acquisition of SMP Data Communications.

Net sales increased 34.1% to $61.0 million in fiscal year 2008 from $45.5 million in fiscal year 2007. The increase in net sales during fiscal year 2008 compared to fiscal year 2007 was attributable to increases in fiber optic cable sales as well as the acquisition of SMP Data Communications in May 2008, which added $8.0 million to our net sales in fiscal year 2008.

Net sales to customers located outside of the United States were 27%, 32% and 28% of total net sales for fiscal years 2009, 2008 and 2007, respectively. Net sales to customers outside of the United States decreased 20.3% during fiscal year 2009 compared to fiscal year 2008, while net sales to customers located in the United States increased 3.9% compared to fiscal year 2008, as a result of enterprise connectivity products being consolidated for a full year during fiscal year 2009, while being consolidated for only five months during fiscal year 2008 after the May 30, 2008 acquisition of SMP Data Communications. The decrease in net sales to customers located outside of the United States is partially due to the fact that we recognized net sales totaling in the aggregate, approximately $1.8 million as the result of two large international fiber optic cable orders during fiscal year 2008 that did not recur in fiscal year 2009. Additionally, the global economic downturn has contributed to the decrease in net sales to customers located outside of the United States, particularly in areas of the world where the effect of the downturn is more profound such as Latin America and certain parts of the Asia-Pacific region.

We typically expect net sales to be relatively lower in the first half of each fiscal year and relatively higher in the second half of each fiscal year. We believe this historical seasonality pattern is generally indicative of an overall trend and reflective of the buying patterns and budgetary cycles of our customers. However, this pattern may be substantially altered during any quarter or year by the timing of larger projects, other economic factors impacting our industry or impacting the industries of our customer and end-users and macro-economic conditions. While we believe seasonality may be a factor that impacts our quarterly net sales results, we are not able to reliably predict net sales based on seasonality because these other factors can also substantially impact our net sales patterns during the year. During fiscal year 2009, by way of example, we believe global economic weakness has negatively impacted the seasonal increase we typically experience during the second half of our fiscal year. As a result, approximately 52% of our net sales were recognized in the first half of fiscal year 2009. At this time, we are unable to predict what impact the continuing adverse economic conditions will have on our normal seasonality pattern in fiscal year 2010.

Gross Profit

Gross profit decreased 17.9% to $19.8 million in fiscal year 2009 from $24.2 million in fiscal year 2008. Gross profit margin, or gross profit as a percentage of net sales, decreased to 33.9% for fiscal year 2009, compared to 39.6% for fiscal year 2008.

The primary reason for the decrease in gross profit margin is the acquisition of SMP Data Communications on May 30, 2008. Specifically, our enterprise connectivity products have historically had gross profit margin percentages lower than the historical gross profit margins of our fiber optic cable products. The gross profit margin associated with the sale of enterprise connectivity products was 17.8% for fiscal year 2009, while the gross profit margin associated with fiber optic cable sales was 38.6% during fiscal year 2009. Additionally, gross profit has declined as a result of sales of lower volumes of both enterprise connectivity and fiber optic cable products due to the global economic downturn. This negatively impacts gross profit margin as certain fixed manufacturing costs are spread over the lower sales volume.

Exclusive of the impact of our enterprise connectivity products, gross profit on fiber optic cable products decreased 21.9% to $17.6 million for fiscal year 2009, compared to $22.5 million for fiscal year 2008. Our gross profit margin decreased to 38.6% for fiscal year 2009, compared to 42.5% for last year. We believe the decrease in our gross profit margin, exclusive of the impact of enterprise connectivity products, for fiscal year 2009 related primarily to the fact that certain fixed manufacturing costs were spread over lower sales volumes. Our gross profit margin percentages are heavily dependent upon product mix on a quarterly basis and may deviate from expectations based on both anticipated and unanticipated changes in product mix.

Gross profit increased 40.7% to $24.2 million in fiscal year 2008 from $17.2 million in fiscal year 2007. Gross profit margin, or gross profit as a percentage of net sales, increased to 39.6% for fiscal year 2008 compared to 37.7% for fiscal year 2007.

Selling, General and Administrative Expenses

SG&A expenses increased to $22.3 million in fiscal year 2009 from $20.7 million in fiscal year 2008. SG&A expenses as a percentage of net sales were 38.1% in fiscal year 2009 compared to 33.8% in fiscal year 2008.

The increase in SG&A expenses during fiscal year 2009 compared to last year was due primarily to the acquisition of SMP Data Communications on May 30, 2008, as a full year of SG&A expenses associated with the SMP Data Communications acquisition were consolidated in fiscal year 2009, compared to only five months of SG&A expenses associated with the SMP Data Communications acquisition being consolidated in fiscal year 2008. SG&A expenses also increased when compared to fiscal year 2008 due to SG&A expenses incurred by Centric Solutions, a start-up business acquired by us on August 1, 2008 to provide turnkey cabling and connectivity solutions for the datacenter market. SG&A expenses of Centric Solutions increased by approximately $1.1 million when compared to fiscal year 2008.

Our SG&A expenses have also been negatively impacted by the costs associated with the implementation of certain provisions of Sarbanes-Oxley at our Asheville facility and Centric Solutions and the on-going costs associated with compliance with the requirements of Sarbanes-Oxley.

SG&A expenses increased to $20.7 million in fiscal year 2008 from $15.3 million in fiscal year 2007. SG&A expenses as a percentage of net sales were 33.8% in fiscal year 2008 compared to 33.6% in fiscal year 2007. The increase was primarily due to the acquisition of SMP Data Communications. Excluding the impact of the acquisition of SMP Data Communications (but including various post-acquisition costs associated with the integration of SMP Data Communications), the increase in SG&A expenses during fiscal year 2008 compared to fiscal year 2007 was primarily due to increased compensation and commission costs, increased marketing and sales related expenditures and the post-acquisition costs associated with the integration of SMP Data Communications, including various professional fees.

Royalty Income, Net

We recognized royalty income, net of related expenses, totaling $878,000 during fiscal year 2009, compared to royalty income, net of related expenses totaling $636,000 during fiscal year 2008. This income is largely offset by the expense of the amortization of intangible assets associated with our royalty income, net (as further described in the *Amortization of Intangible Assets* section described herein), resulting from the required write-up of intangible assets to fair value when acquired as part of the acquisition of SMP Data Communications on May 30, 2008.

Amortization of Intangible Assets

We recognized $825,000 of amortization expense, associated with intangible assets, during fiscal year 2009, compared to amortization expense of $469,000 during fiscal year 2008. The increase in amortization expense, when comparing the two fiscal years, is due to the fact that only five months of amortization expense were recorded in fiscal year 2008 as a result of the timing of the acquisition of SMP Data Communications.

Loss on Impairment of Intangible Assets

During our third quarter of fiscal year 2009, we discontinued marketing our connectivity products under the SMP Data Communications trade name and began to market these products under the names Optical Cable Corporation and OCC. As a result, we determined the value of the trade name acquired in the acquisition of SMP Data Communications was impaired and recorded a non-cash, non-recurring impairment charge in the amount of $190,000 during the third quarter of fiscal year 2009.

During our fourth quarter of fiscal year 2009, we re-evaluated the value assigned to the customer list acquired in connection with the acquisition of SMP Data Communications. Using more current post-acquisition financial information, we determined that the customer list asset was impaired and recorded a non-cash, non-recurring impairment charge in the amount of $153,000 during the fourth quarter of fiscal year 2009.

Other Income (Expense), Net

We recognized other income, net of $165,000 in fiscal year 2009 compared to other expense, net of $171,000 in fiscal year 2008. Other income (expense), net for fiscal year 2009 is comprised of: interest income totaling $831,000 recognized during the fourth quarter of fiscal year 2009 in connection with accounting for the acquisition of AOS on October 31, 2009, and related to our note receivable from AOS; interest expense totaling $682,000 related to monies borrowed in connection with the acquisition of SMP Data Communications in fiscal year 2008; and other miscellaneous items which may fluctuate from period to period.

We recognized other expense, net in fiscal year 2008 of $171,000 compared to other income, net of $48,000 in fiscal year 2007.

Income (Loss) Before Income Taxes

We reported a loss before income taxes of $2.6 million for fiscal year 2009 compared to income before income taxes of $3.5 million in fiscal year 2008. The change was primarily due to the decrease in gross profit of $4.3 million in fiscal year 2009 compared to fiscal year 2008 and the $1.7 million increase in SG&A expenses. The majority of our loss before income taxes during fiscal year 2009 was attributable to our investment in Centric Solutions, which posted a loss before taxes of $1.6 million in fiscal year 2009.

Income before income taxes was $3.5 million in fiscal year 2008 compared to income before income taxes of $1.9 million in fiscal year 2007. This increase was primarily due to the increase in gross profit of $7.0 million, partially offset by the $5.3 million increase in SG&A expenses.

Income Tax Expense (Benefit)

Income tax benefit totaled $706,000 for fiscal year 2009, compared to income tax expense of $1.3 million for fiscal year 2008. Our effective tax rate was 26.8% in fiscal year 2009, compared to 37.0% in fiscal year 2008.

Generally, fluctuations in our effective tax rates are primarily due to the amount and timing of various tax deductions and benefits, including the impact of certain grants of restricted shares to members of management, as well as certain benefits from the Internal Revenue Code Section 199 manufacturing deduction, which is not available in periods without taxable income.

Income tax expense totaled $1.3 million for fiscal year 2008 compared to income tax expense of $665,000 for fiscal year 2007. Our effective tax rate was 37.0% in fiscal year 2008 compared to 34.7% in fiscal year 2007.

Net Income (Loss)

Net loss for fiscal year 2009 was $1.9 million compared to net income of $2.2 million in fiscal year 2008. This change was due primarily to the decrease in income before income tax expense of $6.1 million for fiscal year 2009 compared with fiscal year 2008, partially offset by the recognition of a tax benefit of $706,000 compared to tax expense of $1.3 million in fiscal year 2008.

Net income increased 76.6% to $2.2 million in fiscal year 2008 compared to net income of $1.3 million in fiscal year 2007. This increase was due primarily to the increase in income before income tax expense of $1.6 million for fiscal year 2008 compared with fiscal year 2007, partially offset by the increase in income tax expense of $636,000 when comparing fiscal year 2008 to fiscal year 2007.

Financial Condition

Total assets decreased $4.5 million, or 8.2%, to $50.3 million at October 31, 2009, from $54.8 million at October 31, 2008. This decrease is primarily due to a $4.3 million decrease in notes receivable in connection with the acquisition of AOS (see note 2 to the consolidated financial statements). The decrease in total assets was also due to a $2.0 million decrease in cash and cash equivalents and a $2.5 million decrease in accounts receivable, net, partially offset by a $5.3 million increase in intangible assets (including goodwill) and a $1.8 million increase in income taxes refundable. Further detail regarding the decrease in cash and cash equivalents is provided in our discussion of "Liquidity and Capital Resources." The decrease in accounts receivable, net largely resulted from the decrease in net sales in the fourth quarter of fiscal year 2009 when compared to the fourth quarter of fiscal year 2008 and the $1.5 million decrease in accounts receivable, net related to the exercise of the warrant as part of the acquisition of AOS (see note 2 to the consolidated financial statements), partially offset by the increase of $1.2 million by adding AOS's accounts receivable purchased as part of the acquisition. The increase in intangible assets is due to the acquisition of AOS (see note 2 to the consolidated financial statements) and the increase in income taxes refundable is a result of our effective tax rate for the year being applied to our loss before income taxes for the fiscal year.

Total liabilities decreased $2.9 million or 14.7% to $17.1 million at October 31, 2009, from $20.0 million at October 31, 2008. This decrease is primarily due to a $2.4 million decrease in long-term debt in connection with the repayment of the capital acquisitions term loan.

Total shareholders' equity at October 31, 2009 decreased $1.6 million, or 4.5% during fiscal year 2009. The decrease resulted from a net loss of $1.9 million and the repurchase and retirement of 150,000 shares of our common stock for $455,000, partially offset by share-based compensation totaling $804,000.

Liquidity and Capital Resources

Our primary capital needs during fiscal year 2009 have been to fund working capital requirements, capital expenditures, the acquisition of AOS (see note 2 to the consolidated financial statements) and the repayment of our capital acquisitions term loan. Our primary source of capital for these purposes has been existing cash and cash equivalents and cash provided by operations. As of October 31, 2009, we had outstanding loan balances under two of our credit facilities totaling $8.5 million. As of October 31, 2008, we had outstanding loan balances under three of our credit facilities totaling $11.0 million.

Our cash totaled $1.9 million as of October 31, 2009, a decrease of $2.0 million, compared to $3.9 million as of October 31, 2008. The decrease in cash for the fiscal year ended October 31, 2009, primarily resulted from the repayment of our capital acquisitions term loan and other principal payments on our long-term debt totaling $2.4 million, the repurchase and retirement of 150,000 shares of our common stock for $455,000, capital expenditures of $675,000 and the cash consideration used in the acquisition of AOS of $643,000, partially offset by net cash provided by operating activities of $2.8 million.

On October 31, 2009, we had working capital of $20.1 million, compared to $23.8 million as of October 31, 2008. The ratio of current assets to current liabilities as of October 31, 2009, was 3.6 to 1 compared to 3.9 to 1 as of October 31, 2008. The decrease in working capital during fiscal year 2009 was primarily due the $2.5 million decrease in accounts receivable, net, and the $2.0 million decrease in cash and cash equivalents, partially offset by the $1.8 million increase in income taxes refundable.

Net Cash

Net cash provided by operating activities was $2.8 million in fiscal year 2009 compared to net cash provided by operating activities of $3.0 million in fiscal year 2008, and net cash provided by operating activities of $6.1 million in fiscal year 2007.

Net cash provided by operating activities during fiscal year 2009 primarily resulted from certain adjustments to reconcile net loss to net cash provided by operating activities including depreciation and amortization of $3.1 million and share-based compensation expense of $920,000. Additionally, the decrease in accounts receivable in

the amount of $1.9 million and a decrease in inventories in the amount of $1.9 million, in both cases exclusive of assets and liabilities of AOS at the date of acquisition, further contributed to net cash provided by operating activities. All of the aforementioned factors positively affecting cash provided by operating activities were partially offset by the increase in income taxes refundable of $1.8 million and a decrease in accounts payable and accrued expenses (including accrued compensation and payroll taxes) totaling $2.0 million, again exclusive of assets and liabilities of AOS at the date of acquisition, and a net loss totaling $1.9 million.

Net cash provided by operating activities during fiscal year 2008 primarily resulted from net income of $2.2 million and certain adjustments to reconcile net income to net cash provided by operating activities, including depreciation and amortization of $2.3 million and share-based compensation expense of $761,000, offset by a deferred tax benefit of $832,000. Additionally, the increase in accounts payable and accrued expenses (including accrued compensation and payroll taxes) totaling $1.2 million further contributed to net cash provided by operating activities. All of the aforementioned factors positively affecting cash provided by operating activities were partially offset by an increase in inventories of $1.7 million.

Net cash provided by operating activities during fiscal year 2007 primarily resulted from net income of $1.3 million and certain adjustments to reconcile net income to net cash provided by operating activities, including depreciation and amortization of $1.6 million and share-based compensation expense of $832,000. Additionally, the decrease in inventories totaling $1.3 million and the increase in accounts payable and accrued expenses (including accrued compensation and payroll taxes) totaling $1.7 million further contributed to net cash provided by operating activities. All of the aforementioned factors positively affecting cash provided by operating activities were partially offset by an increase in accounts receivable, net of $883,000. The increase in accounts receivable, net resulted from increased sales generated in the fourth quarter of fiscal year 2007 when compared to fiscal year 2006.

Net cash used in investing activities totaled $1.5 million in fiscal year 2009 compared to $13.3 million in fiscal year 2008 and $2.0 million in 2007. Net cash used in investing activities during fiscal year 2009 resulted primarily from the acquisition of AOS and purchases of property and equipment and deposits for the purchase of property and equipment. Net cash used in investing activities during fiscal year 2008 resulted from the acquisition of SMP Data Communications, purchases of property and equipment and advances made to AOS. Net cash used in investing activities during fiscal year 2007 resulted primarily from purchases of property and equipment, deposits for the purchase of property and equipment and advances made to AOS.

Net cash used in financing activities was $3.3 million in fiscal year 2009 compared to net cash provided by financing activities of $11.0 million in fiscal year 2008 and net cash used in financing activities of $1.5 million in fiscal year 2007. Net cash used in financing activities in fiscal year 2009 resulted primarily from the repayment of long-term debt of $2.4 million. Net cash provided by financing activities in fiscal year 2008 resulted from proceeds from notes payable to our bank under our credit facilities in the amount of $11.0 million. Net cash used in financing activities in fiscal year 2007 resulted from repayment of a note payable to our bank under one of our lines of credit in the amount of $991,000 and the repurchase and retirement of 141,000 shares of our common stock for $723,000, partially offset by proceeds received from the exercise of warrants to purchase our common stock totaling $281,000.

AOS Loan

On April 22, 2005, we agreed to extend a loan to AOS. On October 31, 2009, we acquired 100% of the equity of AOS (see note 2 to the consolidated financial statements). Our loan to, and the related transactions with, AOS was part of a strategy to preserve future options for us with respect to (i) expanding our product line offering, (ii) providing additional channels to market for military and harsh environment fiber optic cable products, and (iii) responding to potential changes to existing strategic partnerships as deemed necessary or appropriate by management in reaction to changes in the competitive landscape (specifically with respect to fiber optic cable products for the military and harsh environment applications).

Through October 31, 2009 and 2008, we had advanced a total of $4.5 million and $4.3 million, net (including accrued interest and accounts receivable from product sales), respectively, to AOS. Additionally, we had accrued interest receivable of $761,000 related to the advances, as of October 31, 2009. We discontinued recognizing interest income beginning in the third quarter of fiscal year 2006 related to the loan based on uncertainty as to when the interest would be collected. As a result of the acquisition on October 31, 2009, accumulated interest income in the amount of $819,000 ($58,000 of which was included in the note receivable from AOS as of October 31, 2009) was recognized.

Valley Bank Credit Facilities

On May 30, 2008, we established $17.0 million in credit facilities (collectively, the "Credit Facilities") with Valley Bank to provide for our working capital needs and to finance the acquisition of SMP Data Communications. The Credit Facilities provide a working capital line of credit (the "Revolving Loan"), a real estate term loan (the "Virginia Real Estate Loan"), a supplemental real estate term loan (the "North Carolina Real Estate Loan"), and a capital acquisitions term loan (the "Capital Acquisitions Term Loan"). Of our $17.0 million in total credit facilities, we currently have approximately $6.0 million unused and available.

The Revolving Loan provides up to $6.0 million for our working capital needs and bears interest at LIBOR plus 2.15%, but provides a lower rate option if we maintain specific depository amounts with Valley Bank. We may borrow up to 85% of our consolidated eligible accounts receivable, (excluding foreign accounts receivable), plus 35% of certain consolidated uninsured foreign receivables (or 100% of insured foreign receivables, without duplication) up to a maximum of $1.5 million plus 25% of our consolidated eligible inventory. The Revolving Loan expires on February 28, 2010; however we are engaged in active discussions with our current lender and other financial institutions to replace our revolving loan with a revolving loan with terms we believe will be appropriate for our current financing needs. As of October 31, 2009, we had no outstanding borrowings under our Revolving Loan and $6.0 million in available credit.

The Virginia Real Estate Loan was fully funded on May 30, 2008. The Virginia Real Estate Loan accrues interest at 6% and payments of principal and interest are based on a 25 year amortization. Payments on the Virginia Real Estate Loan will be made in 59 equal installments of principal and interest in the amount of $42,241 for the period from July 1, 2008 through May 1, 2013. The balance of the Virginia Real Estate Loan will be due June 1, 2013. As of October 31, 2009, we had outstanding borrowings of $6.3 million under our Virginia Real Estate Loan.

The North Carolina Real Estate Loan was fully funded on May 30, 2008. The North Carolina Real Estate Loan accrues interest at 6% and payments of principal and interest are based on a 25 year amortization. Payments on the North Carolina Real Estate Loan will be made in 59 equal installments of principal and interest in the amount of $14,557 for the period from July 1, 2008 through May 1, 2013. The balance of the North Carolina Real Estate Loan will be due June 1, 2013. As of October 31, 2009, we had outstanding borrowings of $2.2 million under our North Carolina Real Estate Loan.

The Capital Acquisitions Term Loan was fully funded on October 6, 2008 and was repaid in full on October 29, 2009. Therefore, as of October 31, 2009, we had no outstanding borrowings on our Capital Acquisitions Term Loan.

The Credit Facilities are secured by a first priority lien on all of our personal property and assets as well as a first lien deed of trust on our real property, in both cases including the assets of the Company's Asheville facility.

Capital Expenditures

We did not have any material commitments for capital expenditures as of October 31, 2009. During our 2009 fiscal year budgeting process, we included an estimate for capital expenditures for the year of $2.0 million. We actually incurred capital expenditures totaling $675,000, excluding the acquisition of AOS, for items including new manufacturing equipment, improvements to existing manufacturing equipment, new information technology equipment and software, upgrades to existing information technology equipment and software, furniture and other capitalizable expenditures for property, plant and equipment for fiscal year 2009.

During our 2010 fiscal year budgeting process, we included an estimate for capital expenditures of $2.0 million in fiscal year 2010. These expenditures will be funded out of our working capital or our existing credit facilities or any replacement thereof. This amount includes estimates for capital expenditures for similar types of items as

those purchased in fiscal year 2009. Capital expenditures are reviewed and approved based on a variety of factors including, but not limited to, current cash flow considerations, the expected return on investment, project priorities, impact on current or future product offerings, availability of personnel necessary to implement and begin using acquired equipment, and economic conditions in general. Historically, we have spent less than our budgeted capital expenditures in any given year.

Corporate acquisitions and other strategic investments are considered outside of our annual capital expenditure budgeting process.

Future Cash Flow Considerations

We believe that our cash flow from operations, our cash on hand and our existing or replacement credit facilities will be adequate to fund our operations for at least the next twelve months.

From time to time, we are involved in various claims, legal actions and regulatory reviews arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our financial position, results of operations or liquidity.

Seasonality

Historically, net sales are relatively lower in the first half of each fiscal year and relatively higher in the second half of each fiscal year, which we believe may be partially due to construction cycles and budgetary considerations of our customers. For example, our trend has been that an average of approximately 45% of our net sales occurred during the first half of the fiscal year and an average of approximately 55% of our net sales occurred during the second half of the fiscal year for fiscal years 1996 through 2008, excluding fiscal years 2001, 2002 and 2009. Fiscal years 2001, 2002 and 2009 are excluded because we believe net sales did not follow this pattern due to overall economic conditions in the industry and/or in the world during these years.

We believe our net sales have generally been impacted by seasonality factors. We typically expect net sales to be relatively lower in the first half of each fiscal year and relatively higher in the second half of each fiscal year. We have seen that this pattern may be substantially altered by the timing of larger projects or other economic factors impacting our industry or impacting the industries of our customers and end-users. As a result, while we believe seasonality may be a factor that impacts our quarterly net sales results, we are not able to reliably predict net sales based on seasonality because these other factors can also substantially impact our net sales patterns during the year.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based on the consolidated financial statements and accompanying notes that have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 to the consolidated financial statements provides a summary of our significant accounting policies. The following are areas requiring significant judgments and estimates due to uncertainties as of the reporting date: revenue recognition, trade accounts receivable and the allowance for doubtful accounts, inventories, long-lived assets, commitments and contingencies and business combinations.

Application of the critical accounting policies discussed in the section that follows requires management's significant judgments, often as a result of the need to make estimates of matters that are inherently uncertain. If actual results were to differ materially from the estimates made, the reported results could be materially affected. We are not currently aware of any reasonably likely events or circumstances that would result in materially different results.

Revenue Recognition

Management views revenue recognition as a critical accounting estimate since we must estimate an allowance for sales returns for the reporting period. This allowance reduces net sales for the period and is based on our analysis and judgment of historical trends, identified returns and the potential for additional returns. The estimates for sales returns did not materially differ from actual results for the year ended October 31, 2009.

Trade Accounts Receivable and the Allowance for Doubtful Accounts

Management views trade accounts receivable and the related allowance for doubtful accounts as a critical accounting estimate since the allowance for doubtful accounts is based on judgments and estimates concerning the likelihood that individual customers will pay the amounts included as receivable from them. In determining the amount of allowance for doubtful accounts to be recorded for individual customers, we consider the age of the receivable, the financial stability of the customer, discussions that may have occurred with the customer and our judgment as to the overall collectibility of the receivable from that customer. In addition, we establish an allowance for all other receivables for which no specific allowances are deemed necessary. This general allowance for doubtful accounts is based on a percentage of total trade accounts receivable with different percentages used based on different age categories of receivables. The percentages used are based on our historical experience and our current judgment regarding the state of the economy and the industry.

Inventories

Management views the determination of the net realizable value of inventories as a critical accounting estimate since it is based on judgments and estimates regarding the salability of individual items in inventory and an estimate of the ultimate selling prices for those items. Individual inventory items are reviewed and adjustments are made based on the age of the inventory and our judgment as to the salability of that inventory in order for our inventories to be valued at the lower of cost or net realizable value.

Goodwill and Long-lived Assets

Management views the determination of the carrying value of long-lived assets as a critical accounting estimate since we must determine an estimated economic useful life in order to properly amortize or depreciate our long-lived assets and because we must consider if the value of any of our long-lived assets have been impaired, requiring adjustment to the carrying value.

Economic useful life is the duration of time the asset is expected to be productively employed by us, which may be less than its physical life. Management's assumptions on wear and tear, obsolescence, technological advances and other factors affect the determination of estimated economic useful life. The estimated economic useful life of an asset is monitored to determine if it continues to be appropriate in light of changes in business circumstances. For example, technological advances or excessive wear and tear may result in a shorter estimated useful life than originally anticipated. In such a case, we would depreciate the remaining net book value of an asset over the new estimated remaining life, thereby increasing depreciation expense per year on a prospective basis. We must also consider similar issues when determining whether or not an asset has been impaired to the extent that we must recognize a loss on such impairment.

The Company records intangible assets acquired in accordance with Accounting Standards Codification 350-30, *Goodwill and Intangible Assets* ("ASC 350-30"). In accordance with ASC 350-30, the Company amortizes intangible assets (other than goodwill) over their respective finite lives up to their estimated residual values.

The Company will not amortize goodwill, but will test it for impairment annually in the fiscal fourth quarter, or earlier if indications of potential impairment exist.

Commitments and Contingencies

Management views accounting for contingencies as a critical accounting estimate since loss contingencies arising from product warranties and defects, claims, assessments, litigation, fines and penalties and other sources require judgment as to any probable liabilities incurred. For example, accrued product warranty costs recorded by us are based primarily on historical experience of actual warranty claims and costs as well as current information with respect to warranty claims and costs. Actual results could differ from the expected results determined based on such estimates.

Business Combinations

For purchase acquisitions accounted for as a business combination, the Company is required to record the assets acquired, including identified intangible assets and liabilities assumed at their fair value, which in many instances involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. For additional discussion concerning our valuation of intangible assets, see note 7 to the consolidated financial statements, Goodwill and Other Intangible Assets.

Quantitative and Qualitative Disclosures About Market Risk

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of October 31, 2009 our financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk.

Future Accounting Considerations

In September 2006, the FASB issued Accounting Standards Codification 820-10, *Fair Value Measurements* ("ASC 820-10"), which clarifies the definition of fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles, and expands disclosures regarding fair value measurements. ASC 820-10 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. ASC 820-10 is effective for financial statements issued for fiscal years beginning after November 15, 2007, but has been delayed for treatment of non-financial assets and liabilities until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of the portion of ASC 820-10 other than for treatment of non-financial assets and liabilities was effective November 1, 2008 and did not have any impact on our results of operations, financial position or liquidity. The adoption of ASC 820-10 for the treatment of non-financial assets and liabilities will be effective for us November 1, 2009 and is not expected to have any impact on our results of operations, financial position or liquidity.

In February 2007, the FASB issued Accounting Standards Codification 825-10, *The Fair Value Option for Financial Assets and Financial Liabilities* ("ASC 825-10"). ASC 825-10 allows entities to measure eligible financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. ASC 825-10 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The adoption of ASC 825-10, effective November 1, 2008, did not have any impact on our results of operations, financial position or liquidity.

In December 2007, the FASB issued Accounting Standards Codification 805-10, *Business Combinations* ("ASC 805-10"). ASC 805-10 requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred to as the purchase method). Companies applying this method will have to identify the acquirer, determine the acquisition date and purchase price and recognize at their acquisition-date fair values the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree. In the case of a bargain purchase, the acquirer is required to reevaluate the measurements of the recognized assets and liabilities at the acquisition date and recognize a gain on that date if an excess remains.

ASC 805-10 becomes effective for acquisitions during fiscal annual reporting periods beginning after December 15, 2008. The adoption of ASC 805-10 is not expected to have any impact on our results of operations, financial position or liquidity.

In December 2007, the FASB issued Accounting Standards Codification 810-10, *Consolidation* (“ASC 810-10”). ASC 810-10 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. In addition, this statement establishes a single method of accounting for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. ASC 810-10 becomes effective for fiscal periods beginning after December 15, 2008. We are currently evaluating the impact of ASC 810-10.

In April 2008, the FASB issued Accounting Standards Codification 350-30, *Determination of the Useful Life of Intangible Assets* (“ASC 350-30”). ASC 350-30 amends the factors that an entity should consider in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. ASC 350-30 requires an entity to consider its own historical experience in renewing or extending the term of the arrangement, consistent with its expected use of the asset. In the absence of historical experience, an entity should consider assumptions that market participants would use about renewal or extension as adjusted for entity-specific factors. ASC 350-30 is effective for fiscal years beginning after December 15, 2008. The adoption of the Statement is not expected to have any impact on our results of operations, financial position or liquidity.

In May 2009, the FASB issued Accounting Standards Codification 855-10, *Subsequent Events* (“ASC 855-10”). ASC 855-10 sets forth general standards of accounting for and disclosures of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. ASC 855-10 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. ASC 855-10 is effective for interim and annual periods ending after June 15, 2009. We adopted ASC 855-10 for the quarter ended July 31, 2009 and subsequent periods. We evaluated subsequent events through January 29, 2010, the date on which the financial statements were issued.

In June 2009, the FASB issued Accounting Standards Codification 105, *Generally Accepted Accounting Principles* (“ASC 105”). ASC 105 establishes only two levels of U.S. generally accepted accounting principles (“GAAP”), authoritative and nonauthoritative. The FASB Accounting Standards Codification (“Codification”) is the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (“SEC”), which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification are nonauthoritative. ASC 105 was effective for financial statements for interim and annual reporting periods ending after September 15, 2009. We have updated our references to GAAP in our consolidated financial statements for the fiscal year ended October 31, 2009. Adoption of this standard did not have an impact on our results of operations, financial position or liquidity.

There are no other new accounting standards issued, but not yet adopted by us, which are expected to be applicable to our financial position, operating results or financial statement disclosures.

Disagreements with Accountants

We did not have any disagreements with our accountants on any accounting or financial disclosure made during our fiscal year ended October 31, 2009.

Consolidated Balance Sheets
October 31, 2009 and 2008

	October 31,	
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 1,948,334	$ 3,910,120
Trade accounts receivable, net of allowance for doubtful accounts of $108,913 in 2009 and $150,941 in 2008	9,532,869	12,034,547
Other receivables	433,219	868,359
Income taxes refundable	1,842,008	63,102
Inventories	12,306,286	13,022,260
Prepaid expenses and other assets	479,601	539,448
Deferred income taxes	1,160,046	1,484,798
Total current assets	27,702,363	31,922,634
Property and equipment, net	14,972,379	16,128,657
Note receivable	—	4,336,280
Goodwill	6,288,803	—
Intangible assets, net	1,271,624	2,250,365
Other assets, net	91,629	199,049
Total assets	$ 50,326,798	$ 54,836,985
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt	$ 166,909	$ 262,122
Accounts payable and accrued expenses	6,116,946	5,218,702
Accrued compensation and payroll taxes	1,348,281	2,677,104
Total current liabilities	7,632,136	8,157,928
Long-term debt, excluding current installments	8,369,126	10,690,979
Deferred income taxes—noncurrent	149,768	946,752
Other noncurrent liabilities	919,013	209,122
Total liabilities	17,070,043	20,004,781
Shareholders' equity:		
Preferred stock, no par value, authorized 1,000,000 shares; none issued and outstanding	—	—
Common stock, no par value, authorized 50,000,000 shares; issued and outstanding 6,508,821 shares in 2009 and 6,208,861 shares in 2008	5,166,016	4,362,267
Retained earnings	28,090,739	30,469,937
Total shareholders' equity	33,256,755	34,832,204
Commitments and contingencies		
Total liabilities and shareholders' equity	$ 50,326,798	$ 54,836,985

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

Years ended October 31, 2009, 2008 and 2007

	Years ended October 31,		
	2009	2008	2007
Net sales	$58,588,560	$60,998,083	$45,502,705
Cost of goods sold	38,747,590	36,837,994	28,332,900
Gross profit	19,840,970	24,160,089	17,169,805
Selling, general and administrative expenses	22,345,311	20,642,130	15,299,861
Royalty income, net	(877,809)	(635,638)	—
Amortization of intangible assets	825,399	469,417	—
Loss on impairment of intangible assets	343,590	—	—
Income (loss) from operations	(2,795,521)	3,684,180	1,869,944
Other income (expense), net:			
Interest income	831,084	99,415	119,238
Interest expense	(681,851)	(246,538)	(98,382)
Other, net	16,130	(23,577)	27,166
Other income (expense), net	165,363	(170,700)	48,022
Income (loss) before income taxes	(2,630,158)	3,513,480	1,917,966
Income tax expense (benefit)	(705,659)	1,301,728	665,328
Net income (loss)	$ (1,924,499)	$ 2,211,752	$ 1,252,638
Net income (loss) per share:			
Basic and diluted	$ (0.34)	$ 0.36	$ 0.21

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years ended October 31, 2009, 2008 and 2007

	Common Stock		Retained Earnings	Total Shareholders' Equity
	Shares	Amount		
Balances at October 31, 2006	6,008,016	$2,670,343	$27,764,597	$30,434,940
Share-based compensation, net	166,016	732,458	—	732,458
Repurchase and retirement of common stock (at cost)	(141,273)	—	(722,515)	(722,515)
Exercise of warrants ($4.88 per share)	57,572	280,953	—	280,953
Net income	—	—	1,252,638	1,252,638
Balances at October 31, 2007	6,090,331	3,683,754	28,294,720	31,978,474
Share-based compensation, net	127,630	678,513	—	678,513
Repurchase and retirement of common stock (at cost)	(9,100)	—	(36,535)	(36,535)
Net income	—	—	2,211,752	2,211,752
Balances at October 31, 2008	6,208,861	4,362,267	30,469,937	34,832,204
Share-based compensation, net	449,687	803,749	—	803,749
Repurchase and retirement of common stock (at cost)	(149,727)	—	(454,699)	(454,699)
Net loss	—	—	(1,924,499)	(1,924,499)
Balances at October 31, 2009	6,508,821	$5,166,016	$28,090,739	$33,256,755

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended October 31, 2009, 2008 and 2007

	Years ended October 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net income (loss)	$(1,924,499)	$ 2,211,752	$ 1,252,638
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	3,081,120	2,282,878	1,603,741
Bad debt expense (recovery)	(62,547)	(42,023)	28,197
Deferred income tax expense (benefit)	566,103	(831,816)	286,512
Loss on impairment of intangible assets	343,590	—	—
Share-based compensation expense	920,223	761,082	831,979
Loss on disposal of machinery and equipment	—	—	1,255
(Increase) decrease in:			
Trade accounts receivable	1,913,497	172,363	(883,440)
Other receivables	436,657	(283,710)	(84,161)
Income taxes refundable	(1,778,906)	(63,102)	—
Inventories	1,934,637	(1,740,412)	1,274,501
Prepaid expenses and other assets	73,709	(124,098)	80,472
Accrued interest receivable on note receivable	(818,711)	—	—
Other assets, net	22,600	(64,769)	133,953
Increase (decrease) in:			
Accounts payable and accrued expenses	(402,992)	89,278	977,341
Accrued compensation and payroll taxes	(1,585,203)	877,881	733,709
Income taxes payable	—	(413,664)	(140,325)
Other noncurrent liabilities	47,283	209,122	—
Net cash provided by operating activities	2,766,561	3,040,762	6,096,372
Cash flows from investing activities:			
Purchase of and deposits for the purchase of property and equipment	(674,853)	(1,245,923)	(829,739)
Advances on note receivable	(142,364)	(845,603)	(1,151,220)
Business acquisitions, net of cash acquired	(643,371)	(11,218,229)	—
Net cash used in investing activities	(1,460,588)	(13,309,755)	(1,980,959)
Cash flows from financing activities:			
Outstanding (reversal of) checks in excess of funds on deposit	(279,520)	279,520	—
Payroll taxes withheld and remitted on share-based payments	(116,474)	(82,569)	(99,521)
Proceeds from long-term debt and notes payable to bank	—	11,000,000	—
Principal payments on long-term debt and notes payable to bank	(2,417,066)	(46,899)	(990,724)
Payments for financing costs	—	(73,282)	—
Repurchase of common stock	(454,699)	(36,535)	(722,515)
Proceeds from exercise of warrants	—	—	280,953
Net cash provided by (used in) financing activities	(3,267,759)	11,040,235	(1,531,807)
Net increase (decrease) in cash and cash equivalents	(1,961,786)	771,242	2,583,606
Cash and cash equivalents at beginning of year	3,910,120	3,138,878	555,272
Cash and cash equivalents at end of year	$ 1,948,334	$ 3,910,120	$ 3,138,878
Supplemental disclosure of cash flow information:			
Cash payments for interest	$ 669,378	$ 180,292	$ 4,991
Income taxes paid, net	$ 480,285	$ 2,435,961	$ 519,142
Noncash investing and financing activities:			
Capital expenditures accrued in accounts payable	$ 22,262	$ 75,652	$ 8,257
Noncash consideration in acquisition of subsidiary	$ 1,980,229	$ —	$ —
Noncash capitalization of note receivable and accrued interest in connection with acquisition of subsidiary	$ 5,297,355	$ —	$ —

See accompanying notes to consolidated financial statements.

(1) Description of Business and Summary of Significant Accounting Policies

(a) Description of Business

Optical Cable Corporation and its subsidiaries (collectively, the “Company”) is a leading manufacturer of a broad range of fiber optic and copper data communication cabling and connectivity solutions primarily for the enterprise market, offering an integrated suite of high quality, warranted products which operate as a system solution or seamlessly integrate with other providers’ offerings. The Company’s product offerings include cabling and connectivity products designed for uses ranging from commercial, enterprise network, datacenter, residential and campus installations to customized products for specialty applications and harsh environments, including military, industrial, mining and broadcast applications.

On October 31, 2009, Optical Cable Corporation acquired Applied Optical Systems, Inc. (“AOS”), with offices and manufacturing facilities located near Dallas, Texas. Founded in 2003, AOS is a wholly owned subsidiary of Optical Cable Corporation that designs, develops and manufactures a broad range of specialty fiber optic connectors and connectivity solutions primarily for use in military and other harsh environment applications.

On May 30, 2008, Optical Cable Corporation acquired Superior Modular Products Incorporated, doing business as SMP Data Communications (“SMP Data Communications”), with offices and manufacturing facilities located near Asheville, North Carolina. On October 31, 2009, SMP Data Communications was merged with and into Optical Cable Corporation, whereby SMP Data Communications ceased to exist as a separate entity.

On August 1, 2008, Optical Cable Corporation acquired 70% of the authorized membership interests of Centric Solutions LLC (“Centric Solutions”), located near Dallas, Texas. Centric Solutions is a start-up business founded in 2008 to provide turnkey cabling and connectivity solutions for the datacenter market.

The Company’s cabling and connectivity products are used for high bandwidth transmission of data, video and audio communications. The enterprise market into which the Company primarily sells its products includes local area network and premises markets. The Company’s product offering includes products well-suited for use in various other short- to moderate-distance applications as well. The Company’s products are sold worldwide. Also see note 12.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Optical Cable Corporation and its wholly owned and majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Cash and Cash Equivalents

All of the Company’s cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC). As of October 31, 2009 and 2008, the Company had bank deposits in excess of the insured limit totaling $1,447,124 and $2,499,319, respectively.

There were no outstanding checks in excess of funds on deposit as of October 31, 2009. Outstanding checks in excess of funds on deposit (bank overdrafts) totaled $279,520 as of October 31, 2008 and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheet as of October 31, 2008.

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. As of October 31, 2009 and 2008, the Company had cash equivalents, in the form of overnight repurchase agreements and money market funds, totaling $2.3 million and $4.0 million, respectively.

(d) Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not typically bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company reviews outstanding trade accounts receivable at the end of each quarter and records allowances for doubtful accounts as deemed appropriate for (i) certain individual customers and (ii) for all other trade accounts receivable in total. In determining the amount of allowance for doubtful accounts to be recorded for individual customers, the Company considers the age of the receivable, the financial stability of the customer, discussions that may have occurred with the customer and management's judgment as to the overall collectibility of the receivable from that customer. In addition, the Company establishes an allowance for all other receivables for which no specific allowances are deemed necessary. This portion of the allowance for doubtful accounts is based on a percentage of total trade accounts receivable with different percentages used based on different age categories of receivables. The percentages used are based on the Company's historical experience and management's current judgment regarding the state of the economy and the industry. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

(e) Inventories

Inventories are stated at the lower of cost (first-in, first-out basis, except for optical fibers for which specific identification is used) or market, or net realizable value. The determination of cost includes raw materials, direct labor and manufacturing overhead. The cost of optical fibers, included in raw materials, is determined using specific identification for optical fibers. The cost of work in process and finished goods inventories is determined either as average cost or standard cost, depending upon the product type. A standard cost system is used to estimate the actual costs of inventory for certain product types. Actual costs and production cost levels may vary from the standards established and such variances are charged to cost of goods sold or capitalized to inventory. Also see note 4.

(f) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for using both straight-line and declining balance methods over the estimated useful lives of the assets. Estimated useful lives are thirty to thirty-nine years for buildings and three to seven years for building improvements, machinery and equipment and furniture and fixtures. Also see note 6.

Equipment under capital leases is stated at the present value of minimum lease payments less accumulated amortization. Equipment under capital leases is amortized straight line over the shorter of the lease term or estimated useful life of the asset.

(g) Revenue Recognition

The Company recognizes revenue when products are shipped or delivered to the customer and the customer takes ownership and assumes risk of loss (based on shipping terms), collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and sales price is fixed or determinable. Customers generally do not have the right of return unless a product is defective or damaged and is within the parameters of the product warranty in effect for the sale.

The Company recognizes royalty income, net of related expenses, on an accrual basis and estimates royalty income earned based on historical experience.

(h) Shipping and Handling Costs

Shipping and handling costs include the costs incurred to physically move finished goods from the Company's warehouse to the customers' designated location and the costs to store, move and prepare the finished goods for shipment. All amounts billed to a customer in a sales transaction related to shipping and handling are classified as sales revenue. Shipping and handling costs of approximately $2,018,000, $2,373,000 and $1,853,000 are included in selling, general and administrative expenses for the fiscal years ended October 31, 2009, 2008 and 2007, respectively.

(i) Research and Development

Research and development costs are expensed as incurred. Research and development costs totaled $1.2 million and $528,000 for the fiscal years ended October 31, 2009 and 2008, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations. There were no significant research and development costs for the fiscal year ended October 31, 2007.

(j) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Also see note 13.

Beginning with the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification 740, *Income Taxes*, as amended ("ASC 740"), as it relates to accounting for uncertainty in income taxes (formerly referred to as FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*), as of November 1, 2007, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits as a component of income tax expense. Prior to November 1, 2007, the Company recognized the effect of income tax positions only if such positions were probable of being sustained.

(k) Impairment or Disposal of Long-Lived Assets

Long-lived assets, such as property and equipment and purchased intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment

charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. When applicable, assets to be disposed of are reported separately in the consolidated balance sheet at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. Also see also note 7.

(l) Stock Incentive Plans and Other Share-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of equity instruments based upon the grant-date fair value of those awards. Also see note 11.

(m) Net Income (Loss) Per Share

Basic net income (loss) per share excludes dilution and is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the net income (loss) of the Company. Also see note 15.

(n) Commitments and Contingencies

Liabilities for loss contingencies arising from product warranties and defects, claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

(o) Use of Estimates

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

(p) Reclassifications

Certain reclassifications have been made to the 2008 and 2007 consolidated statements of cash flows to place them on a basis comparable with the current period's consolidated statement of cash flows.

(2) Business Combinations

On October 31, 2009, the Company acquired AOS in a series of transactions that resulted in the Company owning 100% of the equity of AOS. First, the Company exercised a warrant issued by AOS in April 2005, as amended, to acquire 56% of the equity of AOS (on a fully diluted, as converted basis) for an exercise price of $1.5 million. The exercise price was paid by the Company by offsetting certain trade accounts receivable previously owed by AOS to the Company, and the Company received shares of convertible preferred stock of AOS. Second, the Company acquired an additional 10% of the equity of AOS (on a fully diluted, as converted basis) by purchasing common stock from the shareholders of AOS pursuant to an existing right, as amended, without additional consideration. And finally, the Company acquired the remaining 34% of the equity of AOS (on a fully diluted, as converted basis) in the form of common stock purchased from the AOS shareholders pursuant to a Stock Purchase Agreement. Under the terms of the Stock Purchase Agreement, the shareholders of AOS received (i) $250,000 in cash, (ii) a right to an earn out based on performance relative to a derived EBITDA calculation during the period of fiscal years 2012 through 2016, and payable on January 31, 2017, in cash or shares of the Company's common stock (at the Company's sole option), and (iii) the cancellation of personal guaranties of the shareholders of AOS of pre-acquisition loans made by the Company to AOS.

AOS is a designer, developer and manufacturer of specialty fiber optic connectors and connectivity solutions for military and harsh environment applications and has office, manufacturing and warehouse facilities located near Dallas, Texas.

The Company acquired AOS to enhance the integrated fiber optic and copper datacom cabling and connectivity solutions it provides in its targeted markets and to permit the Company to pair AOS's innovative and unique fiber optic connectivity products with the Company's fiber optic cabling products for military and other harsh environment applications. The acquisition of AOS added product lines to the Company's harsh environment and military product offering, as the acquisition of SMP Data Communications in 2008 added product lines to the Company's commercial, datacenter and other product offerings.

The combined Company offers a full array of products including fiber optic and copper cabling, fiber optic and copper connectors for enterprise, military and harsh environments, specialty fiber optic and copper connectors, fiber optic and copper patch cords, racks, cabinets, datacom enclosures, patch panels, face plates, multi-media boxes, and other cable and connectivity management accessories to a common customer base supported by an integrated sales team, and product line engineering personnel.

The acquisition was accounted for under Statement of Financial Accounting Standards No. 141, *Business Combinations*, ("SFAS 141"), which was not included in the FASB's Codification, but was still applicable for the Company as of October 31, 2009. The purchase price of $2.6 million has been allocated to the assets acquired and the liabilities assumed based on the fair values at the date of acquisition. This allocation resulted in the recognition of $6.5 million in intangible assets, $6.3 million of which relates to goodwill. The consideration for the transaction includes certain earn out provisions based upon the future performance of AOS. The agreement provides for a minimum earn out payment of $750,000 and a maximum of $14.75 million to be paid in 2017. The present value of the minimum earn out of $459,000 and capitalized acquisition costs associated with the transaction of $434,000 are included in the $2.6 million purchase price. As the transaction was effective on October 31, 2009, AOS's assets and liabilities are included in the Company's consolidated balance sheet at estimated fair value as of October 31, 2009. AOS's results of operations will be included in the Company's consolidated results of operations beginning November 1, 2009.

The Company records goodwill and intangible assets in accordance with Accounting Standards Codification 350-30, *Goodwill and Intangible Assets* ("ASC 350-30"). The Company accounts for intangible assets in accordance with ASC 350-30 which requires that intangible assets with indefinite useful lives not be amortized, but instead be tested for impairment at least annually or whenever changes in circumstances indicate that the carrying value of the intangible asset may not be recoverable. ASC 350-30 also requires the Company to amortize intangible assets over their respective finite lives up to their estimated residual values. Included in identified intangible assets were intellectual properties of $75,871 and the AOS customer list of $114,377 which are being amortized over 60 months on a straight-line basis. The goodwill recognized in the transaction is not deductible for income tax purposes.

The following table summarizes the aggregate estimated fair values of the assets acquired and liabilities assumed in the transaction:

Trade accounts receivable, net	$ 1,159,329
Property and equipment	357,000
Inventories	1,218,663
Goodwill	6,288,803
Intangible assets	190,248
Deferred income taxes, net	1,038,335
Other assets, including cash of $20,048	40,459
Total assets	$10,292,837
Accounts payable and accrued expenses	2,116,537
Accrued interest payable to Optical Cable Corporation	761,009
Note payable to Optical Cable Corporation	4,536,346
Other liabilities	235,297
Total liabilities	$ 7,649,189
Total net assets	$ 2,643,648

The Company is continuing to evaluate the purchase price allocations and will adjust the allocations relative to the fair market values of the assets and liabilities, as necessary, during fiscal year 2010.

On May 30, 2008, the Company acquired all of the common stock of Superior Modular Products Incorporated, doing business as SMP Data Communications from Preformed Line Products Company (“PLP”), for a purchase price of $11.5 million, subject to certain minimum working capital requirements and related purchase price adjustments.

The acquisition was accounted for under SFAS 141, and therefore the results of operations of SMP Data Communications are included in consolidated results of operations since May 31, 2008. The Company estimated the fair value of the net assets acquired of $15.9 million which represented an excess of the value of the identified net tangible and intangible assets acquired of $4.7 million over the total acquisition cost of $11.2 million (which consists of the agreed upon purchase price of $11.5 million, less $1,045,121 in working capital adjustments, plus transaction costs of $769,054). In accordance with SFAS 141, the excess fair market value of net assets over the total acquisition cost (or negative goodwill) was used to reduce the carrying value of long-term assets, including property and equipment, patents and other intangibles.

The following table summarizes the aggregate estimated fair values of the assets acquired and liabilities assumed in the transaction, net of allocated reductions required by SFAS 141 for estimated excess fair value of assets and liabilities over the total acquisition cost (negative goodwill):

Accounts receivable, net	$ 3,107,923
Property and equipment	3,711,690
Inventories	3,941,478
Intangible assets	2,719,782
Other assets, including cash of $5,705	428,592
Total assets	$13,909,465
Accounts payable and accrued expenses	1,805,632
Accrued compensation and payroll taxes	303,929
Deferred income taxes, net	575,970
Total liabilities	$ 2,685,531
Total net assets	$11,223,934

During fiscal year 2009, the Company determined that the SMP trade name and customer list, acquired as part of the acquisition of SMP Data Communications, no longer had value. Therefore, the Company recorded non-cash impairment charges in the amount of $190,440 and $153,150 to write-off the carrying value of the SMP trade name and customer list, respectively, during fiscal year 2009. Also see note 7.

Presented below is the pro forma impact on the unaudited results of operations for the years ended October 31, 2009 and 2008 as though the acquisition of both AOS and SMP Data Communications were completed as of the beginning of each of those years. Also presented below is the pro forma impact on the unaudited results of operations for the year ended October 31, 2007 as though the acquisition of SMP Data Communications was completed as of the beginning of that year. The pro forma adjustments include the amortization of the fair market value adjustments to property and equipment, amortizing intangibles; and an estimate of incremental interest costs related to the transaction, all reduced by the estimated income tax benefits. In addition, certain intercompany items of income and expense have been eliminated in the pro forma results of operations.

	Years ended October 31,		
	2009	2008	2007
	(in 000s, except per share data) (unaudited)		
Net sales	$63,828	$77,985	$67,055
Net income (loss)	(3,097)	1,678	504
Net income (loss) per share (basic and diluted)	$ (0.55)	$ 0.28	$ 0.08

(3) Allowance for Doubtful Accounts for Trade Accounts Receivable

A summary of changes in the allowance for doubtful accounts for trade accounts receivable for the years ended October 31, 2009, 2008 and 2007 follows:

	Years ended October 31,		
	2009	2008	2007
Balance at beginning of year	$150,941	$ 246,803	$238,455
Allowances of acquired subsidiaries	14,620	45,615	—
Bad debt expense (recovery)	(62,547)	(42,023)	28,197
Losses charged to allowance	(27,424)	(114,754)	(21,850)
Recoveries added to allowance	33,323	15,300	2,001
Balance at end of year	$108,913	$ 150,941	$246,803

(4) Inventories

Inventories as of October 31, 2009 and 2008 consist of the following:

	October 31,	
	2009	2008
Finished goods	$ 4,787,494	$ 3,514,015
Work in process	2,217,285	3,044,385
Raw materials	5,033,761	6,146,556
Production supplies	267,746	317,304
Total	$12,306,286	$13,022,260

(5) Note Receivable

On April 22, 2005, the Company agreed to extend a loan to AOS. On October 31, 2009, the Company acquired 100% of the equity of AOS. See note 2.

The Company's loan to, and related transactions with, AOS was part of a strategy to preserve future options for the Company with respect to (i) expanding the Company's product line offering for certain niche markets, (ii) providing additional channels to market for military and harsh environment fiber optic cable products, and (iii) responding to potential changes to existing strategic partnerships as deemed necessary or appropriate by management in reaction to changes in the competitive landscape (specifically with respect to fiber optic cable products for the military and harsh environment applications).

Through October 31, 2009 and 2008, the Company had advanced a total of $4,536,346 and $4,336,280, net (including certain accrued interest and accounts receivable from product sales), respectively, to AOS. Additionally, the Company had accrued interest receivable of $761,009 related to the advances, as of October 31, 2009. The Company discontinued recognizing interest income beginning in the third quarter of fiscal year 2006 related to the loan based on uncertainty as to when the interest would be collected. As a result of the acquisition on October 31, 2009, accumulated interest income in the amount of $818,711 ($57,702 of which was included in the note receivable from AOS as of October 31, 2009) was recognized.

The Company sold fiber optic cables to AOS totaling $1,385,704, $774,765 and $324,999 during fiscal years 2009, 2008 and 2007, respectively.

As of October 31, 2008, $324,740 is included in trade accounts receivable, net related to sales by the Company to AOS. There are no specifically identified amounts included in the allowance for doubtful accounts related to these trade accounts receivable from AOS. As of October 31, 2009, all significant remaining amounts due to or from AOS have been eliminated in consolidation.

(6) Property and Equipment, Net

Property and equipment, net as of October 31, 2009 and 2008 consists of the following:

	October 31,	
	2009	2008
Land	$ 3,144,068	$ 3,144,068
Building and improvements	7,564,432	7,533,523
Machinery and equipment	18,740,760	17,541,015
Furniture and fixtures	966,801	944,907
Construction in progress	238,281	498,463
Total property and equipment, at cost	30,654,342	29,661,976
Less accumulated amortization and depreciation	(15,681,963)	(13,533,319)
Property and equipment, net	$ 14,972,379	$ 16,128,657

(7) Goodwill and Other Intangible Assets

Goodwill

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the purchase method. The Company recorded $6.3 million of goodwill related to its purchase of AOS on October 31, 2009 (see note 2). The Company will not amortize goodwill, but will test it for impairment annually in the fiscal fourth quarter, or earlier if indications of potential impairment exist.

Acquired Intangible Assets

Following is a summary of acquired intangible assets as of October 31, 2009, which were acquired in connection with the acquisitions of SMP Data Communications and AOS, excluding assets written-off as impaired:

	Gross carrying amount	Weighted-average amortization period in years	Accumulated amortization
Amortizing intangible assets:			
Developed technology	$2,373,675	3.7	$(1,216,428)
Customer list	114,377	5.0	—
Total	$2,488,052		$(1,216,428)

Aggregate amortization expense for amortizing intangible assets was $825,399 and $469,417 for the years ended October 31, 2009 and 2008, respectively. Estimated amortization expense for the next five years is: $590,882 in fiscal year 2010, $434,456 in fiscal year 2011, $137,151 in fiscal year 2012, $71,083 in fiscal year 2013 and $38,052 in fiscal year 2014. Amortization of intangible assets is calculated using an accelerated method or a straight-line method over the estimated useful lives of the intangible assets.

Impairment Charge

In connection with the SMP Data Communications acquisition on May 30, 2008, the Company acquired the SMP trade name and customer list, both of which were capitalized as part of the purchase price allocation process. During the quarter ended July 31, 2009, the Company began marketing its connectivity products under the Optical Cable Corporation or OCC trade names, and discontinued marketing its connectivity products under the SMP Data Communications trade name. Therefore, during the quarter ended July 31, 2009, the Company recorded a non-cash impairment charge in the amount of $190,440 to write-off the carrying value of the SMP Data Communications trade name consistent with this change in marketing strategy. During the quarter ended October 31, 2009, the Company re-evaluated the customer list of SMP Data Communications given recent post-acquisition financial information and determined that it was appropriate to write-off the carrying value of the customer list. Therefore, during the quarter ended October 31, 2009, the Company recorded a non-cash impairment charge in the amount of $153,150 to write-off the carrying value of the SMP Data Communications customer list.

(8) Product Warranties

The Company generally warrants its products against certain manufacturing and other defects in material and workmanship. These product warranties are provided for specific periods of time and are applicable assuming the product has not been subjected to misuse, improper installation, negligence or shipping damage. As of October 31, 2009 and 2008, the Company's accrual for estimated product warranty claims totaled $160,000 and $210,000, respectively, and is included in accounts payable and accrued expenses. Warranty claims expense includes the costs to investigate claims and potential claims, and the costs to replace and/or repair product pursuant to claims, which in certain cases can include claims not deemed valid by the Company. The accrued product warranty costs are based primarily on historical experience of actual warranty claims and costs as well as current information with respect to potential warranty claims and costs. Warranty claims expense for the years ended October 31, 2009, 2008 and 2007 totaled $405,733, $401,270 and $102,173, respectively.

The following table summarizes the changes in the Company's accrual for product warranties during the fiscal years ended October 31, 2009 and 2008:

	Years ended October 31,	
	2009	2008
Balance at beginning of year	$ 210,000	$ 75,000
Liabilities accrued for warranties issued during the year	324,923	334,152
Warranty claims paid during the period	(455,733)	(266,270)
Changes in liability for pre-existing warranties during the year	80,810	67,118
Balance at end of year	$ 160,000	$ 210,000

(9) Long-term Debt and Notes Payable to Bank

In May 2008, the Company established $17.0 million in credit facilities (collectively, the "Credit Facilities") with Valley Bank to provide for the working capital needs of the Company and to finance the acquisition of SMP Data Communications. The Credit Facilities provide a working capital line of credit (the "Revolving Loan"), a real estate term loan (the "Virginia Real Estate Loan"), a supplemental real estate term loan (the "North Carolina Real Estate Loan"), and a capital acquisitions term loan (the "Capital Acquisitions Term Loan").

Long-term debt as of October 31, 2009 and 2008 consists of the following:

	October 31,	
	2009	2008
Virginia Real Estate Loan ($6.5 million original principal) payable in monthly installments of $42,241, including interest (at 6.0%), with final payment of $5,896,867 due June 1, 2013	$ 6,348,310	$ 6,465,121
North Carolina Real Estate Loan ($2.24 million original principal) payable in monthly installments of $14,557, including interest (at 6.0%), with final payment of $2,032,150 due June 1, 2013	2,187,725	2,227,980
Capital Acquisitions Term Loan ($2.26 million original principal) payable in monthly installments of $37,549, including interest (at 6.0%) with final payment due June 1, 2015	—	2,260,000
Total long-term debt	8,536,035	10,953,101
Less current installments	166,909	262,122
Long-term debt, excluding current installments	$ 8,369,126	$ 10,690,979

The Revolving Loan provides up to $6.0 million for the Company's working capital needs and bears interest at LIBOR plus 2.15%, but provides a lower rate option if the Company maintains specific depository amounts with Valley Bank. The Company may borrow up to 85% of the Company's consolidated eligible accounts receivable, (excluding foreign accounts receivable), plus 35% of certain consolidated uninsured foreign receivables (or 100% of insured foreign receivables, without duplication) up to a maximum of $1.5 million plus 25% of the Company's consolidated eligible inventory. The Revolving Loan expires on February 28, 2010. As of October 31, 2009, the Company had no outstanding borrowings on its Revolving Loan and, as a result, $6.0 million in available credit.

The aggregate maturities of long-term debt for each of the four years subsequent to October 31, 2009 are: $166,909 in fiscal year 2010, $177,350 in fiscal year 2011, $187,041 in fiscal year 2012 and $8,004,735 in fiscal year 2013.

The Credit Facilities are secured by a first priority lien on all of the Company's personal property and assets as well as a first lien deed of trust on the Company's real property, in both cases including the assets of our Asheville facility.

(10) Leases

The Company has an operating lease agreement for approximately 21,000 square feet of office and manufacturing space in Plano, Texas with a term of five years. The lease became effective September 15, 2009. The minimum rent payments, including rent holidays, are recognized on a straight-line basis over the term of the lease.

With the acquisition of AOS, the Company assumed capital leases for certain equipment as of October 31, 2009. Current lease obligations are included in accounts payable and accrued expenses on the consolidated balance sheet and noncurrent lease obligations are included in other noncurrent liabilities.

The Company's future minimum lease obligations as of October 31, 2009 consist of the following:

Fiscal year	Operating Lease	Capital Leases
2010	$ 207,452	$ 18,897
2011	241,292	16,813
2012	254,522	10,216
2013	264,120	—
2014	267,052	—
Thereafter	248,562	—
Total	$ 1,483,000	45,926
Less amounts representing interest costs		(7,169)
Present value of net minimum capital lease payments		38,757
Less current installments		31,918
Present value of net minimum capital lease payments, excluding current installments		$ 6,839

(11) Employee Benefits

Health Insurance Coverage

The Company contracts for health insurance coverage for employees and their dependents through third-party administrators. During the years ended October 31, 2009, 2008 and 2007, total expense of $2,439,000, $1,966,818 and $1,550,207, respectively, was incurred under the Company's insured health care program.

401(k) Plan

The Company maintains 401(k) retirement savings plans for the benefit of its eligible employees. Substantially all of the Company's employees who meet certain service and age requirements are eligible to participate in the plans. The Company's plan documents provide that the Company's matching contributions are determined as a percentage of employee contributions or are discretionary. The Company made matching contributions to the plan that were expensed during the Company's fiscal year ended October 31, 2009 totaling $84,093. The Company made or accrued matching contributions to the plan of $245,876 and $137,916 for the years ended October 31, 2008 and 2007, respectively.

Stock Incentives for Key Employees and Non-Employee Directors

Optical Cable Corporation uses stock incentives to increase the personal financial interest key employees and non-employee Directors have in the future success of the Company, thereby aligning their interests with those of the shareholders and strengthening their desire to remain with the Company.

The Company authorized and reserved 750,000 shares of common stock for issuance pursuant to the Optical Cable Corporation 1996 Stock Incentive Plan (the "1996 Plan"). No further awards will be made under the 1996 Plan as it terminated in accordance with the terms of the plan document on the tenth anniversary of its effective date of March 1, 1996. Options outstanding under the 1996 Plan may continue to be exercised until such time that the options expire or are forfeited under the terms of individual awards. Restricted stock awards granted under the 1996 Plan will continue to vest unless otherwise forfeited under the terms of individual awards.

In March of 2005, the Company adopted and the Company's shareholders approved the Optical Cable Corporation 2005 Stock Incentive Plan (the "2005 Plan"). The 2005 Plan is intended to be the successor of the 1996 Plan. The Company has authorized and reserved 1,000,000 shares of common stock for issuance pursuant to the 2005 Plan. As of October 31, 2009, there were approximately 62,000 remaining shares available for grant under the 2005 Plan.

Share-based compensation expense (including the expense for both stock option awards granted prior to July 2002, and restricted stock awards granted to both employees and non-employee members of the Company's Board of Directors) recognized in the consolidated statements of income for the years ended October 31, 2009, 2008 and 2007 was $920,223, $761,082 and $831,979, respectively.

Stock Option Awards

Under the 1996 Plan, employees and outside contractors were issued options to purchase common stock, all of which were issued prior to July 2002. The exercise price equaled the market price of the Company's common stock on the date of grant. Options issued under the 1996 Plan generally vested incrementally over one to five years, and remain exercisable for ten years from the date of grant. All options outstanding are fully vested and exercisable as of October 31, 2009.

During 2002, non-employee members of the Company's Board of Directors were granted options to purchase a total of 3,123 shares of the Company's common stock at an exercise price of $7.12 per share, the closing price at the date of grant. These options were not granted pursuant to a plan. Options issued to non-employee directors vested monthly over one year.

The fair value of options granted prior to November 1, 2005 was estimated using the Black-Scholes option pricing model and the assumptions noted in the table below. Expected volatility was based on historical volatility of the Company's stock over a period at least as long as the options' expected term. The expected term represents the period of time that the options granted are expected to be outstanding based on the simplified method provided in Accounting Standards Codification 718-10, "*Compensation-Stock Compensation* ("ASC 718-10"), which averages an award's weighted average vesting period and its contractual term for 'plain vanilla' share options. The risk-free rate is based on the available zero-coupon U.S. Treasury instruments with remaining terms equal to the expected term of the share options.

Stock Option Assumptions

Volatility	80.88%
Dividend yields	—
Expected Term (in years)	3.96 - 6.31
Risk-free rate	5.14% - 5.58%

Stock option activity for the years ended October 31, 2009, 2008 and 2007 is as follows:

	Number of options	Weighted-average exercise price	Weighted-average remaining contractual term (in yrs)
Stock options outstanding at October 31, 2006	235,589	$ 7.68	
Forfeited	(31,133)	7.20	
Stock options outstanding at October 31, 2007	204,456	7.76	
Forfeited	(26,251)	8.87	
Stock options outstanding at October 31, 2008	178,205	7.59	
Forfeited	(11,628)	7.20	
Stock options outstanding at October 31, 2009	166,577	$ 7.62	2.27

As of October 31, 2009, there was no aggregate intrinsic value of options outstanding and options exercisable. Aggregate intrinsic value represents the positive difference between the Company's closing stock price on the last trading day of the fiscal period, which was $3.00 as of October 31, 2009, and the exercise price multiplied by the number of options outstanding.

All remaining compensation cost related to stock options granted to employees and non-employees prior to July 2002 was fully recognized in fiscal year 2007. Therefore, the Company did not record compensation expense related to its stock option awards during the fiscal years ended October 31, 2009 and 2008. Compensation cost related to stock option awards for fiscal year ended October 31, 2007 totaled $28,963.

Restricted Stock Awards

The Company has granted (under the 1996 Plan and the 2005 Plan), and anticipates granting from time to time (under the 2005 Plan or any successor plan), restricted stock awards pursuant to approval by the Compensation Committee of the Board of Directors. A portion of the restricted stock awards granted under the 1996 and the 2005 Plans vest based on the passage of time and the remainder vest over time if certain market condition-based or operational performance-based criteria are met. Failure to meet the criteria required for vesting—whether for the market condition-based shares or for the operational performance-based shares—will result in a portion or all of the shares being forfeited. The Company recognizes expense on the service-based and market condition-based shares each quarter based on the actual number of shares vested during the quarter multiplied by the grant date fair value. The Company recognizes expense on the operational performance-based shares each quarter using an estimate of the shares expected to vest multiplied by the closing price of the Company's common stock on the date of grant. Previously recognized compensation cost on the market condition-based shares will not be reversed if the shares are forfeited as a result of not meeting the market condition.

The Company recorded total compensation expense related to its restricted stock awards granted to employees totaling $835,580, $662,311 and $730,755 during the fiscal years ended October 31, 2009, 2008 and 2007, respectively.

A summary of the status of the Company's nonvested shares as of October 31, 2009, and changes during the year ended October 31, 2009, is as follows:

Nonvested shares	Shares	Weighted-average grant date fair value
Balance at October 31, 2008	427,428	$ 4.86
Granted	452,852	2.79
Vested	(190,824)	4.68
Balance at October 31, 2009	689,456	$ 3.55

As of October 31, 2009, the maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based, market condition-based, and operational performance-based shares that the Company will have to recognize over a 3.1 year weighted-average period is $2.2 million.

In March 2004, the Company adopted and the Company's shareholders approved the 2004 Non-employee Directors Stock Plan (the "Non-employee Directors Stock Plan"). In March 2005, the Company adopted and the Company's shareholders approved amendments to the Non-employee Directors Stock Plan. The Non-employee Directors Stock Plan authorizes the Board of Directors to pay all or a part of director fees, in the form of stock grants, to Board members who are not full-time employees of the Company. The Company has reserved 250,000 shares of common stock for issuance pursuant to awards under the Non- employee Directors Stock Plan. As of October 31, 2009, there were approximately 164,000 remaining shares available for grant under the Non-employee Directors Stock Plan.

During the years ended October 31, 2009, 2008 and 2007, restricted stock awards under the Non-employee Directors Stock Plan totaling 35,268, 16,272 and 13,764 shares, respectively, were approved by the Board of Directors of the Company. The shares vested immediately upon grant, but could not be sold, transferred, pledged, or otherwise encumbered or disposed of until six months after the date of the grant. The Company recorded compensation expense equal to the number of shares multiplied by the closing price of the Company's common stock on the date of grant. The Company recorded compensation expense totaling $84,643, $98,771 and $72,261 during the years ended October 31, 2009, 2008 and 2007, respectively.

(12) Business and Credit Concentrations, Major Customers and Geographic Information

The Company has a single reportable segment for purposes of segment reporting, exclusive of Centric Solutions. For the year ended October 31, 2009, Centric Solutions generated revenues totaling $74,744. For the year ended October 31, 2008, Centric Solutions generated no revenues. For the years ended October 31, 2009 and 2008, Centric Solutions incurred operating losses of $1.6 million and $400,283, respectively. All of the operating losses of Centric Solutions for the years ended October 31, 2009 and 2008 were absorbed by the Company in consolidation as the owners of the minority interest do not currently have positive equity accounts required by the Operating Agreement to enable them to share in operating losses. Total assets of Centric Solutions of approximately $939,000 and $1.3 million are included in the total consolidated assets of the Company as of October 31, 2009 and 2008, respectively.

The Company provides credit, in the normal course of business, to various commercial enterprises, governmental entities and not-for-profit organizations. Concentration of credit risk with respect to trade receivables is limited due to the Company's large number of customers. The Company also manages exposure to credit risk through credit approvals, credit limits and monitoring procedures. Management believes that credit risks as of October 31, 2009 and 2008 have been adequately provided for in the consolidated financial statements.

For the year ended October 31, 2009, 11.7%, or approximately $6,830,000 of consolidated net sales were attributable to one major domestic distributor. No other single customer or distributor accounted for more than 10% of consolidated net sales for the year ended October 31, 2009. As of October 31, 2009, no single customer or distributor had an outstanding balance payable to the Company in excess of 5% of total consolidated shareholders' equity.

For the year ended October 31, 2008, 11.1%, or approximately $6,784,000 of consolidated net sales were attributable to one major domestic distributor. No other single customer or distributor accounted for more than 10% of consolidated net sales for the year ended October 31, 2008. As of October 31, 2008, no single customer or distributor had an outstanding balance payable to the Company in excess of 5% of total consolidated shareholders' equity.

For the year ended October 31, 2007, 11.7%, or approximately $5,331,000 of net sales were attributable to one major domestic distributor. No other single customer or distributor accounted for more than 10% of net sales for the year ended October 31, 2007.

For the years ended October 31, 2009, 2008 and 2007, approximately 73%, 68% and 72%, respectively, of net sales were from customers located in the United States, while approximately 27%**,** 32% and 28%, respectively, were from customers located outside of the United States.

Net sales attributable to the United States and all other countries in total for the years ended October 31, 2009, 2008 and 2007 were as follows:

	Years ended October 31,		
	2009	2008	2007
United States	$ 42,866,013	$ 41,274,479	$ 32,583,326
Outside the United States	15,722,547	19,723,604	12,919,379
Total net sales	$ 58,588,560	$ 60,998,083	$ 45,502,705

No individual country outside the United States accounted for more than 10% of total net sales in fiscal years 2009, 2008 or 2007.

(13) Income Taxes

Income tax expense (benefit) for the years ended October 31, 2009, 2008 and 2007 consists of:

Fiscal year ended October 31, 2009	Current	Deferred	Total
U.S. Federal	$(1,275,461)	$ 522,570	$ (752,891)
State	3,699	43,533	47,232
Totals	$(1,271,762)	$ 566,103	$ (705,659)

Fiscal year ended October 31, 2008	Current	Deferred	Total
U.S. Federal	$ 1,787,990	$(763,007)	$1,024,983
State	345,554	(68,809)	276,745
Totals	$ 2,133,544	$(831,816)	$1,301,728

Fiscal year ended October 31, 2007	Current	Deferred	Total
U.S. Federal	$ 351,731	$ 298,671	$ 650,402
State	27,085	(12,159)	14,926
Totals	$ 378,816	$ 286,512	$ 665,328

Reported income tax expense (benefit) for the years ended October 31, 2009, 2008 and 2007 differs from the “expected” tax expense (benefit), computed by applying the U.S. Federal statutory income tax rate of 34% to income (loss) before income taxes as follows:

	Years ended October 31,		
	2009	2008	2007
“Expected” tax expense (benefit)	$(894,254)	$1,194,583	$652,108
Increase (reduction) in income tax expense (benefit) resulting from:			
Benefits from extraterritorial income exclusion	—	—	(6,800)
Benefits from Sec. 199 manufacturing deduction	—	(113,119)	(25,567)
Impact of restricted share grants	105,714	20,502	23,191
State income taxes, net of federal benefit	31,173	182,652	9,851
Other differences, net	51,708	17,110	12,545
Reported income tax expense (benefit)	$(705,659)	$1,301,728	$665,328

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and deferred tax liabilities as of October 31, 2009 and 2008 are presented below:

	October 31,	
	2009	2008
Deferred tax assets:		
Accounts receivable, due to allowances for doubtful accounts and sales returns	$ 121,975	$ 124,507
Inventories, due to allowance for damaged and slow-moving inventories and additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986	770,891	639,963
Liabilities recorded for accrued expenses, deductible for tax purposes when paid	177,532	629,463
Share-based compensation expense	67,012	110,981
Interest receivable	—	184,809
Investment in Centric Solutions	154,633	143,822
Net operating loss carryforwards	851,551	—
Other	73,595	47,673
Total gross deferred tax assets	2,217,189	1,881,218
Deferred tax liabilities:		
Plant and equipment, due to differences in depreciation and capital gain recognition	(1,170,834)	(1,327,749)
Other receivables, due to accrual for financial reporting purposes	(36,077)	(15,423)
Total gross deferred tax liabilities	(1,206,911)	(1,343,172)
Net deferred tax asset	$ 1,010,278	$ 538,046

As a result of the acquisition of AOS, the Company recorded $1,038,335 in deferred tax assets, including net operating loss ("NOL") carryforwards of $851,551 estimated to be available after considering Internal Revenue Code Section 382 limitations. These NOLs may be used to reduce future taxable income and begin to expire in fiscal year ending October 31, 2024.

Based on the Company's historical and projected pretax earnings and other relevant factors, management believes that it is more likely than not that the Company's deferred tax assets at October 31, 2009 will be realized.

Effective November 1, 2007, the Company adopted Accounting Standards Codification 740-10, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("ASC 740-10"). ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, ASC 740-10 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of ASC 740-10 did not have a material impact on the Company's financial position, results of operation or liquidity.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	October 31,	
	2009	2008
Unrecognized tax benefits balance at beginning of year	$136,531	$ 45,307
Gross increases for tax positions of prior years	13,521	91,224
Gross decreases for tax positions of prior years	—	—
Settlements	—	—
Lapse of statute of limitations	—	—
Unrecognized tax benefits balance at end of year	$150,052	$136,531

During fiscal year 2009, the Company accrued interest and penalties of $9,956 and $3,380, respectively, related to unrecognized tax benefits. During fiscal 2008, the Company accrued interest and penalties of $2,553 and $22,806, respectively, related to unrecognized tax benefits. As of October 31, 2009 and 2008, the Company had approximately $51,154 and $37,818, respectively, of accrued interest and penalties related to uncertain tax positions. Total amount of unrecognized tax benefits that would affect the Company's effective tax rate if recognized is $94,396 and $88,858 as of October 31, 2009 and 2008, respectively. The Company does not expect its unrecognized tax benefits to change significantly in the next 12 months.

The Company files income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. The statute of limitations remains open for U.S. and certain state income tax examinations for years ended October 31, 2006 through October 31, 2008.

(14) Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, trade accounts receivable, income taxes refundable, other receivables, accounts payable and accrued expenses, including accrued compensation and payroll taxes and the current installments of long-term debt, approximate fair value because of the short maturity of these instruments. The carrying value of the Company's long-term debt, excluding current installments, approximates the fair value based on similar long-term debt issues available to the Company as of October 31, 2009. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(15) Net Income (Loss) Per Share

The following is a reconciliation of the numerators and denominators of the net income (loss) per share computations for the periods presented:

Fiscal year ended October 31, 2009	Net loss (numerator)	Shares (denominator)	Per share amount
Basic net loss per share	$(1,924,499)	5,656,404	$ (0.34)
Effect of dilutive stock options	—	—	
Diluted net loss per share	$(1,924,499)	5,656,404	$ (0.34)

Fiscal year ended October 31, 2008	Net income (numerator)	Shares (denominator)	Per share amount
Basic net income per share	$ 2,211,752	6,061,570	$ 0.36
Effect of dilutive stock options	—	362	
Diluted net income per share	$ 2,211,752	6,061,932	$ 0.36

Fiscal year ended October 31, 2007	Net income (numerator)	Shares (denominator)	Per share amount
Basic net income per share	$ 1,252,638	6,089,486	$ 0.21
Effect of dilutive stock options and warrants	—	6,043	
Diluted net income per share	$ 1,252,638	6,095,529	$ 0.21

Stock options that could potentially dilute net income per share in the future that were not included in the computation of diluted net income per share (because to do so would have been antidilutive for the periods presented) totaled 166,578, 173,205 and 199,457 for the years ended October 31, 2009, 2008 and 2007, respectively. Unvested shares as of October 31, 2009, totaling 689,456, were not included in the computation of basic and diluted net loss per share for the year ended October 31, 2009 (because to do so would have been antidilutive).

(16) Shareholders' Equity

On March 26, 2007, the Company's Board of Directors approved a plan to purchase and retire up to 300,100 shares of the Company's common stock, or approximately 5% of the shares then outstanding. The Company anticipated that the purchases would be made over a 12-month period, but there was no definite time period for repurchase. As of October 31, 2009, the Company had completed its plan and repurchased and retired a total of 300,100 of its outstanding common stock. The repurchase of these shares and the costs associated with the repurchase, including brokerage and legal fees, totaled $1,213,748. As of October 31, 2009, 6,508,821 shares of the Company's common stock were outstanding.

On October 16, 2009, the Company's Board of Directors approved a plan to purchase and retire up to 325,848 shares of the Company's common stock, or approximately 5% of the shares then outstanding. The Company anticipates that the purchases will be made over a 12- to 24-month period unless the entire number of shares expected to be purchased under the plan is sooner acquired. As of October 31, 2009, no purchases were made under the plan approved by the Board of Directors on October 16, 2009.

On November 2, 2001, the Board of Directors of the Company adopted a Shareholder Rights Plan (the "Rights Plan") and declared a dividend of one preferred share purchase right (a "Right") on each outstanding share of common stock. Under the terms of the Rights Plan, if a person or group who is deemed an Acquiring Person as defined in the Rights Plan acquires 15% (or other applicable percentage, as provided in the Rights Plan) or more of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of shares of common stock having a market value of twice such price. In addition, if the Company

is acquired in a merger or other business transaction after a person or group who is deemed an Acquiring Person has acquired such percentage of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value of twice such price.

Upon the occurrence of certain events, each Right will entitle its holder to buy one one-thousandth of a Series A preferred share ("Preferred Share"), at an exercise price of $200, subject to adjustment. Each Preferred Share will entitle its holder to 1,000 votes and will have an aggregate dividend rate of 1,000 times the amount, if any, paid to holders of common stock. The Rights will expire on November 2, 2011, unless the date is extended or unless the Rights are earlier redeemed or exchanged at the option of the Board of Directors for $0.0001 per Right. Generally, each share of common stock issued after November 5, 2001 will have one Right attached. The adoption of the Rights Plan has no impact on the financial position or results of operations of the Company.

The Company has reserved 100,000 of its authorized preferred stock for issuance upon exercise of the Rights.

(17) Contingencies

AOS, a wholly owned subsidiary of the Company effective October 31, 2009, is the defendant in a patent infringement lawsuit brought by Amphenol Fiber Systems International ("AFSI"). On November 23, 2009, a jury in the U.S. District Court for the Eastern District of Texas unanimously determined that an AOS fiber optic connector design does not infringe on AFSI's U.S. Patent 6,305,849. In an earlier U.S. District Court ruling, two other AOS fiber optic connector designs were found not to infringe on the patent as a matter of law. Final judgment has not yet been entered in the case because AOS still has pending against AFSI counterclaims for inequitable conduct and violation of U.S. antitrust laws which were severed from the trial of the infringement issues. Additionally, post-trial proceedings on the infringement claims are still possible, and AFSI could appeal from the final judgment in the case once it is entered. The Company does not believe this matter will have a material adverse effect on the Company's financial position, results of operations or liquidity.

From time to time, the Company is involved in other various claims, legal actions and regulatory reviews arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

(18) New Accounting Standards

In September 2006, the FASB issued Accounting Standards Codification 820-10, *Fair Value Measurements* ("ASC 820-10"), which clarifies the definition of fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles, and expands disclosures regarding fair value measurements. ASC 820-10 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. ASC 820-10 is effective for financial statements issued for fiscal years beginning after November 15, 2007, but has been delayed for treatment of non-financial assets and liabilities until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of the portion of ASC 820-10 other than for treatment of non-financial assets and liabilities was effective November 1, 2008, and did not have any impact on the Company's results of operations, financial position or liquidity. The adoption of ASC 820-10 for the treatment of non-financial assets and liabilities will be effective for the Company November 1, 2009 and is not expected to have any impact on the Company's results of operations, financial position or liquidity.

In February 2007, the FASB issued Accounting Standards Codification 825-10, *The Fair Value Option for Financial Assets and Financial Liabilities* ("ASC 825-10"). ASC 825-10 allows entities to measure

eligible financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. ASC 825-10 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The adoption of ASC 825-10 effective November 1, 2008, did not have any impact on the Company's results of operations, financial position or liquidity.

In December 2007, the FASB issued Accounting Standards Codification 805-10, *Business Combinations* ("ASC 805-10"). ASC 805-10 requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred to as the purchase method). Companies applying this method will have to identify the acquirer, determine the acquisition date and purchase price and recognize at their acquisition-date fair values the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree. In the case of a bargain purchase the acquirer is required to reevaluate the measurements of the recognized assets and liabilities at the acquisition date and recognize a gain on that date if an excess remains. ASC 805-10 becomes effective for acquisitions during fiscal annual reporting periods beginning after December 15, 2008. The adoption of ASC 805-10 is not expected to have any impact on the Company's results of operations, financial position or liquidity.

In December 2007, the FASB issued Accounting Standards Codification 810-10, *Consolidation* ("ASC 810-10"). ASC 810-10 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. In addition, this statement establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. ASC 810-10 becomes effective for fiscal periods beginning after December 15, 2008. The Company is currently evaluating the impact of ASC 810-10.

In April 2008, the FASB issued Accounting Standards Codification 350-30, *Determination of the Useful Life of Intangible Assets* ("ASC 350-30"). ASC 350-30 amends the factors that an entity should consider in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. ASC 350-30 requires an entity to consider its own historical experience in renewing or extending the term of the arrangement, consistent with its expected use of the asset. In the absence of historical experience, an entity should consider assumptions that market participants would use about renewal or extension as adjusted for entity-specific factors. ASC 350-30 is effective for fiscal years beginning after December 15, 2008. The adoption of the Statement is not expected to have any impact on the Company's results of operations, financial position or liquidity.

In May 2009, the FASB issued Accounting Standards Codification 855-10, *Subsequent Events* ("ASC 855-10"). ASC 855-10 sets forth general standards of accounting for and disclosures of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. ASC 855-10 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. ASC 855-10 is effective for interim and annual periods ending after June 15, 2009. The Company adopted ASC 855-10 for the quarter ended July 31, 2009 and subsequent periods. The Company evaluated subsequent events through January 29, 2010, the date on which the financial statements were issued.

In June 2009, the FASB issued Accounting Standards Codification 105, *Generally Accepted Accounting Principles* ("ASC 105"). ASC 105 establishes only two levels of U.S. generally accepted accounting principles ("GAAP"), authoritative and nonauthoritative. The FASB Accounting Standards Codification ("Codification") is the source of authoritative, nongovernmental GAAP, except for rules and interpretive

releases of the Securities and Exchange Commission ("SEC"), which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification are nonauthoritative. ASC 105 was effective for financial statements for interim and annual reporting periods ending after September 15, 2009. The Company has updated its references to GAAP in its consolidated financial statements for the fiscal year ended October 31, 2009. Adoption of this standard did not have an impact on the Company's results of operations, financial position or liquidity.

There are no other new accounting standards issued, but not yet adopted by the Company, which are expected to be applicable to its financial position, operating results or financial statement disclosures.

(19) Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended October 31, 2009 and 2008:

	Quarter ended			
Fiscal year ended October 31, 2009	**January 31**	**April 30**	**July 31**	**October 31**
Net sales	$14,958,377	$15,343,024	$14,207,364	$14,079,795
Gross profit	4,788,284	5,722,821	4,482,687	4,847,178
Income (loss) before income taxes	(1,211,646)	(243,670)	(1,175,736)	894
Net income (loss)	(742,462)	15,977	(1,107,828)	(90,186)
Basic and diluted net income (loss) per share	(0.12)	0.00	(0.19)	(0.01)

	Quarter ended			
Fiscal year ended October 31, 2008	**January 31**	**April 30**	**July 31**	**October 31**
Net sales	$12,661,543	$13,495,302	$16,414,872	$18,426,366
Gross profit	5,332,534	5,744,224	6,194,425	6,888,906
Income before income taxes	1,368,653	1,375,565	747,831	21,431
Net income (loss)	861,949	878,327	481,546	(10,070)
Basic and diluted net income per share	0.14	0.15	0.08	0.00

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Optical Cable Corporation:

We have audited the accompanying consolidated balance sheets of Optical Cable Corporation and subsidiaries as of October 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended October 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Optical Cable Corporation and subsidiaries as of October 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended October 31, 2009, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP
Roanoke, Virginia
January 29, 2010

Corporate Information

Corporate Headquarters

Optical Cable Corporation
5290 Concourse Drive
Roanoke, VA 24019

Legal Counsel

Woods Rogers PLC
10 South Jefferson Street
Suite 1400
Roanoke, VA 24011

Independent Registered Public Accounting Firm

KPMG LLP
10 South Jefferson Street
Suite 1710
Roanoke, VA 24011

Transfer Agent

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038

Form 10-K Report

Shareholders may obtain, without charge, a copy of Optical Cable Corporation's Form 10-K, including exhibits, as filed with the Securities and Exchange Commission. Write to Optical Cable Corporation, P.O. Box 11967, Roanoke, VA 24022-1967, attention Ms. Tracy G. Smith, Corporate Secretary. Additionally, our SEC filings are available to the public on the SEC Internet site (http://www.sec.gov).

Annual Meeting

The 2010 annual meeting of shareholders will be held at 10:00 a.m. on Tuesday, March 30, 2010, at the Green Ridge Recreation Center, 7415 Wood Haven Road, Roanoke, Virginia.

Common Stock and Dividend Data

Our common stock is traded on the Nasdaq Global Market under the symbol OCCF. As of October 31, 2009 and December 31, 2009, there were approximately 3,000 and 2,900 shareholders of record, respectively. On January 22, 2010, our common stock closed at a price of $3.62 per share.

The following table sets forth for the fiscal periods indicated the high and low bid prices of our common stock, as reported on the Nasdaq Global Market, during the two most recent fiscal years:

Fiscal year ended October 31, 2009	Range of Bid Prices High	Range of Bid Prices Low
First Quarter	$ 4.76	$ 2.23
Second Quarter	$ 2.95	$ 1.78
Third Quarter	$ 3.99	$ 2.46
Fourth Quarter	$ 3.82	$ 2.85

Fiscal year ended October 31, 2008	Range of Bid Prices High	Range of Bid Prices Low
First Quarter	$ 4.61	$ 3.31
Second Quarter	$ 5.00	$ 3.90
Third Quarter	$ 7.45	$ 4.78
Fourth Quarter	$ 7.44	$ 3.24

We have not paid or declared any cash dividends on our common stock since our initial public offering in 1996 and do not expect to pay any cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business.

Corporate Information
(Continued)

Executive Officers of Optical Cable Corporation

Neil D. Wilkin, Jr.	Chairman of the Board, President and Chief Executive Officer
Tracy G. Smith	Senior Vice President, Chief Financial Officer and Corporate Secretary
William R. Reynolds	Senior Vice President of Sales—USA

Board of Directors of Optical Cable Corporation

Randall H. Frazier	President and Founder R. Frazier, Incorporated
John M. Holland	Principal and Founder Holland Technical Services
Craig H. Weber	Executive Vice President, Corporate Development and Chief Financial Officer Home Care Delivered, Inc.
Neil D. Wilkin, Jr.	Chairman of the Board, President and Chief Executive Officer Optical Cable Corporation
John B. Williamson, III	Chairman of the Board, President and Chief Executive Officer RGC Resources, Inc.

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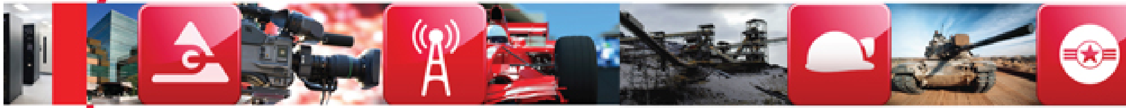
Deployable Reels
military connectors
harsh environment connectors
specialty solutions
Cat6A
OPTICAL CABLE CORPORATION
fiber optic connectivity



residentialindustrialminingcommunicati

5290 Concourse Drive | Roanoke, Virginia, USA 24019
Phone 540-265-0690 | Fax 540-265-0724
www.occfiber.com

securityresidentialmilitarybroadcastcom

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Optical Cable Corporation:

We consent to the incorporation by reference in Registration Statement No. 333-09433 on Form S-8, Registration Statement No. 333-103108 on Form S-3, Registration Statement No. 333-115575 on Form S-8, and Registration Statement No. 333-128163 on Form S-8 of Optical Cable Corporation of our report dated January 29, 2010, with respect to the consolidated balance sheets of Optical Cable Corporation and subsidiaries as of October 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended October 31, 2009, which report is incorporated by reference in the October 31, 2009 Annual Report on Form 10-K of Optical Cable Corporation.

/s/ KPMG LLP

Roanoke, Virginia
January 29, 2010

Exhibit 31.1

CERTIFICATION

I, Neil D. Wilkin, Jr., certify that:

1. I have reviewed this report on Form 10-K of Optical Cable Corporation;

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

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

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

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

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

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

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

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

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

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

Date: January 29, 2010

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.
Chairman of the Board of Directors,
President and Chief Executive Officer
Optical Cable Corporation

Exhibit 31.2

CERTIFICATION

I, Tracy G. Smith, certify that:

1. I have reviewed this report on Form 10-K of Optical Cable Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 29, 2010

/s/ Tracy G. Smith

Tracy G. Smith
Senior Vice President and Chief Financial Officer
Optical Cable Corporation

Exhibit 32.1

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

In connection with the Annual Report of Optical Cable Corporation (the "Company") on Form 10-K for the year ended October 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of October 31, 2009, and for the period then ended.

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.
Chairman of the Board of Directors,
President and Chief Executive Officer

January 29, 2010

Exhibit 32.2

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

In connection with the Annual Report of Optical Cable Corporation (the “Company”) on Form 10-K for the year ended October 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of October 31, 2009, and for the period then ended.

/s/ Tracy G. Smith

Tracy G. Smith
Senior Vice President and
Chief Financial Officer

January 29, 2010