

**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, 2016**

**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:**

<b><u>Title of Each Class</u></b>	<b><u>Name of Each Exchange on Which Registered</u></b>
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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (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.

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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, 2016, the last business day of the Company’s most recent second quarter was \$13,802,066 based upon the closing price of these shares as reported by the Nasdaq Global Market on April 30, 2016.

As of December 13, 2016, the Company had outstanding 7,081,034 common shares.

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**DOCUMENTS INCORPORATED BY REFERENCE**

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 of Financial Condition and Results of Operations," "Consolidated Financial Statements," "Notes to Consolidated Financial Statements," and "Report of Independent Registered Public Accounting Firm." In addition, portions of the Company's Proxy Statement for the 2017 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," "Beneficial Ownership of Securities," "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."

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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 subsidiaries, Applied Optical Systems, Inc. (“AOS”) and Centric Solutions LLC (“Centric Solutions”), has offices, manufacturing and warehouse facilities located in Roanoke, Virginia, near Asheville, North Carolina and near Dallas, Texas.

Optical Cable Corporation and its subsidiaries (collectively, the “Company” 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 and various harsh environment and specialty markets (the non-carrier markets), offering integrated suites of high quality products which operate as a system solution or seamlessly integrate with other providers’ offerings. OCC also manufactures and sells products in the wireless carrier market.

OCC’s product offerings include designs for uses ranging from enterprise networks, datacenters, residential and campus installations to customized products for specialty applications and harsh environments, including military, industrial, mining, petrochemical, wireless carrier 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, pre-terminated fiber optic and copper cable assemblies, racks, cabinets, datacom enclosures, patch panels, face plates, multi-media boxes, fiber optic reels and accessories 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.

The OCC team seeks to provide top-tier integrated communication solutions by bundling our products into systems that provide our customers and end-users with integrated cabling and connectivity solutions that are well-suited for their individual data communication and application requirements.

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® is also internationally recognized for pioneering the development of innovative copper connectivity technology and designs used to meet industry copper data communications standards.

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

OCC designs, develops and manufactures fiber optic cables for a broad range of enterprise, harsh environment and specialty markets and applications. We refer to these products as our fiber optic cable offering. OCC designs, develops and manufactures fiber and copper connectivity products for the enterprise market, including a broad range of enterprise and residential applications. We refer to these products as our enterprise connectivity product offering. OCC designs, develops and manufactures a broad range of specialty fiber optic connectors and connectivity products primarily for use in military, harsh environment and other specialty applications. We refer to these products as our harsh environment and specialty connectivity product offering.

OCC markets and sells our harsh environment and specialty connectivity product offering through AOS under the names Optical Cable Corporation and OCC® by the efforts of our integrated OCC sales team.

Effective February 1, 2016, Optical Cable Corporation increased its ownership of Centric Solutions LLC (“Centric Solutions”) to 100%. Centric Solutions is a business founded in 2008 that provides turnkey cabling and connectivity solutions for the datacenter market. Centric Solutions operates and goes to market independently from Optical Cable Corporation; however, in some cases, Centric Solutions may offer products from OCC’s product offering. Centric Solutions’ facility lease expired November 30, 2015 and was not renewed. OCC has transitioned Centric Solutions’ business to OCC’s facility near Dallas, Texas.

Optical Cable Corporation, OCC<sup>®</sup>, Procyon<sup>®</sup>, Procyon Blade<sup>™</sup>, Superior Modular Products<sup>™</sup>, SMP Data Communications<sup>™</sup>, Applied Optical Systems<sup>™</sup>, Centric Solutions<sup>™</sup>, and associated logos are trademarks of Optical Cable Corporation.

## **Products**

OCC<sup>®</sup> is a leading manufacturer of a broad range of fiber optic and copper data communication cabling and connectivity solutions primarily for the enterprise market and various harsh environment and specialty markets (the non-carrier markets), offering an integrated suite of high quality, warranted products which operate as a system solution or seamlessly integrate with other providers' offerings. OCC also manufactures and sells a significant amount of products in the wireless carrier market. OCC's product offerings include designs for uses ranging from enterprise networks, datacenters, residential and campus installations to customized products for harsh environments and specialty applications, including military, industrial, mining, petrochemical, wireless carrier 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, pre-terminated fiber optic and copper cable assemblies, racks, cabinets, datacom enclosures, fiber optic and copper patch panels, face plates, multi-media boxes, fiber optic reels and accessories and other cable and connectivity management accessories. Our products are designed to meet the most demanding needs of end-users, delivering a high degree of reliability and outstanding performance characteristics. During the past two years, OCC has been granted or received Notice of Allowance for 17 patents for innovative designs of fiber optic and copper connectivity and fiber optic cable.

Our fiber optic and copper cabling and connectivity products and solutions (predominantly passive, rather than active systems) are used for transmission of data, video, radio frequency and voice communications primarily over short- to moderate-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 primarily over short- to moderate-distances.

OCC is internationally recognized for pioneering the design and production of fiber optic cables for the most demanding military field applications, as well as fiber optic cables suitable for both indoor and outdoor use, and for creating a broad product offering built on the evolution of these fundamental technologies.

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 a wide range of needs, primarily for the enterprise market and various harsh environment and specialty markets (the non-carrier markets), ranging from enterprise networks, data centers, residential and campus installations, as well as the needs for the harsh environment and specialty markets including military, industrial, mining, petrochemical, and broadcast applications, and to a lesser extent the access market. OCC also manufactures and sells a significant amount of fiber optic cable and hybrid cable (fiber and copper) products in the wireless carrier market. Our patented tight-buffered fiber unit cables have both high fiber-count and rugged performance in a compact and lightweight design. We believe that we offer one of the most comprehensive tight-buffered fiber optic cable product offerings for our markets.

We produce fiber optic cables for specialized installations, including various hybrid cables (fiber and copper), and cables with specialty fibers. We can armor fiber optic cables for additional protection in certain installations. We offer cables suitable for underground or overhead installations. For overhead installations, we offer several self-supporting fiber optic cables including aerial messenger cables which feature self-supporting construction. We have fiber optic cables available in various flammability ratings. We offer 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 hybrid 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 design and manufacture specialty fiber optic cables, such as for use in Fiber-to-the-Antenna ("FTTA") products for cell tower build-outs, 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-85045/8B 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. We also 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 (F/UTP) constructions, in Category 5e, Category 6 and Category 6A performance ratings, in riser and plenum configurations, and in various colors. The addition of copper datacom cables enables OCC to offer our customers an end-to-end solution for copper network installations.

### *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 enterprise, residential, military and harsh environment applications. We are internationally recognized for our role in establishing copper connectivity data communication standards, through our innovative technologies.

The following paragraphs summarize 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 Connectivity Products.* Our fiber optic connectivity products provide customers a comprehensive line of fiber optic system solutions for equipment rooms, telecommunications closets, datacenters and workstations, including unique infrastructure and cabling solutions for Passive Optical LAN (“POL”) installations. Our product offering includes fiber optic wall mount, cabinet mount and rack mount enclosures, pre-terminated fiber optic enclosures, fiber optic connectors, splice trays, fiber optic jumpers, plug and play cassette modules, pre-terminated fiber optic cable assemblies, adapters, and accessories.

*Copper Connectivity Products.* OCC’s copper enterprise connectivity products offer customers a comprehensive line of copper system solutions and line of component compliant products necessary for high speed data and voice applications in equipment rooms, telecommunications closets, datacenters and workstations. Our product offering includes: category compliant patch panels, jacks (standard keystone or proprietary bezel configuration), plugs, patch cords, faceplates, surface mounted boxes, distribution and multi-media boxes, copper rack mount and wall mount enclosures, cable assemblies, cable organizers, and other wiring products. OCC provides products compliant with Category 6A, 6 and 5e standards in both shielded and unshielded offerings and industry recognized Category 8 test qualification fixtures and Category 8 plugs. OCC pioneered the required technology for high performance twisted pair cabling and RJ45 connectivity applications to Ethernet, holding multiple patents for electrical performance and usability features.

*Cabinets, Racks and Enclosures.* We offer a wide array of high-performance network, data storage and telecommunications management systems for enterprise and residential use. Our 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 various network segments. Our products serve the equipment, cross-connect and termination needs for copper and fiber optic multi-media applications as well as wall mount and space saving UL listed ceiling mount enclosures for Passive Optical LANs.

*Residential Products.* Our product offering includes a comprehensive line of datacom 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, distributing and managing services in the home including voice, data, video, audio and security.

### *Harsh Environment and Specialty Connectivity Products*

We design, manufacture, market and sell specialty fiber optic connectors and connectivity components, certain ruggedized copper datacom connectors, and related deployable systems and solutions for military, other harsh environment and specialty 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-PRF-29504, MIL-DTL-83522, MIL-DTL-83526, NAVSEA 7379171, NAVSEA 7379172. In addition to military specified products, we also manufacture commercial grade versions of cylindrical connector products including EZ-MATE™, MHC®-II, MHC®-III and F-LINK™. Many of our products utilize a hermaphroditic design that allows for concatenation of assemblies without regard to connector gender. This design allows for quick and easy deployment and retrieval. To provide more comprehensive interconnect solutions, we designed and developed a complete family of lightweight reels and accessories. Our patented lightweight reels and our patent pending lightweight reel stands are approved for use by the United States military. We manufacture cylindrical connector product for fixed fiber optic or applications requiring optical fiber and copper connections in the same connector. We fabricate a wide variety of simplex, duplex and multi-channel fiber optic assemblies for uses as varied as mining, oil & gas, petrochemical, broadcast, industrial and military applications. Our product offering also includes ruggedized RJ45 connectors.

### *Distribution Methods of Products and Services*

Our products are sold to major distributors, regional distributors, various specialty and 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 fiber optic and copper data communications cables and connectivity enterprise markets and other short- to moderate-distance markets are highly competitive. Our fiber optic cable product lines compete with products of large fiber optic cable manufacturers such as Corning Incorporated, General Cable Corp, Belden Inc., Nexans S.A. (including Berk-Tek), CommScope Holding Company, Inc., OFS, AFL (a subsidiary of Fujikura), and others, some of which manufacture optical fiber. Our copper cable product lines compete with products of large copper cable manufacturers such as General Cable Corp., Belden Inc., Nexans S.A. (including Berk-Tek), CommScope Holding Company, Inc. and others. Our fiber optic and copper connectivity product lines compete with products of large fiber optic and copper connectivity manufacturers such as CommScope Holding Company, Inc., Corning Incorporated, Leviton, Legrand S.A. (including Ortronics), Panduit and others. Our harsh environment and specialty connectivity product lines compete with products of Amphenol Corporation (including AFSI), Delphi and others.

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 2016 fiscal year. We believe that we have materially complied with all applicable environmental regulations.

### *Research and Development Activities*

Research and development costs totaled \$1.3 million, \$1.3 million and \$1.4 million for the fiscal years ended October 31, 2016, 2015 and 2014, respectively. Our research and development costs related to a variety of research projects performed in connection with our enterprise connectivity product lines including, but not limited to, Category 8 product development. The product development work with respect to our fiber optic cable products and our harsh environment and specialty connectivity products is generally associated with product improvements and 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 and End-Users*

We have a global customer base, selling in over 50 countries in fiscal year 2016.

Our products are sold to major distributors, regional distributors, various specialty and 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.

The following is a partial list of representative types of end-users of our fiber optic and copper connectivity and cable 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. Our fiber optic cable and connectivity products in these environments offer ruggedness, immunity to electrical noise, 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 the United States Department of Defense (“U.S. DoD”) 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 supply the U.S. DoD with tactical fiber optic cable assemblies, which we sell as fiber optic cables connectorized with qualified military connectors on military reels and reel stands 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 data communications solutions to support interactive learning systems.
- **Wireless Carriers.** We design and manufacture various specialty fiber optic and hybrid (fiber and copper) cables for FTTH applications such as cell phone tower build-outs and upgrades.
- **Original Equipment Manufacturers.** We private label a number of our copper connectivity products for other major manufacturers of copper connectivity, including major competitors.

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

**Employees**

As of October 31, 2016, we employed a total of 331 persons (excluding independent sales representatives and firms). 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**

Item 1A. Risk Factors is not required for a “smaller reporting company” as defined in Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended.

Certain risk factors that may adversely affect the Company, the Company’s future results of operations and future financial condition, and future market valuation of the Company are mentioned under “Forward-Looking Information” included in Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Company’s Annual Report for the fiscal year ended October 31, 2016 (filed as Exhibit 13.1 to this report on Form 10-K), and in our Quarterly Reports on Form 10-Q.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**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 primarily houses our corporate headquarters, our fiber optic cable manufacturing operations, 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 primarily houses administrative offices, our enterprise connectivity manufacturing operations, 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 primarily houses administrative offices, our harsh environment and specialty connectivity manufacturing operations, our harsh environment and specialty connectivity product development function and our harsh environment and specialty connectivity warehouse. Our Dallas facility is located in an industrial complex of suites. The space leased is approximately 34,000 square feet.

We lease a warehouse facility in Roanoke, Virginia. The space leased is approximately 36,000 square feet and is used primarily to store raw materials related to our fiber optic cable products.

We believe that we are currently operating at approximately 50% of our production equipment capacity on average at our collective manufacturing facilities during fiscal year 2016. Since various production equipment is specialized and our product mix varies, individual manufacturing equipment may operate at higher or lower production capacity during various times during any given period of time.

Additional personnel would need to be hired and trained, additional warehousing space may be needed, and, depending on product mix, certain additional production equipment may need to be acquired, 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 acquire and install certain additional production equipment or our ability to secure additional warehousing space, necessary to utilize our excess production capacity.

Centric Solutions’ facility lease expired November 30, 2015 and was not renewed. OCC has transitioned Centric Solutions’ business to OCC’s existing facility near Dallas, Texas.

**Item 3. LEGAL PROCEEDINGS**

On May 31, 2016, G. Thomas Hazelton, Jr. was terminated by Applied Optical Systems, Inc., a wholly owned subsidiary of OCC (“AOS”) for Cause as defined both in his employment agreement dated October 31, 2009 (the “Employment Agreement”) and also in the Stock Purchase Agreement dated October 31, 2009 by and among OCC, as buyer, and G. Thomas Hazelton, Jr. (“Hazelton”) and Daniel Roehrs (“Roehrs”), as sellers (Exhibit 10.22 of the Company’s Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010) (the “SPA”).

OCC acquired AOS from Hazelton and Roehrs pursuant to the terms of the SPA. In addition to its claims under the Employment Agreement, OCC also has asserted claims of indemnification against Hazelton under the SPA related to alleged unlawful actions by Hazelton and Roehrs.

As a result, OCC has not paid Hazelton any severance compensation and does not intend to pay Hazelton any of the minimum earn out amount (a maximum amount of \$470,665 payable on January 31, 2017 under the terms of the SPA) that otherwise would have been owed to Hazelton, but for Hazelton’s termination for Cause and OCC’s indemnification claims under the SPA.

As a result of this dispute, OCC and AOS filed suit against Hazelton on September 9, 2016 in state court in Roanoke City, Virginia. Hazelton has filed suit against OCC and AOS on September 7, 2016 in state court in Collin County, Texas.

Additionally, OCC, AOS, and Centric Solutions LLC, a wholly owned subsidiary of OCC (“Centric Solutions”) have filed suit against Roehrs, William DiBella (“DiBella”) (a former employee of Centric Solutions), and Rosenberger CDS, LLC and Rosenberger North America (together, “Rosenberger”) on September 20, 2016 in state court in Roanoke County, Virginia, in connection with related alleged unlawful actions by Roehrs, DiBella and Rosenberger.

At this time, OCC does not believe any of these disputes or the litigation resulting therefrom will have a material adverse effect on OCC.

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 our financial position, results of operations or liquidity.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

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 Securities” in the Proxy Statement for the 2017 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

The Company had 7,081,159 shares of common stock issued and outstanding at October 31, 2016. Employees of the Company and members of the Board of Directors owned at least 36.6% of the shares issued and outstanding at October 31, 2016, including shares still subject to potential forfeiture based on vesting requirements.

**Issuer Purchases of Equity Securities**

The Company has a plan (the “Repurchase Plan”), approved by its Board of Directors on July 14, 2015, to purchase and retire up to 400,000 shares of the Company’s common stock, or approximately 6.0% of the shares then outstanding. The Company anticipates that the purchases will be made over a 24- to 36-month period, but there is no definite time period for repurchase. For the three-month period ended October 31, 2016, the Company did not repurchase and retire any shares of its outstanding common stock under the Plan and had 398,400 shares remaining to purchase under the Repurchase Plan.

The Company repurchased outstanding common stock outside of the Repurchase Plan directly from certain shareholders and through an odd lot repurchase offer. During fiscal year 2016, OCC repurchased and retired a total of 14,225 shares for \$40,150, outside of the Repurchase Plan.

The information contained under the caption “Corporate Information” of our Annual Report for the fiscal year ended October 31, 2016, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

**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, 2016, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

**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, 2016, 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, 2016, 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**

The Company changed its principal accountants for its fiscal year ended October 31, 2016 from KPMG LLP to Brown, Edwards & Company, L.L.P. There were no disagreements with our former accountants for the year ended October 31, 2015 or any of the previous fiscal years. The change in the Company’s principal accountants was approved by the Company’s Audit Committee of the Board of Directors. We did not have any disagreements with our current accountants on any accounting matter or financial disclosure made during our fiscal year ended October 31, 2016.

**Item 9A. 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, 2016, 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, 2016.

#### **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 U.S. generally accepted accounting principles and includes 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, 2016, based on the framework set forth in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on its evaluation, management concluded that, as of October 31, 2016, the Company's internal control over financial reporting was effective.

#### **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 2017 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 2017 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 2017 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,” and “Director Compensation” in the Proxy Statement for the 2017 Annual Meeting of Shareholders of the Company is incorporated herein by reference.

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

**Equity Compensation Plan Information**

<b>Plan Category</b>	<b>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)</b>	<b>(b) Weighted-average exercise price of outstanding options, warrants, and rights</b>	<b>(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
Equity compensation plans:			
Second Amended & Restated 2011 Stock Incentive Plan	667,048 shares	\$ —	324,646 shares
<b>Total</b>	<b>667,048 shares</b>	<b>\$ —</b>	<b>324,646 shares</b>

(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.

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 Securities” in the Proxy Statement for the 2017 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 2017 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 2017 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.”

## 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 notes thereto are hereby incorporated by reference to pages 24 to 48 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 the 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:

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
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-A12G filed with the Commission on November 5, 2001).
3.2	Articles of Amendment filed July 5, 2002 to the Amended and Restated Articles of Incorporation, as amended through July 5, 2002 (incorporated herein by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed July 5, 2002).
3.3	Amended and Restated Bylaws of Optical Cable Corporation (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, 2011).
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	Form of certificate representing Common Stock (incorporated herein by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2012).
4.3	Stockholder Protection Rights Agreement dated as of October 28, 2011, between Optical Cable Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent, including as Exhibit A The Forms of Rights Certificate and Election to Exercise (incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-A12G filed with the Commission on November 1, 2011).
4.4	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 filed January 29, 2009).
4.5	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 filed January 29, 2009).
4.6	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 filed January 29, 2009).
4.7	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 filed January 29, 2009).
4.8	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 filed January 29, 2009).



- 4.9 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 filed January 29, 2009).
- 4.10 First Loan Modification Agreement dated February 16, 2010 by and between Optical Cable Corporation and Valley Bank (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed February 22, 2010).
- 4.11 Second Loan Modification Agreement dated April 30, 2010 by and between Optical Cable Corporation, for itself and as successor by merger to Superior Modular Products Incorporated, and Valley Bank (incorporated herein by reference to Exhibit 4.13 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2010 filed June 14, 2010).
- 4.12 Addendum A to Commercial Note dated April 30, 2010 by and between Optical Cable Corporation and SunTrust Bank (incorporated herein by reference to Exhibit 4.14 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2010 filed June 14, 2010).
- 4.13 Third Loan Modification Agreement dated April 22, 2011 by and between Optical Cable Corporation, for itself and as successor by merger to Superior Modular Products Incorporated, and Valley Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 28, 2011).
- 4.14 Fourth Loan Modification Agreement dated July 25, 2011 by and between Optical Cable Corporation, for itself and as successor by merger to Superior Modular Products Incorporated, and Valley Bank (incorporated herein by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K dated July 26, 2011).
- 4.15 Fifth Loan Modification Agreement dated August 31, 2012 by and between Optical Cable Corporation, for itself and as successor by merger to Superior Modular Products Incorporated, and Valley Bank (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated August 31, 2012).
- 4.16 Commercial Note dated August 30, 2013 by and between Optical Cable Corporation and SunTrust Bank in the principal amount of \$9,000,000 (incorporated herein by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated September 3, 2013).
- 4.17 Agreement to Commercial Note dated August 30, 2013 by and between Optical Cable Corporation and SunTrust Bank (incorporated herein by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K dated September 3, 2013).
- 4.18 Addendum A to Commercial Note dated August 30, 2013 by and between Optical Cable Corporation and SunTrust Bank (incorporated herein by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K dated September 3, 2013).
- 4.19 Sixth Loan Modification Agreement dated August 30, 2013 by and between Optical Cable Corporation, for itself and as successor by merger to Superior Modular Products Incorporated, and Valley Bank (incorporated herein by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K dated September 3, 2013).
- 4.20 Binding Letter of Renewal dated August 11, 2014 by and between Optical Cable Corporation and SunTrust Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 11, 2014).
- 4.21 Binding Letter of Renewal dated May 7, 2015 by and between Optical Cable Corporation and SunTrust Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 8, 2015).
- 4.22 Amended and Restated Security Agreement dated May 7, 2015 by Optical Cable Corporation in favor of SunTrust Bank (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated May 8, 2015).
- 4.23 Seventh Loan Modification Agreement dated January 25, 2016, by and between Optical Cable Corporation, for itself and as successor by merger to Superior Modular Products Incorporated, and BNC Bancorp, successor in interest to Valley Bank (incorporated herein by reference to Exhibit 4.23 of the Company's Annual Report on Form 10-K for the period ended October 31, 2015 filed January 28, 2016).
- 4.24 Modification to Commercial Note and Agreement to Commercial Note dated January 25, 2016 by and between Optical Cable Corporation and with SunTrust Bank (incorporated herein by reference to Exhibit 4.24 of the Company's Annual Report on Form 10-K for the period ended October 31, 2015 filed January 28, 2016).



- 4.25 Second Amended and Restated Security Agreement dated January 25, 2016 by Optical Cable Corporation, in favor of SunTrust Bank, its present and future affiliates and their successors and assigns (incorporated herein by reference to Exhibit 4.25 of the Company's Annual Report on Form 10-K for the period ended October 31, 2015 filed January 28, 2016).
- 4.26 Credit Agreement dated April 26, 2016 by and between Optical Cable Corporation as borrower and Bank of North Carolina as lender in the amount of \$7,000,000 (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K/A filed May 3, 2016).
- 4.27 Revolving Credit Note in the amount of \$7,000,000 by Optical Cable Corporation dated April 26, 2016 (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K/A filed May 3, 2016).
- 4.28 Term Loan A Note in the amount of \$1,816,609.03 by Optical Cable Corporation dated April 26, 2016 (incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K/A filed May 3, 2016).
- 4.29 Term Loan B Note in the amount of \$5,271,410.83 by Optical Cable Corporation dated April 26, 2016 (incorporated herein by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K/A filed May 3, 2016).
- 4.30 Modification of Credit Line Deed of Trust dated April 26, 2016 by and between Optical Cable Corporation (successor by merger to Superior Modular Products Incorporated) as Grantor, Andrew B. Agee (in substitution of LeClairRyan) as Trustee and Bank of North Carolina (successor by merger with Valley Bank) as Beneficiary, modifying that certain Credit Line Deed of Trust dated May 30, 2008 (incorporated herein by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K/A filed May 3, 2016).
- 4.31 Modification of Deed of Trust, Security Agreement, and Assignment of Leases and Rents dated April 26, 2016 by and between Optical Cable Corporation (successor by merger to Superior Modular Products Incorporated) as Grantor, Andrew B. Agee (in substitution of LeClairRyan) as Trustee and Bank of North Carolina (successor by merger with Valley Bank) as Beneficiary, modifying that certain Deed of Trust, Security Agreement and Assignment of Leases and Rents dated May 30, 2008 (incorporated herein by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K/A filed May 3, 2016).
- 4.32 Security Agreement dated April 26, 2016 between Optical Cable Corporation and Bank of North Carolina (incorporated herein by reference to Exhibit 4.7 to the Company's Current Report on Form 8-K/A filed May 3, 2016).
- 10.1\* 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).
- 10.2\* Optical Cable Corporation 2011 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed February 23, 2011).
- 10.3\* Optical Cable Corporation Amended and Restated 2011 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed February 27, 2013).
- 10.4\* Optical Cable Corporation Second Amended and Restated 2011 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed March 4, 2015).
- 10.5\* Form of time vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan, 2011 Stock Incentive Plan and Amended and Restated 2011 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 filed June 14, 2006).
- 10.6\* Form of operational performance (Company financial performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan, 2011 Stock Incentive Plan and Amended and Restated 2011 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 filed June 12, 2009).
- 10.7 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 (incorporated herein by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).

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- 10.8 Stock Purchase Agreement dated October 31, 2009 by and among the Company, as buyer and G. Thomas Hazelton, Jr. and Daniel Roehrs as sellers (incorporated herein by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.9 Buy-Sell Agreement dated October 31, 2009, by and between G. Thomas Hazelton, Jr., as guarantor, and the Company (incorporated herein by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.10 Indemnification Agreement dated October 31, 2009, between the Company and Applied Optical Systems, Inc. (incorporated herein by reference to Exhibit 10.27 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.11 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 (incorporated herein by reference to Exhibit 10.28 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.12 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 (incorporated herein by reference to Exhibit 10.29 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.13 Warrant Exercise Agreement between the Company and Applied Optical Systems, Inc. dated October 30, 2009 (incorporated herein by reference to Exhibit 10.30 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.14 Redemption Agreement by and between Optical Cable Corporation and BB&T Capital Markets dated July 14, 2015 (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed July 14, 2015).
- 10.15\* Amended and restated Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective April 11, 2011 (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed April 15, 2011).
- 10.16\* Amendment, effective December 18, 2012, to Amended and Restated Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective April 11, 2011 (incorporated herein by reference to Exhibit 10.16 of the Company's Quarterly Report on Form 10-Q for the period ended January 31, 2013 filed March 15, 2013).
- 10.17\* Second Amendment, effective March 14, 2014, to Amended and Restated Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective April 11, 2011, as amended December 18, 2012 (incorporated herein by reference to Exhibit 10.19 of the Company's Quarterly Report on Form 10-Q for the period ended January 31, 2014 filed March 17, 2014).
- 10.18\* Amended and restated Employment Agreement by and between Optical Cable Corporation and Tracy G. Smith effective April 11, 2011 (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed April 15, 2011).
- 10.19\* Amendment, effective December 18, 2012, to Amended and Restated Employment Agreement by and between Optical Cable Corporation and Tracy G. Smith effective April 11, 2011 (incorporated herein by reference to Exhibit 10.18 of the Company's Quarterly Report on Form 10-Q for the period ended January 31, 2013 filed March 15, 2013).
- 10.20\* Second Amendment, effective March 14, 2014, to Amended and Restated Employment Agreement by and between Optical Cable Corporation and Tracy G. Smith effective April 11, 2011, as amended December 18, 2012 (incorporated herein by reference to Exhibit 10.22 of the Company's Quarterly Report on Form 10-Q for the period ended January 31, 2014 filed March 17, 2014).
- 11.1 Statement regarding computation of per share earnings (incorporated by reference to note 14 of the Notes to Consolidated Financial Statements contained herein).
- 13.1 Annual Report. FILED HEREWITH.
- 21.1 List of Subsidiaries. FILED HEREWITH.
- 23.1 Consent of Independent Registered Public Accounting Firm. FILED HEREWITH.

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23.2	Consent of KPMG LLP. 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.
101	The following materials from the Company's Annual Report on Form 10-K for the year ended October 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of October 31, 2016 and 2015, (ii) Consolidated Statements of Operations for the years ended October 31, 2016, 2015 and 2014, (iii) Consolidated Statements of Shareholders' Equity for the years ended October 31, 2016, 2015 and 2014, (iv) Consolidated Statements of Cash Flows for the years ended October 31, 2016, 2015 and 2014, and (v) Notes to Consolidated Financial Statements. FILED HEREWITH.

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\* Management contract or compensatory plan or agreement.



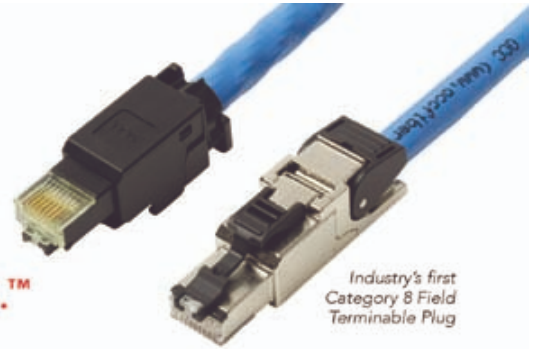


# 2016

ANNUAL REPORT

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## OCC. MORE THAN CABLE. COMMUNICATIONS SOLUTIONS.™



Industry's first  
Category 8 Field  
Terminable Plug

OCC's Lightweight Reel Stand for  
military deployable communications



Ruggedized fiber optic enclosures  
with MHC® III technology



Procyon® – high density  
data center solutions



Passive Optical LAN for simplified  
and cost effective enterprise networks



RTC/RTS fiber optic enclosures  
designed for easy installations



MARS® – numerous options for  
deploying field communication systems



Robust connections for fiber  
or copper installations

OCC began by revolutionizing the fiber optic cable industry. Today, OCC is changing the way the world communicates.

Since 1983, OCC's innovative fiber optic cable designs took the communications industry by storm — bringing the power of fiber optics to harsh environments never before thought possible.

This legendary spirit of innovation has enabled us to create a broad and growing suite of top-tier, integrated connectivity and cabling solutions used everywhere from buildings, campuses and data centers to sporting venues, industrial facilities and harsh environments.

From connectivity to cable. From copper to fiber optics. If you need to communicate. You want OCC.

**Connections You Can Count On.™**

**OPTICAL CABLE CORPORATION**

Annual Report

2016

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

	Years ended October 31,				
	2016	2015 (1)	2014	2013	2012
<b>Consolidated Statement of Operations Information:</b>					
Net sales	\$ 64,616	\$ 73,569	\$ 82,978	\$ 75,266	\$ 83,523
Cost of goods sold	44,891	51,773	54,506	49,354	51,970
Gross profit	19,725	21,796	28,472	25,912	31,553
Selling, general and administrative expenses	20,761	24,043	26,989	24,996	27,300
Royalty (income) expense, net	164	124	110	79	(299)
Amortization of intangible assets	17	11	41	70	134
Income (loss) from operations	(1,217)	(2,382)	1,332	767	4,418
Other expense, net:					
Interest expense, net	(621)	(440)	(414)	(467)	(550)
Other, net	43	7	(28)	(25)	16
Income (loss) before income taxes	(1,795)	(2,815)	890	275	3,884
Income tax expense	6	1,482	267	348	1,258
Net income (loss)	\$ (1,801)	\$ (4,297)	\$ 623	\$ (73)	\$ 2,626
Net loss attributable to noncontrolling interest	(22)	(42)	(61)	(30)	(123)
Net income (loss) attributable to OCC	\$ (1,779)	\$ (4,255)	\$ 684	\$ (43)	\$ 2,749
Net income (loss) per share attributable to OCC	\$ (0.28)	\$ (0.69)	\$ 0.10	\$ (0.01)	\$ 0.43
Weighted average shares:					
Basic and diluted	6,443	6,201	6,764	5,785	6,456
<b>Consolidated Balance Sheet Information:</b>					
Cash	\$ 1,879	\$ 1,083	\$ 1,090	\$ 750	\$ 591
Working capital	22,196	23,504	26,075	26,986	26,838
Total assets	40,666	45,029	50,039	45,415	47,762
Bank debt	11,946	13,227	9,997	10,256	9,003
Total shareholders' equity attributable to OCC	24,765	26,631	31,007	30,199	30,644

(1) Fiscal year 2015 includes a \$2.4 million non-cash charge related to the establishment of an allowance against OCC's net deferred tax assets. The deferred tax asset valuation allowance in fiscal year 2015 increased income tax expense, increased net loss, increased net loss attributable to OCC, reduced total assets attributable to OCC and reduced total shareholders' equity attributable to OCC, in each case by \$2.4 million. The deferred tax asset valuation allowance also increased the net loss per share attributable to OCC by \$0.39 per share in fiscal year 2015. See "Income Tax Expense" in the Management Discussion and Analysis section of this annual report and Note 12 to the Consolidated Financial Statements.

## Letter from the CEO

Dear Shareholders of Optical Cable Corporation:

Over the course of fiscal year 2016, Optical Cable Corporation (OCC®) again demonstrated its ability to adjust course in a challenging market environment to position the Company for success.

### **Adjustments Made. Improvements Achieved.**

In 2016, we continued to experience market weakness that increased toward the end of our prior fiscal year, particularly in certain of our specialty markets including military, mining, oil & gas and wireless carrier markets. The strong U.S. dollar also continued to negatively impact our international markets, increasing the price of our products for international customers.

In response to these challenges, the OCC team focused on two categories of initiatives in fiscal year 2016:

- Cost reductions aimed at cutting expenses and strengthening manufacturing efficiencies.
- Sales, marketing and product initiatives to drive increased sales in markets with the greatest growth opportunities and maintain sales levels in weaker markets.

OCC achieved success in both of these initiatives.

Beginning at the end of last year and continuing into fiscal 2016, OCC took steps to reduce selling, general and administrative (SG&A) expenses across all expense categories and improve manufacturing efficiencies. These steps included targeted personnel reductions—positively impacting both SG&A expenses and manufacturing efficiencies. We appreciate everything our employees do to help us meet the needs of customers and deliver returns for shareholders, and reducing headcount is never easy. However, we took the difficult steps we determined were necessary to reduce cost structure in light of the market environment.

As a result, OCC **reduced selling, general and administrative expenses by \$3.3 million**, or 13.7%, in fiscal year 2016 compared to last year, and reduced production costs as well. These cost reductions contributed to sequential quarterly improvements in manufacturing efficiency during the year, as well as increased gross profit and gross margins.

OCC **increased gross profit by 77.3% to \$6.2 million** in the fourth quarter when compared to \$3.5 million in the first quarter, and **increased gross profit margin to 35.9% in the fourth quarter** compared to 24.9% in the first quarter. Of course, production volumes also favorably impacted gross profit and gross profit margin results and gross profit margins are also affected by product mix.

Importantly, OCC also initiated sales, marketing and product initiatives during the year to drive sales growth, particularly in high opportunity markets. We invested in new personnel, improved processes and new products. These efforts, along with additional planned initiatives, will continue into fiscal year 2017.

Although on a year-over-year basis net sales still declined, the actions that we took during the year contributed to the improvement in net sales and profitability during the course of fiscal year 2016, even when considering the impact of seasonality.

Net sales increased 23.2% to \$17.3 million in the fourth quarter compared to \$14.0 million in the first quarter of fiscal year 2016 as a result of OCC's initiatives as well as seasonality. Earnings per share improved to \$0.11 per share in the fourth quarter from a loss of \$0.28 per share in the first quarter.

These top and bottom line results demonstrate the progress we are making to make our organization more efficient and drive growth to create value for shareholders.

## Key Financial Performance Metrics.

OCC's key financial performance metrics for fiscal year 2016 included:

- Sequential improvements in quarterly net sales, gross profit, gross profit margin and profitability during each fiscal quarter.

	Quarter ended			
	January 31	April 30	July 31	October 31
Net sales	\$ 14,047,890	\$ 16,340,153	\$ 16,915,135	\$ 17,312,823
Gross profit	3,502,431	4,551,295	5,461,691	6,209,719
Gross profit margin	24.9%	27.9%	32.3%	35.9%
Basic and diluted net income (loss) per share attributable to Optical Cable Corporation	\$ (0.28)	\$ (0.15)	\$ 0.03	\$ 0.11

- Consolidated net sales of \$64.6 million, a decrease of 12.2% compared to net sales of \$73.6 million for fiscal year 2015. Net sales were impacted by decreases in certain specialty markets, including military, mining, oil & gas, and wireless carrier markets, overall weakness particularly in the first quarter of the year, and decreases in international sales as a result of the strong U.S. dollar relative to other international currencies.
- Gross profit margin increased to 30.5% compared to 29.6% for fiscal year 2015.
- OCC reduced SG&A expenses by \$3.3 million, or 13.7%, during fiscal year 2016 when compared to fiscal year 2015.
- Net loss attributable to OCC was \$1.8 million, or \$0.28 per share, compared to net loss attributable to OCC of \$4.3 million, or \$0.69 per share, during fiscal year 2015.
- OCC generated annual positive cash flow from operating activities again this year—increasing net cash provided by operating activities to \$3.2 million compared to \$1.2 million in fiscal year 2015.
- OCC's balance sheet remains strong:
  - o OCC's ratio of current assets to current liabilities as of October 31, 2016 was 6.4 to 1.
  - o OCC paid down \$1.0 million on its revolving line of credit during fiscal year 2016 and has not borrowed on the revolver since August 2015.

## Looking Forward to Fiscal Year 2017

We believe the actions we have taken better position OCC to meet the current market challenges, which we expect to persist into fiscal year 2017. We intend to continue driving top-line growth by continuing the sales, marketing and product initiatives designed to provide customers and end-users with innovative and integrated product offerings and solutions.

Since the end of our fiscal year, and in recent weeks, confidence in the macro-economic environment has increased. U.S. stock market indices are testing new highs, some U.S. manufacturing economic indicators are improving, there is talk of possible U.S. government policy changes intended to benefit business, and many are now expecting increased spending in certain markets—like military and energy—that could benefit OCC.

As we begin fiscal year 2017, we still see weakness in certain of our markets and we expect seasonality to impact the first half of fiscal year 2017. However, it is not unusual for increases in capital investment in fiber optic and copper datacom cabling and connectivity infrastructure to lag general economic activity.

That said, the intensity of the efforts by the OCC team is not dependent on economic trends. We will continue to take the proactive steps we believe will best position OCC for growth in fiscal year 2017 and beyond.

We believe that we have built a strong foundation at OCC and we are optimistic about our ability to capitalize on the opportunities before us in fiscal year 2017. We look forward to continuing to execute on our strategy to deliver value for shareholders and are confident in our ability to continue meeting the needs of our customers.

The OCC team has worked hard to improve results during fiscal year 2016, and we are fortunate to have such a strong and committed base of employees. We thank them for their hard work, dedication, and service. Their efforts are essential to the success of our customers and OCC.

Thank you for your investment in OCC and for the privilege of allowing us to lead your company.

/s/ Neil D. Wilkin, Jr.  
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Neil D. Wilkin, Jr.  
Chairman of the Board, President and Chief Executive  
Officer  
December 20, 2016

# 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 known and unknown variables, uncertainties, contingencies and risks that may cause actual events or results to differ materially from our expectations. Such known and unknown variables, uncertainties, contingencies and risks (collectively, "factors") may also adversely affect Optical Cable Corporation and its subsidiaries (collectively, the "Company" or "OCC<sup>®</sup>"), the Company's future results of operations and future financial condition, and/or the future equity value of the Company. Factors that could cause or contribute to such differences from our expectations or that 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, plastics and other materials); fluctuations in transportation costs; our dependence on customized equipment for the manufacture of certain of our products in certain production facilities; our ability to protect our proprietary manufacturing technology; market conditions influencing prices or pricing in one or more of the markets in which we participate, including the impact of increased competition; 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, the data communications sector, certain technology sectors and/or certain industry market sectors (for example, mining, oil & gas, military and wireless carrier industry market sectors); economic conditions that affect U.S. based manufacturers; economic conditions or changes in relative currency strengths (for example, the strengthening of the U.S. dollar relative to certain foreign currencies) that affect certain geographic markets, the relative costs of U.S. products exported, and/or the economy as a whole; changes in demand for our products from certain competitors for which we provide private label connectivity products; changes in the mix of products sold during any given period (due to, among other things, seasonality or strength or weaknesses in particular markets in which we participate) which may impact gross profits and gross profit margins or net sales; variations in orders and production volumes of hybrid cables (fiber and copper) with high copper content, which tend to have lower gross profit margins; variations resulting from high volatility, large sales orders and high sales concentration among a limited number of customers in the wireless carrier market; terrorist attacks or acts of war, and any current or potential future military conflicts; changes in the level of military spending or other spending by the United States government, including, but not limited to reductions in government spending due to automatic budget cuts or sequestration; ability to recruit and retain key personnel; poor labor relations; the impact of changes in accounting policies and related costs of compliance, including changes by the Securities and Exchange Commission ("SEC"), the Public Company Accounting Oversight Board ("PCAOB"), the Financial Accounting Standards Board ("FASB"), and/or the International Accounting Standards Board ("IASB"); 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 result in increases in our direct and indirect costs, including our direct and indirect costs of compliance with such laws and regulations; the impact of the Patient Protection and Affordable Care Act of 2010, the Health Care and Education Reconciliation Act of 2010, and any revisions to those acts that apply to us and the related legislation and regulation associated with those acts, which directly or indirectly result in increases to our costs; the impact of changes in state or federal tax laws and regulations increasing our costs and/or impacting the net return to investors owning our shares; any changes in the status of our compliance with financial debt covenants with our lender; our ability to maintain and/or secure debt financing and/or equity financing to adequately finance our ongoing operations; the 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 our customers; voluntary or involuntary delisting of the Company's common stock from any exchange on which it is traded; the deregistration by the Company from SEC reporting requirements, as a result of the small number of holders of the Company's common stock; a continued suspension of dividends declared to shareholders due to inadequate or alternative uses of cash on hand; adverse reactions by customers, vendors or other service providers to unsolicited proposals regarding the ownership or management of the Company; the additional costs of considering, responding to and possibly defending our position on unsolicited proposals regarding the ownership or management of the Company; impact of weather or natural disasters in the areas of the world in which we operate, market our products and/or acquire raw materials; an increase in the number of shares of the Company's common stock issued and outstanding; further economic downturns generally and/or in one or more of the markets in which we operate; changes in market demand, exchange rates, productivity, market dynamics, market confidence, macroeconomic and/or other 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. Furthermore, 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, except in the case of amounts less than one million and except in the case of the table set forth in the “Results of Operations” section, the amounts in which both cases have been rounded to the nearest thousand.

### **Overview of Optical Cable Corporation**

Optical Cable Corporation (or OCC<sup>®</sup>) is a leading manufacturer of a broad range of fiber optic and copper data communication cabling and connectivity solutions primarily for the enterprise market and various harsh environment and specialty markets (the non-carrier markets), offering integrated suites of high quality products which operate as a system solution or seamlessly integrate with other providers’ offerings. Our product offerings include designs for uses ranging from enterprise network, datacenter, residential and campus installations to customized products for specialty applications and harsh environments, including military, industrial, mining, petrochemical and broadcast applications, and for the wireless carrier market. 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, fiber optic reels and accessories 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<sup>®</sup> 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 is also internationally recognized for pioneering the development of innovative copper connectivity technology and designs used to meet industry copper connectivity data communications standards.

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 fiber optic cables at our Roanoke facility which is ISO 9001:2008 registered and MIL-STD-790F certified, our enterprise connectivity products at our Asheville facility which is ISO 9001:2008 registered, and our harsh environment and specialty connectivity products at our Dallas facility which is ISO 9001:2008 registered and MIL-STD-790F certified.

OCC designs, develops and manufactures fiber optic cables for a broad range of enterprise, harsh environment and specialty markets and applications. We refer to these products as our fiber optic cable offering. OCC designs, develops and manufactures fiber and copper connectivity products for the enterprise market, including a broad range of enterprise and residential applications. We refer to these products as our enterprise connectivity product offering. OCC designs, develops and manufactures a broad range of specialty fiber optic connectors and connectivity solutions principally for use in military, harsh environment and other specialty applications. We refer to these products as our harsh environment and specialty connectivity product offering.

We market and sell the products manufactured at our Dallas facility through our wholly owned subsidiary Applied Optical Systems, Inc. ("AOS") under the names Optical Cable Corporation and OCC<sup>®</sup> by the efforts of our integrated OCC sales team.

The OCC team seeks to provide top-tier communication solutions by bundling all of our fiber optic and copper data communication product offerings into systems that are best suited for individual data communication needs and application requirements of our customers and the end-users of our systems.

Effective February 1, 2016, Optical Cable Corporation increased its ownership of Centric Solutions LLC ("Centric Solutions") to 100%. Centric Solutions is a business founded in 2008 that provides turnkey cabling and connectivity solutions for the datacenter market. Centric Solutions operates and goes to market independently from Optical Cable Corporation; however, in some cases, Centric Solutions may offer products from OCC's product offering. Centric Solutions' facility lease expired November 30, 2015 and was not renewed. OCC has transitioned Centric Solutions' business to OCC's facility near Dallas, Texas.

Optical Cable Corporation, OCC<sup>®</sup>, Procyon<sup>®</sup>, Procyon Blade<sup>™</sup>, Superior Modular Products<sup>™</sup>, SMP Data Communications<sup>™</sup>, Applied Optical Systems<sup>™</sup>, Centric Solutions<sup>™</sup>, and associated logos are trademarks of Optical Cable Corporation.

#### **Summary of Company Performance for Fiscal Year 2016**

- During fiscal year 2016, we saw sequential improvement each quarter in net sales, gross profit margin and earnings per share. For the fourth quarter of fiscal year 2016, we reported earnings per share of \$0.11 and net sales of \$17.3 million.
- Consolidated net sales for fiscal year 2016 were \$64.6 million, a decrease of 12.2% compared to net sales of \$73.6 million for fiscal year 2015. OCC's net sales were negatively impacted by a decrease in demand in certain industry markets, including the military, oil & gas, and mining specialty markets, and by overall weakness, particularly in the first quarter of the year. Net sales outside the U.S. were also negatively impacted by the strong U.S. dollar relative to other international currencies during fiscal year 2016.
- Gross profit was \$19.7 million in fiscal year 2016, compared to \$21.8 million for fiscal year 2015. Gross profit was impacted by lower net sales in certain specialty markets.



- Gross profit margin, or gross profit as a percentage of net sales, increased to 30.5% for fiscal year 2016, compared to 29.6% for fiscal year 2015. Gross profit margin was positively impacted in fiscal year 2016 by product mix and increased manufacturing efficiencies.
- Selling, general and administrative expenses decreased \$3.3 million, or 13.7%, during fiscal year 2016 when compared to fiscal year 2015, consistent with our efforts to control and reduce costs.
- The OCC team implemented cost reductions near the end of fiscal year 2015 and during the first quarter of fiscal year 2016, including personnel reductions that resulted in planned costs savings in fiscal year 2016.
- Net loss attributable to OCC was \$1.8 million, or \$0.28 per share, during fiscal year 2016, compared to net loss attributable to OCC of \$4.3 million, or \$0.69 per share, during fiscal year 2015. A non-cash charge of \$2.4 million, or \$0.39 per share, in connection with a valuation allowance offsetting OCC's net deferred tax assets, significantly impacted OCC's net loss in fiscal year 2015.
- OCC generated annual positive cash flow from operating activities again this year. Net cash provided by operating activities increased to \$3.2 million in fiscal year 2016, compared to \$1.2 million in fiscal year 2015. The ratio of current assets to current liabilities as of October 31, 2016 was 6.4.
- Beginning in January 2016, OCC suspended its quarterly dividends.
- OCC paid down \$1.0 million on its revolving line of credit during fiscal year 2016, having not borrowed on the revolver since August 2015.
- OCC experienced unusual weakness in many of its markets at the end of fiscal year 2015 and continuing into the beginning of fiscal year 2016, which particularly impacted net sales during the first quarter ended January 31, 2016, beyond OCC's historic quarterly seasonality.
- By the fourth quarter of fiscal year 2016, quarterly net sales had increased 23.2% to \$17.3 million, compared to \$14.0 million in the first quarter of fiscal year 2016.

## Results of Operations

We sell our products internationally and domestically through our sales force to our customers, which include major distributors, various regional and smaller distributors, original equipment manufacturers and value-added resellers. All of our sales to customers 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 and in 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 in various regions of the world. Sales outside of the U.S. can also be impacted by fluctuations in the exchange rate of the U.S. dollar compared to other currencies.

*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 the sales 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 vary based on changes in product mix. To the extent not negatively impacted by product mix, gross profit margins tend to be higher when we achieve higher net sales levels, as certain fixed manufacturing costs are spread over higher sales. Hybrid cables (fiber and copper) with higher copper content tend to have lower gross profit margins.

*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 costs for administration and management personnel, legal, accounting, advisory and professional fees, costs incurred to settle litigation or claims and other actions against us, and other costs associated with our operations.

*Royalty expense, net* consists of royalty and related expenses, net of royalty income earned, if any, on licenses associated with our patented products.

*Amortization of intangible assets* consists of the amortization of the costs, including legal fees, associated with internally developed patents that have been granted. Amortization of intangible assets is calculated using the straight line method over the estimated useful lives of the intangible assets.

*Other expense, net* consists of 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 Change	Fiscal Years Ended October 31,		Percent Change
	2016	2015		2015	2014	
Net sales	\$ 64,600,000	\$ 73,600,000	(12.2)%	\$ 73,600,000	\$ 83,000,000	(11.3)%
Gross profit	19,700,000	21,800,000	(9.5)	21,800,000	28,500,000	(23.4)
SG&A expenses	20,800,000	24,000,000	(13.7)	24,000,000	27,000,000	(10.9)
Net income (loss) attributable to OCC	(1,800,000)	(4,300,000)	58.2	(4,300,000)	684,000	(722.0)

*Net Sales*

Consolidated net sales for fiscal year 2016 were \$64.6 million, a decrease of 12.2% when compared to net sales of \$73.6 million in fiscal year 2015.

OCC experienced unusual weakness in many of its markets at the end of fiscal year 2015 and continuing into the beginning of fiscal year 2016, which particularly impacted net sales during the first quarter ended January 31, 2016, beyond OCC’s historic quarterly seasonality.

During fiscal year 2016, OCC’s net sales continued to be negatively impacted by the decrease in demand in our enterprise markets and in certain specialty markets. OCC’s net sales were negatively impacted by a decrease in demand in the military, oil & gas, and mining specialty markets, during fiscal year 2016, and by overall weakness, particularly in the first quarter of fiscal year 2016. Net sales were also negatively impacted by a decrease in demand in our wireless carrier market. Additionally, we are continuing to see downward pressure on pricing in certain markets, particularly the wireless carrier market.

Net sales outside the U.S. continue to be negatively impacted by a strong U.S. dollar relative to other currencies, particularly in certain geographic regions.

The decrease in net sales when comparing fiscal years 2016 and 2015 also reflects the decrease in net sales of our fiber optic cable products in various specialty markets and our harsh environment and specialty connectivity products. A significant portion of the net sales decrease in fiscal year 2016 was attributable to large orders for fiber optic cable products from one customer decreasing \$3.0 million (or 37.6%) to \$5.0 million, when compared to \$8.0 million in orders from this customer in fiscal year 2015.

Consolidated net sales for fiscal year 2015 were \$73.6 million, a decrease of 11.3% when compared to net sales of \$83.0 million in fiscal year 2014, due to weakness in various specialty markets and volatility in the wireless carrier market. A consolidated net sales increase of more than 9% to approximately \$39.0 million (excluding Centric Solutions) in OCC's enterprise market was insufficient to overcome decreases in these other markets.

Net sales to customers outside of the United States were 20%, 22% and 21% of total net sales for fiscal years 2016, 2015 and 2014, respectively. Net sales to customers in the United States decreased 10.5% during fiscal year 2016 compared to fiscal year 2015, and net sales to customers outside of the United States decreased 18.1%. Net sales outside the U.S. continue to be negatively impacted by the strong U.S. dollar relative to other currencies.

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, timing of orders from larger customers, other economic factors impacting our industry or impacting the industries of our customers and end-users and macroeconomic 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.

#### *Gross Profit*

Gross profit decreased 9.5% to \$19.7 million in fiscal year 2016 from \$21.8 million in fiscal year 2015. Gross profit margin, or gross profit as a percentage of net sales, increased to 30.5% for fiscal year 2016, compared to 29.6% for fiscal year 2015.

During the second half of fiscal year 2016, there was an increase in net sales of certain fiber optic cable products that positively impacted gross profit and a decrease in net sales of certain fiber optic cable products that had negatively impacted gross profit in prior periods. Additionally, concerted efforts to reduce manufacturing costs and increase production efficiencies contributed to a significant increase in our gross profit margin for both the third and fourth quarters of fiscal 2016, when compared to the same periods last year, and to the increase when comparing fiscal year 2016 to fiscal year 2015.

Gross profit was \$21.8 million in fiscal year 2015, a 23.4% decrease from \$28.5 million in fiscal year 2014. Gross profit margin was 29.6% for fiscal year 2015, compared to 34.3% for fiscal year 2014.

The lower gross profit margin in fiscal year 2015 when compared to fiscal year 2014 was primarily due to the sale of certain lower margin products that negatively impacted our gross profit margin.

#### *Selling, General and Administrative Expenses*

SG&A expenses decreased \$3.3 million (or 13.7%) to \$20.8 million in fiscal year 2016 from \$24.0 million in fiscal year 2015, consistent with our efforts to control and reduce costs. SG&A expenses as a percentage of net sales were 32.1% in fiscal year 2016, compared to 32.7% in fiscal year 2015.

The decrease in SG&A expenses during fiscal year 2016 compared to fiscal year 2015 was the result of targeted cost reduction efforts across all expense categories. The most significant savings were achieved from reduced employee related expenses of \$1.1 million, reduced marketing expenses of \$419,000 and reduced travel and sales expenses of \$290,000, all excluding expenses incurred by Centric Solutions. Separately, SG&A costs associated with Centric Solutions were reduced by \$475,000.

Compensation costs decreased when comparing fiscal year 2016 to fiscal year 2015 primarily as a result of the personnel cost reduction implemented at the end of fiscal year 2015 and decreases in commissions due to decreased net sales. The reductions in marketing expenses and travel and sales expenses were primarily the result of the targeted efforts to increase efficiencies and control costs.

SG&A expenses decreased \$2.9 million (or 10.9%) to \$24.0 million in fiscal year 2015 from \$27.0 million in fiscal year 2014. SG&A expenses as a percentage of net sales were 32.7% in fiscal year 2015, compared to 32.5% in fiscal year 2014.

The decrease in SG&A expenses during fiscal year 2015 compared to fiscal year 2014 was primarily due to decreased employee related costs, decreased legal and professional fees and decreased shipping costs. Compensation costs decreased when comparing fiscal year 2015 to fiscal year 2014 due to the reorganization initiatives implemented during the latter part of fiscal year 2014 and decreases in commissions and employee incentives resulting from decreased net sales and the financial results during fiscal year 2015. Legal and professional fees decreased when comparing fiscal year 2015 to fiscal year 2014 due to atypically high legal and professional fees that occurred in fiscal year 2014 that were not expected to recur and that did not recur in fiscal year 2015. Shipping costs decreased due to the decrease in net sales.

*Royalty Expense, Net*

We recognized royalty expense, net of royalty income, totaling \$164,000 during fiscal year 2016, compared to \$124,000 during fiscal year 2015. We expect the trend of royalty expense largely or completely offsetting royalty income to continue in fiscal year 2017 as a result of the decline in royalty income due to the expiration of patents for licensed products.

We recognized royalty expense, net of royalty income, totaling \$124,000 during fiscal year 2015, compared to \$110,000 during fiscal year 2014.

*Amortization of Intangible Assets*

We recognized \$17,000 of amortization expense, associated with intangible assets, during fiscal year 2016, compared to \$11,000 during fiscal year 2015 and \$41,000 during fiscal year 2014.

*Other Expense, Net*

We recognized other expense, net of \$578,000 in fiscal year 2016 compared to \$433,000 in fiscal year 2015. Other expense, net for fiscal year 2016 is comprised of: interest expense totaling \$621,000 related primarily to monies borrowed in connection with the acquisition of SMP Data Communications in fiscal year 2008, borrowings under our revolving credit facility, and other interest incurred in the normal course of business; and other miscellaneous items which may fluctuate from period to period.

We recognized other expense, net of \$433,000 in fiscal year 2015 compared to \$442,000 in fiscal year 2014. Other expense, net for fiscal year 2015 is comprised of: interest expense totaling \$440,000 related primarily to monies borrowed in connection with the acquisition of SMP Data Communications in fiscal year 2008, borrowings under our revolving credit facility, and other interest incurred in the normal course of business; and other miscellaneous items which may fluctuate from period to period.

*Income (Loss) Before Income Taxes*

We reported a loss before income taxes of \$1.8 million for fiscal year 2016 compared to \$2.8 million for fiscal year 2015. This decrease was primarily due to the decrease in SG&A expenses of \$3.3 million in fiscal year 2016 compared to fiscal year 2015, partially offset by the decrease in gross profit of \$2.1 million in fiscal year 2016, compared to fiscal year 2015.

We reported a loss before income taxes of \$2.8 million for fiscal year 2015 compared to income before income taxes of \$891,000 for fiscal year 2014. This change was primarily due to the decrease in gross profit of \$6.7 million in fiscal year 2015 compared to fiscal year 2014, partially offset by the decrease in SG&A expenses of \$2.9 million, compared to fiscal year 2014.

*Income Tax Expense*

Income tax expense totaled \$6,000 for fiscal year 2016, compared to \$1.5 million for fiscal year 2015. Our effective tax rate was less than negative one percent in fiscal year 2016, compared to negative 52.7% in fiscal year 2015.

Fluctuations in our effective tax rates are primarily due to permanent differences in U.S. GAAP and tax accounting for various tax deductions and benefits, but can also be significantly different from the statutory tax rate when income or loss before taxes is at a level such that permanent differences in U.S. GAAP and tax accounting treatment have a disproportional impact on the projected effective tax rate.

Income tax expense totaled \$1.5 million for fiscal year 2015, compared to \$268,000 for fiscal year 2014. Our effective tax rate was negative 52.7% in fiscal year 2015, compared to 30.0% in fiscal year 2014.

Our effective tax rate for fiscal year 2015 was significantly impacted by the establishment in the fourth quarter of fiscal year 2015 of a \$2.4 million valuation allowance against all of our net deferred tax assets, which is a non-cash charge that increased our net loss attributable to OCC for fiscal year 2015 by \$2.4 million, or \$0.39 per share.

As a result of establishing a full valuation allowance against our net deferred tax assets, if we generate sufficient taxable income in subsequent periods to realize a portion or all of our net deferred tax assets, our effective income tax rate could be unusually low due to the tax benefit attributable to the necessary decrease in our valuation allowance. Further, if we generate losses before taxes in subsequent periods, as we did in fiscal year 2016, our effective income tax rate could also be unusually low, as any increase in our net deferred tax asset from such a net operating loss for tax purposes, would be offset by a corresponding increase to our valuation allowance against our net deferred tax assets.

If we generate sufficient income before taxes in future periods such that U.S. GAAP would permit us to conclude that the removal of any valuation allowance against our net deferred tax asset is appropriate, then during the period in which such determination is made, we will recognize the non-cash benefit of such removal of the valuation allowance in income tax expense on our consolidated statement of operations, which will increase our net income attributable to OCC and will also increase the net deferred tax asset on our consolidated balance sheet. If we do not generate sufficient income before taxes in future periods such that U.S. GAAP would permit us to conclude that the reduction or removal of any valuation allowance against our net deferred tax is appropriate, then no such non-cash benefit would be realized. There can be no assurance regarding any future realization of the benefit by us of all or part of our net deferred tax assets.

See also "Critical Accounting Policies" below and Note 12 to the Consolidated Financial Statements.

*Net Income (Loss)*

Net loss attributable to OCC for fiscal year 2016 was \$1.8 million compared to \$4.3 million for fiscal year 2015. This decrease was primarily due to the decrease in loss before income taxes of \$1.0 million and the decrease in income tax expense of \$1.5 million in fiscal year 2016 compared to fiscal year 2015.

Net loss attributable to OCC for fiscal year 2015 was \$4.3 million compared to net income attributable to OCC of \$684,000 for fiscal year 2014. This change was primarily due to the decrease in income before income taxes of \$3.7 million and the increase in income tax expense of \$1.2 million in fiscal year 2015 compared to fiscal year 2014.

Net loss attributable to OCC for fiscal year 2015 was increased by \$2.4 million, or \$0.39 per share, due to a non-cash charge of \$2.4 million to income tax expense to reflect the establishment of a \$2.4 million valuation allowance against net deferred tax assets. See disclosures under “Income Tax Expense” above.

**Financial Condition**

Total assets decreased \$4.4 million, or 9.7%, to \$40.7 million at October 31, 2016, from \$45.0 million at October 31, 2015. This decrease is primarily due to a \$2.8 million decrease in inventories, largely the result of the sale of stock inventory that was not replenished to previous levels and the timing of certain raw material purchases.

Total liabilities decreased \$3.2 million, or 16.9%, to \$15.9 million at October 31, 2016, from \$19.1 million at October 31, 2015. The decrease in total liabilities was primarily due to a \$1.5 million decrease in accounts payable and accrued expenses and a \$1.0 million decrease in note payable to bank under our revolving credit facility. Accounts payable and accrued expenses decreased primarily due to the timing of payments related to certain raw material purchases when comparing the two periods and the timing of certain vendor payments.

Total shareholders’ equity attributable to OCC at October 31, 2016 decreased \$1.9 million, or 7.0%, during fiscal year 2016. The decrease resulted primarily from a net loss attributable to OCC of \$1.8 million, the purchase of the non-controlling interest in Centric Solutions for a nominal amount resulting in a net reduction in total shareholders’ equity attributable to OCC of \$764,000, partially offset by share-based compensation, net of \$718,000.

**Liquidity and Capital Resources**

Our primary capital needs during fiscal year 2016 have been to fund working capital requirements and capital expenditures, and to partially repay the outstanding balance on our revolving credit facility. Our primary source of capital for these purposes has been existing cash and cash provided by operations. As of October 31, 2016 and 2015, we had an outstanding loan balance under our revolving credit facility totaling \$5.0 million and \$6.0 million, respectively. As of October 31, 2016 and 2015, we had outstanding loan balances, excluding our revolving credit facility, totaling \$6.9 million and \$7.2 million, respectively. We have not borrowed any funds under our revolving credit facility since August 2015.

Our cash totaled \$1.9 million and \$1.1 million as of October 31, 2016 and 2015, respectively. Net cash provided by operating activities of \$3.2 million was offset by net cash used in financing activities of \$1.7 million and capital expenditures totaling \$635,000.

On October 31, 2016, we had working capital of \$22.2 million, compared to \$23.5 million as of October 31, 2015. The ratio of current assets to current liabilities as of October 31, 2016, was 6.4 to 1 compared to 5.2 to 1 as of October 31, 2015. The decrease in working capital as of October 31, 2016 compared to October 31, 2015 was primarily due to the \$2.8 million decrease in inventories, partially offset by the \$1.5 million decrease in accounts payable and accrued expenses. The improved ratio of current assets to current liabilities as of October 31, 2016 compared to October 31, 2015 was due to the fact that current assets decreased 9.7% while current liabilities decreased 26.9%.

#### *Net Cash*

Net cash provided by operating activities was \$3.2 million in fiscal year 2016 compared to \$1.2 million in fiscal year 2015, and \$4.4 million in fiscal year 2014.

Net cash provided by operating activities during fiscal year 2016 primarily resulted from certain adjustments to reconcile a net loss of \$1.8 million to net cash provided by operating activities including depreciation, amortization and accretion of \$2.1 million and share-based compensation expense of \$801,000. Additionally, the decrease in inventories of \$2.8 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 the cash flow impact of decreases in accounts payable and accrued expenses of \$997,000.

Net cash provided by operating activities during fiscal year 2015 primarily resulted from certain adjustments to reconcile a net loss of \$4.3 million to net cash provided by operating activities including depreciation, amortization and accretion of \$2.1 million and share-based compensation expense of \$1.1 million. Additionally, the cash flow impact of decreases in trade accounts receivable, net of \$4.9 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 the cash flow impact of decreases in accounts payable and accrued expenses, including accrued compensation and payroll taxes, of \$3.4 million.

Net cash provided by operating activities during fiscal year 2014 primarily resulted from net income of \$623,000 and certain adjustments to reconcile net income to net cash provided by operating activities, including depreciation, amortization and accretion of \$2.0 million, and share-based compensation expense of \$957,000. Additionally, the cash flow impact of increases in accounts payable and accrued expenses, including accrued compensation and payroll taxes, of \$3.8 million, and the decrease in inventories of \$716,000 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 cash flow impact of increases in trade accounts receivable, net of \$4.1 million.

Net cash used in investing activities totaled \$676,000 in fiscal year 2016 compared to \$3.2 million in fiscal year 2015 and \$3.0 million in fiscal year 2014. Net cash used in investing activities during fiscal years 2016, 2015 and 2014 resulted primarily from the purchase of property and equipment and deposits for the purchase of property and equipment.

Net cash used in financing activities totaled \$1.7 million in fiscal year 2016 compared to net cash provided by financing activities totaling \$2.0 million in fiscal year 2015 and net cash used in financing activities totaling \$1.1 million in fiscal year 2014.

Net cash used in financing activities in fiscal year 2016 resulted primarily from repayments on the revolving credit facility totaling \$1.0 million, principal payments on our long-term debt totaling \$281,000, the payment of dividends previously declared totaling \$141,000 and refinancing costs totaling \$138,000. Net cash provided by financing activities in fiscal year 2015 resulted primarily from proceeds from a note payable to our bank under our line of credit, net of repayments, of \$3.5 million, partially offset by the \$556,000 payment of dividends previously declared and the repurchase and retirement of 80,636 shares of our common stock for \$380,000. Net cash used in financing activities in fiscal year 2014 resulted primarily from the \$540,000 payment of dividends previously declared, principal payments on our long-term debt of \$259,000 and the repurchase and retirement of 44,464 shares of our common stock for \$195,000.

We have a plan (the “Repurchase Plan”), approved by our Board of Directors on July 14, 2015, to purchase and retire up to 400,000 shares of our common stock, or approximately 6.0% of the shares then outstanding. We anticipate that the purchases will be made over a 24- to 36-month period, but there is no definite time period for repurchase. As of October 31, 2016, we had 398,400 shares remaining to purchase under this Repurchase Plan.

We have repurchased outstanding common stock outside of the Repurchase Plan directly from certain shareholders and through an odd lot repurchase offer. During fiscal year 2016, we repurchased and retired a total of 14,225 shares for \$40,150, outside of the Repurchase Plan.

#### *Credit Facilities*

We have credit facilities consisting of a real estate term loan, as amended and restated (the “Virginia Real Estate Loan”), a supplemental real estate term loan, as amended and restated (the “North Carolina Real Estate Loan”) and a revolving credit facility.

Both the Virginia Real Estate Loan and the North Carolina Real Estate Loan are with Bank of North Carolina (“BNC”), have a fixed interest rate of 4.25% and are secured by a first priority lien on all of our personal property and assets, all money, goods, machinery, equipment, fixtures, inventory, accounts, chattel paper, letter of credit rights, deposit accounts, commercial tort claims, documents, instruments, investment property and general intangibles now owned or hereafter acquired by us and wherever located, as well as a first lien deed of trust on the Company’s real property.

On April 26, 2016, we entered into a Credit Agreement and a Revolving Credit Note (“Revolver”) with BNC to provide the Company with a \$7.0 million revolving line of credit (“Revolving Loan”) for our working capital needs which replaced the entire indebtedness we had with SunTrust Bank (“SunTrust”). Under the Credit Agreement and Revolver, BNC agreed to provide us with one or more revolving loans in a collective maximum principal amount of \$7.0 million until February 28, 2017, at which time the Revolving Loan will step down to a maximum principal amount of \$6.5 million, if the Revolving Loan is extended. On February 28, 2018, the maximum principal amount will again step down to \$6.0 million and remain as such until the Revolving Loan terminates. We may borrow, repay, and reborrow at any time or from time to time while the Revolving Loan is in effect. There are certain financial and non-financial debt covenants associated with our agreements with BNC that we must meet on a quarterly and/or annual basis.

The Revolving Loan accrues interest at adjusted LIBOR plus 3.65% (resulting in a 4.18% rate at October 31, 2016). The Revolving Loan is payable in monthly payments of interest only with principal and any outstanding interest due and payable at maturity. Maturity for the Revolving Loan is February 28, 2018, unless extended.

The Revolving Loan is secured by a perfected first lien security interest on all assets, including but not limited to, accounts, as-extracted collateral, chattel paper, commodity accounts, commodity contracts, deposit accounts, documents, equipment, fixtures, furniture, general intangibles, goods, instruments, inventory, investment property, letter of credit rights, payment intangibles, promissory notes, software and general tangible and intangible assets owned now or later acquired. The Revolving Loan is also cross-collateralized with our real property.

The Revolving Loan replaced the loan we had with SunTrust (the “Commercial Loan”). Under the terms of the Commercial Loan, we could borrow an aggregate principal amount at any one time outstanding not to exceed the lesser of (i) \$9.0 million, or (ii) the sum of 85% of certain receivables aged 90 days or less plus 35% of the lesser of \$1.0 million or certain foreign receivables plus 25% of certain raw materials inventory.



Also on April 26, 2016, the Company, as borrower, and BNC, as lender, entered into an amended and restated Virginia Real Estate Loan and North Carolina Real Estate Loan in the amount of \$5,271,411 and \$1,816,609, respectively.

As of October 31, 2016, we had \$5.0 million of outstanding borrowings on our Revolving Loan and \$2.0 million in available credit. As of October 31, 2015, we had \$6.0 million of outstanding borrowings on our Commercial Loan and approximately \$2.6 million in available credit.

#### *Capital Expenditures*

We did not have any material commitments for capital expenditures as of October 31, 2016. During our 2016 fiscal year budgeting process, we included an estimate for capital expenditures of \$1.8 million for the year. We incurred capital expenditures totaling \$635,000 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 2016.

During our 2017 fiscal year budgeting process, we included an estimate for capital expenditures of \$2.0 million for the year. Any capital expenditures will be funded out of our working capital, cash provided by operations or borrowings under our credit facilities, as appropriate. This amount includes estimates for capital expenditures for similar types of items as those purchased in fiscal year 2016. 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 most fiscal years.

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 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**

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, which we believe may be partially due to construction cycles, buying patterns and budgetary considerations of our customers. Our trend for the last three fiscal years has been that an average of approximately 47%, 49% and 44% of our net sales occurred during the first half of fiscal years 2016, 2015 and 2014, respectively, and an average of approximately 53%, 51% and 56% of our net sales occurred during the second half of fiscal years 2016, 2015 and 2014, respectively.

This trend may be substantially altered during any quarter or year by the timing of larger projects, timing of orders from larger customers, other economic factors impacting our industry or impacting the industries of our customer and end-users and macroeconomic 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. We also believe net sales may not follow this trend in periods when overall economic conditions in the industry and/or in the world are atypical.

## **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 which have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). 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, deferred tax assets, long-lived assets and commitments and contingencies.

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, 2016.

### *Trade Accounts Receivable and the Allowance for Doubtful Accounts*

Management views trade accounts receivable net of 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.

*Deferred Tax Assets*

Management views the valuation of deferred tax assets as a critical accounting estimate since we must assess whether it is “more likely than not” that we will realize the benefits of our gross deferred tax assets and determine an appropriate valuation allowance if we conclude such an allowance is appropriate. This determination requires that we consider all available evidence, both positive and negative, in making this assessment. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified.

Generally, a cumulative loss in recent years is a significant piece of negative evidence that is quite difficult to overcome under U.S. GAAP. Since the amount of our loss before income taxes in fiscal year 2015 exceeded our income before taxes during the previous two fiscal years, we believed that U.S. GAAP required us to treat as significant negative evidence that it was “more likely than not” that we would be unable to realize the future benefits of our deferred tax assets in the coming years—significant negative evidence that was quite difficult to overcome under U.S. GAAP and which we were not able to overcome with sufficient objectively verifiable positive evidence.

While we believed that ultimately we will utilize the benefit of our net deferred tax assets in the future (prior to any expiration of the usability of such deferred tax assets for income tax purposes), we concluded as a result of our cumulative loss position and insufficient objectively verifiable positive evidence, it was appropriate under U.S. GAAP for us to establish a full valuation allowance against net deferred tax assets as of October 31, 2015.

The valuation allowance against our net deferred tax assets does not in any way impact our ability to use future tax deductions such as our net operating loss carryforwards; rather, the valuation allowance indicates, according to the provisions of Accounting Standards Codification 740, *Income Taxes*, it is “more likely than not” that our deferred tax assets will not be realized.

The valuation allowance that was established will be maintained until there is sufficient positive evidence to conclude that it is “more likely than not” that our net deferred tax assets will be realized. Our income tax expense for future periods will be reduced to the extent of corresponding decreases in our valuation allowance. There can be no assurance regarding any future realization of the benefit by us of all or part of our net deferred tax assets.

*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 amortizes intangible assets over their respective finite lives up to their estimated residual values.

### *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 of loss contingencies.

### **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, 2016 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.

### **New Accounting Standards**

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 is a comprehensive new revenue recognition model that expands disclosure requirements and requires an entity to recognize revenue when promised goods or services are transferred to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, the FASB issued Accounting Standards Update 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* ("ASU 2015-14") which defers the effective date of the new revenue recognition standard by one year. Under ASU 2015-14, the new revenue recognition standard is effective for the Company beginning in fiscal year 2019. In March 2016, the FASB issued Accounting Standards Update 2016-08, *Revenue from Contracts with Customers (Topic 606) Principle versus Agent Considerations*, ("ASU 2016-08"). ASU 2016-08 clarifies the implementation guidance on principal-versus-agent considerations. In April 2016, the FASB issued Accounting Standards Update 2016-10, *Revenue from Contracts with Customers (Topic 606) Identifying Performance Obligations and Licensing* ("ASU 2016-10"). ASU 2016-10 clarifies two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. In May 2016, the FASB issued Accounting Standards Update 2016-12, *Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients* ("ASU 2016-12"). The amendments in ASU 2016-12 address the areas of collectability, presentation of sales tax and other similar taxes collected from customers, noncash consideration, contract modifications and completed contracts at transition. The update also amends the disclosure requirements within ASU 2014-09 for entities that retrospectively apply the guidance. The amendments in ASU 2016-08, ASU 2016-10 and ASU 2016-12 are effective in conjunction with ASU 2015-14. We are currently evaluating the impact of the adoption of this guidance on our results of operations, financial position and liquidity and our related financial statement disclosures.

In April 2015, the FASB issued Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as an asset. In August 2015, the FASB issued Accounting Standards Update 2015-15, *Interest - Imputed Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* ("ASU 2015-15") which clarifies that entities may continue to defer and present debt issuance costs associated with a line-of-credit as an asset and subsequently amortize the deferred costs ratably over the term of the arrangement. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. The new guidance must be applied retrospectively to all prior reporting periods presented. The adoption of ASUs 2015-03 and 2015-15 are not expected to have a material impact on our results of operations, financial position or liquidity or our related financial statement disclosures.

In July 2015, the FASB issued Accounting Standards Update 2015-11, *Simplifying the Measurement of Inventory* (“ASU 2015-11”). ASU 2015-11 changes the inventory valuation method from lower of cost or market to lower of cost and net realizable value for inventory valued using first-in, first-out or average cost. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and should be applied prospectively with early adoption permitted. The adoption of ASU 2015-11 is not expected to have any impact on our results of operations, financial position or liquidity or our related financial statement disclosures.

In November 2015, the FASB issued Accounting Standards Update 2015-17, *Income Taxes* (“ASU 2015-17”). ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those periods, with early adoption permitted. The adoption of ASU 2015-17 is not expected to have any impact on our results of operations, financial position or liquidity or our related financial statement disclosures.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (“ASU 2016-02”). ASU 2016-02 requires the recognition of a separate lease liability representing the required lease payments over the lease term and a separate lease asset representing the right to use the underlying asset during the same lease term. Additionally, this ASU provides clarification regarding the identification of certain components of contracts that would represent a lease as well as requires additional disclosures to the notes of the financial statements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period with early adoption permitted. The adoption of ASU 2016-02 is not expected to have a material impact on our results of operations, financial position or liquidity or our related financial statement disclosures.

In March 2016, the FASB issued Accounting Standards Update 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). ASU 2016-09 simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period, with early adoption permitted. The adoption of ASU 2016-09 is not expected to have a material impact on our results of operations, financial position or liquidity or our related financial statement disclosures.

In August 2016, the FASB issued Accounting Standards Update 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). ASU 2016-15 provides guidance related to the classification of certain cash receipts and cash payments on the statement of cash flows. The pronouncement provides clarification guidance on eight specific cash flow presentation issues that have developed due to diversity in practice. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The adoption of ASU 2016-15 is not expected to have a material impact on our results of operations, financial position or liquidity or our related financial statement disclosures.

In October 2016, the FASB issued Accounting Standards Update 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (“ASU 2016-16”). ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset (with the exception of inventory) when the transfer occurs. Under current GAAP, entities are prohibited from recognizing current and deferred income taxes for an intra-entity transfer until the asset is sold to a third party. Examples of assets that would be affected by the new guidance are intellectual property and property, plant and equipment. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The adoption of ASU 2016-16 is not expected to have a material impact on our results of operations, financial position or liquidity or our related financial statement disclosures.

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

**Disagreements with Accountants**

We did not have any disagreements with our accountants on any accounting matter or financial disclosure made during our fiscal year ended October 31, 2016.

# Consolidated Balance Sheets

October 31, 2016 and 2015

	October 31,	
	2016	2015
<b>Assets</b>		
Current assets:		
Cash	\$ 1,879,064	\$ 1,083,072
Trade accounts receivable, net of allowance for doubtful accounts of \$74,266 in 2016 and \$63,011 in 2015	8,916,245	9,189,498
Other receivables	70,828	134,428
Income taxes refundable	—	360,324
Inventories	15,023,966	17,816,080
Prepaid expenses	431,780	564,024
Total current assets	26,321,883	29,147,426
Property and equipment, net	13,399,158	13,903,919
Intangible assets, net	575,010	523,665
Other assets, net	369,737	1,453,808
Total assets	<u>\$ 40,665,788</u>	<u>\$ 45,028,818</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Current installments of long-term debt	\$ 294,214	\$ 280,999
Accounts payable and accrued expenses	2,636,420	4,116,927
Accrued compensation and payroll taxes	1,179,872	1,222,728
Income taxes payable	15,603	22,498
Total current liabilities	4,126,109	5,643,152
Note payable to bank	5,000,000	6,000,000
Long-term debt, excluding current installments	6,651,780	6,946,008
Other noncurrent liabilities	122,910	551,108
Total liabilities	15,900,799	19,140,268
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 7,081,159 shares in 2016 and 7,059,548 shares in 2015	11,080,595	10,363,012
Retained earnings	13,684,394	16,267,595
Total shareholders' equity attributable to Optical Cable Corporation	24,764,989	26,630,607
Noncontrolling interest	—	(742,057)
Total shareholders' equity	24,764,989	25,888,550
Commitments and contingencies		
Total liabilities and shareholders' equity	<u>\$ 40,665,788</u>	<u>\$ 45,028,818</u>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Operations

Years ended October 31, 2016, 2015 and 2014

	Years Ended October 31,		
	2016	2015	2014
Net sales	\$ 64,616,001	\$ 73,568,738	\$ 82,977,732
Cost of goods sold	44,890,865	51,772,851	54,505,370
Gross profit	19,725,136	21,795,887	28,472,362
Selling, general and administrative expenses	20,760,735	24,042,554	26,989,262
Royalty expense, net	164,463	124,271	110,193
Amortization of intangible assets	16,903	10,860	40,612
Income (loss) from operations	(1,216,965)	(2,381,798)	1,332,295
Other expense, net:			
Interest expense	(620,810)	(439,921)	(413,731)
Other, net	42,680	6,656	(27,984)
Other expense, net	(578,130)	(433,265)	(441,715)
Income (loss) before income taxes	(1,795,095)	(2,815,063)	890,580
Income tax expense	5,899	1,482,382	267,673
Net income (loss)	\$ (1,800,994)	\$ (4,297,445)	\$ 622,907
Net loss attributable to noncontrolling interest	(22,172)	(41,780)	(61,320)
Net income (loss) attributable to Optical Cable Corporation	\$ (1,778,822)	\$ (4,255,665)	\$ 684,227
Net income (loss) attributable to Optical Cable Corporation per share - basic and diluted	\$ (0.28)	\$ (0.69)	\$ 0.10
Cash dividends declared per common share	\$ 0.00	\$ 0.08	\$ 0.08

See accompanying notes to consolidated financial statements.



## Consolidated Statements of Shareholders' Equity

Years ended October 31, 2016, 2015 and 2014

	Common Stock		Retained Earnings	Total Shareholders' Equity Attributable to OCC	Noncontrolling Interest	Total Shareholders' Equity
	Shares	Amount				
Balances at October 31, 2013	6,570,734	\$ 8,679,435	\$ 21,519,238	\$ 30,198,673	\$ (638,957)	\$ 29,559,716
Share-based compensation, net	313,508	830,789	—	830,789	—	830,789
Repurchase and retirement of common stock (at cost)	(44,464)	—	(195,206)	(195,206)	—	(195,206)
Common stock dividends declared, \$0.08 per share	—	—	(545,378)	(545,378)	—	(545,378)
Excess tax benefits from share-based compensation	—	33,462	—	33,462	—	33,462
Net income	—	—	684,227	684,227	(61,320)	622,907
Balances at October 31, 2014	6,839,778	9,543,686	21,462,881	31,006,567	(700,277)	30,306,290
Share-based compensation, net	300,406	818,807	—	818,807	—	818,807
Repurchase and retirement of common stock (at cost)	(80,636)	—	(379,675)	(379,675)	—	(379,675)
Common stock dividends declared, \$0.08 per share	—	—	(559,946)	(559,946)	—	(559,946)
Excess tax benefits from share-based compensation	—	519	—	519	—	519
Net loss	—	—	(4,255,665)	(4,255,665)	(41,780)	(4,297,445)
Balances at October 31, 2015	7,059,548	10,363,012	16,267,595	26,630,607	(742,057)	25,888,550
Share-based compensation, net	35,836	717,583	—	717,583	—	717,583
Repurchase and retirement of common stock (at cost)	(14,225)	—	(40,150)	(40,150)	—	(40,150)
Purchase of noncontrolling interest in consolidated subsidiary	—	—	(764,229)	(764,229)	764,229	—
Net loss	—	—	(1,778,822)	(1,778,822)	(22,172)	(1,800,994)
Balances at October 31, 2016	<u>7,081,159</u>	<u>\$ 11,080,595</u>	<u>\$ 13,684,394</u>	<u>\$ 24,764,989</u>	<u>\$ —</u>	<u>\$ 24,764,989</u>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Years Ended October 31, 2016, 2015 and 2014

	Years ended October 31,		
	2016	2015	2014
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ (1,800,994)	\$ (4,297,445)	\$ 622,907
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, amortization and accretion	2,054,977	2,076,486	2,022,648
Bad debt expense (recovery)	11,254	(16,889)	18,915
Deferred income tax expense (benefit)	—	2,228,124	(423,524)
Share-based compensation expense	800,520	1,078,563	956,859
Impact of excess tax benefits from share-based compensation	—	(519)	(33,462)
(Gain) loss on sale of property and equipment	(15,171)	12,059	39,137
(Increase) decrease in:			
Trade accounts receivable	261,999	4,903,740	(4,143,294)
Other receivables	63,600	45,707	44,881
Income taxes refundable	360,324	(360,324)	590,569
Inventories	2,792,114	(297,961)	716,160
Prepaid expenses	132,244	14,819	(247,702)
Other assets, net	—	16,341	—
Increase (decrease) in:			
Accounts payable and accrued expenses	(997,163)	(1,698,165)	2,171,801
Accrued compensation and payroll taxes	(42,856)	(1,672,372)	1,597,509
Income taxes payable	(6,895)	(675,034)	731,513
Other noncurrent liabilities	(458,473)	(154,782)	(280,599)
Net cash provided by operating activities	<u>3,155,480</u>	<u>1,202,348</u>	<u>4,384,318</u>
<b>Cash flows from investing activities:</b>			
Purchase of and deposits for the purchase of property and equipment	(635,153)	(3,148,964)	(2,820,183)
Investment in intangible assets	(68,248)	(95,829)	(138,501)
Proceeds from sale of property and equipment	27,118	500	—
Net cash used in investing activities	<u>(676,283)</u>	<u>(3,244,293)</u>	<u>(2,958,684)</u>
<b>Cash flows from financing activities:</b>			
Payroll taxes remitted on share-based payments	(82,937)	(259,756)	(126,070)
Proceeds from note payable to bank	6,000,000	4,000,000	1,750,000
Principal payments on long-term debt and note payable to bank	(7,281,013)	(770,012)	(2,008,651)
Payments for financing costs	(137,794)	—	—
Repurchase of common stock	(40,150)	(379,675)	(195,206)
Impact of excess tax benefits from share-based compensation	—	519	33,462
Common stock dividends paid	(141,311)	(555,566)	(539,965)
Net cash provided by (used in) financing activities	<u>(1,683,205)</u>	<u>2,035,510</u>	<u>(1,086,430)</u>
Net increase (decrease) in cash	795,992	(6,435)	339,204
Cash at beginning of year	1,083,072	1,089,507	750,303
Cash at end of year	<u>\$ 1,879,064</u>	<u>\$ 1,083,072</u>	<u>\$ 1,089,507</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash payments for interest	<u>\$ 568,631</u>	<u>\$ 427,024</u>	<u>\$ 394,241</u>
Income taxes paid (refunded), net	<u>\$ (352,564)</u>	<u>\$ 434,206</u>	<u>\$ (586,290)</u>
<b>Noncash investing and financing activities:</b>			
Capital expenditures accrued in accounts payable at year end	<u>\$ 42,785</u>	<u>\$ 384,818</u>	<u>\$ 12,625</u>
Common stock dividends declared and included in accounts payable and accrued expenses at year end	<u>\$ —</u>	<u>\$ 141,311</u>	<u>\$ 136,931</u>

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Years ended October 31, 2016, 2015 and 2014

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

### (a) Description of Business

Optical Cable Corporation and its subsidiaries (collectively, the “Company” or “OCC<sup>®</sup>”) is a leading manufacturer of a broad range of fiber optic and copper data communication cabling and connectivity solutions primarily for the enterprise market and various harsh environment and specialty markets (the non-carrier markets), offering integrated suites of high quality products which operate as a system solution or seamlessly integrate with other providers’ offerings. The Company’s product offerings include designs for uses ranging from enterprise network, datacenter, residential and campus installations to customized products for specialty applications and harsh environments, including military, industrial, mining, petrochemical and broadcast applications, and for the wireless carrier market.

Founded in 1983, OCC is headquartered in Roanoke, Virginia with offices, manufacturing and warehouse facilities located in Roanoke, Virginia; near Asheville, North Carolina; and near Dallas, Texas.

OCC acquired Superior Modular Products Incorporated, doing business as SMP Data Communications (“SMP Data Communications” or “SMP”) on May 30, 2008, and merged SMP with and into OCC on October 31, 2009.

OCC acquired Applied Optical Systems, Inc. (“AOS”) on October 31, 2009. AOS is a wholly owned subsidiary of OCC doing business as OCC and Optical Cable Corporation.

Effective February 1, 2016, OCC increased its ownership of Centric Solutions LLC (“Centric Solutions”) to 100%. Centric Solutions is a 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 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 10.

### (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 bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC). As of October 31, 2016 and 2015, the Company had bank deposits in excess of the insured limit totaling \$1.1 million and \$768,222, respectively.

For purposes of the consolidated 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, 2016 and 2015, the Company had no cash equivalents.

**(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. Trade accounts receivable is also shown net of an allowance for sales returns. The allowance for sales returns is determined based on historical trends, identified returns and the potential for additional returns. 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 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 other raw materials and production supplies is generally determined using the first-in, first-out basis. 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 3.

**(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 4.

**(g) Patents and Trademarks**

The Company records legal fees associated with patent and trademark applications as intangible assets. Such intangible assets are not amortized until such time that the patent and/or trademark is granted. The Company estimates the useful life of patents and trademarks based on the period over which the intangible asset is expected to contribute directly or indirectly to future cash flows. If patents and/or trademarks are not granted, the capitalized legal fees are expensed during the period in which such notification is received. If the Company decides to abandon a patent or trademark application, the capitalized legal fees are expensed during the period in which the Company's decision is made.

**(h) 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 (if any), net of related expenses, on an accrual basis and estimates royalty income earned based on historical experience.

**(i) 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. 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 \$1.8 million, \$2.0 million and \$2.2 million are included in selling, general and administrative expenses for the fiscal years ended October 31, 2016, 2015 and 2014, respectively.

**(j) Research and Development**

Research and development costs are expensed as incurred. Research and development costs totaled approximately \$1.3 million, \$1.3 million and \$1.4 million for the fiscal years ended October 31, 2016, 2015 and 2014, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

**(k) Advertising**

Advertising costs are expensed as incurred. Advertising costs totaled approximately \$237,000, \$451,000 and \$522,000 for the fiscal years ended October 31, 2016, 2015 and 2014, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

**(l) 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.

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. Also see note 12.

**(m) Long-Lived Assets**

Long-lived assets, such as property and equipment and 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.

**(n) 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 9.

**(o) 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. In the case of basic net income per share, the calculation includes common shares outstanding issued as share-based compensation and still subject to vesting requirements. In the case of basic net loss per share, the calculation excludes common shares outstanding issued as share-based compensation and still subject to vesting requirements, as these shares are considered dilutive.

Diluted net income (loss) per share also is calculated by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period, and 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. The diluted net income (loss) per share calculation includes all common shares outstanding issued as share-based compensation and still subject to vesting requirements in the calculation of diluted net income, but not in the calculation of diluted net loss. Also see note 14.

**(p) 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.

**(q) 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.

**(2) 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, 2016, 2015 and 2014 follows:

	Years ended October 31,		
	2016	2015	2014
Balance at beginning of year	\$ 63,011	\$ 92,988	\$ 74,073
Bad debt expense (recovery)	11,255	(16,889)	18,915
Losses charged to allowance	—	(13,088)	—
Balance at end of year	<u>\$ 74,266</u>	<u>\$ 63,011</u>	<u>\$ 92,988</u>

**(3) Inventories**

Inventories as of October 31, 2016 and 2015 consist of the following:

	October 31,	
	2016	2015
Finished goods	\$ 4,657,779	\$ 6,116,989
Work in process	2,591,885	2,918,803
Raw materials	7,515,717	8,514,718
Production supplies	258,585	265,570
Total	<u>\$ 15,023,966</u>	<u>\$ 17,816,080</u>

**(4) Property and Equipment, Net**

Property and equipment, net as of October 31, 2016 and 2015 consists of the following:

	October 31,	
	2016	2015
Land	\$ 3,144,068	\$ 3,144,068
Building and improvements	8,140,933	8,127,015
Machinery and equipment	25,769,804	25,081,678
Furniture and fixtures	903,067	909,715
Construction in progress	1,588,815	1,292,235
Total property and equipment, at cost	39,546,687	38,554,711
Less accumulated amortization and depreciation	(26,147,529)	(24,650,792)
Property and equipment, net	<u>\$ 13,399,158</u>	<u>\$ 13,903,919</u>

**(5) Intangible Assets**

Aggregate amortization expense for amortizing intangible assets was \$16,903, \$10,860 and \$40,612 for the years ended October 31, 2016, 2015 and 2014, respectively. Amortization of intangible assets is calculated using a straight-line method over the estimated useful lives of the intangible assets.

**(6) 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, negligent handling or shipping damage. As of October 31, 2016 and 2015, the Company's accrual for estimated product warranty claims totaled \$70,000 and \$130,000, 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 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, 2016, 2015 and 2014 totaled \$70,691, \$234,784 and \$220,525, respectively.

The following table summarizes the changes in the Company's accrual for product warranties during the fiscal years ended October 31, 2016 and 2015:

	Years ended October 31,	
	2016	2015
Balance at beginning of year	\$ 130,000	\$ 100,000
Liabilities accrued for warranties issued during the year	124,018	215,802
Warranty claims paid during the period	(130,691)	(204,784)
Changes in liability for pre-existing warranties during the year	(53,327)	18,982
Balance at end of year	<u>\$ 70,000</u>	<u>\$ 130,000</u>

**(7) Long-term Debt and Note Payable to Bank**

The Company has credit facilities consisting of a real estate term loan, as amended and restated (the "Virginia Real Estate Loan"), a supplemental real estate term loan, as amended and restated (the "North Carolina Real Estate Loan") and a revolving credit note.

Both the Virginia Real Estate Loan and the North Carolina Real Estate Loan are with Bank of North Carolina ("BNC"), have a fixed interest rate of 4.25% and are secured by a first priority lien on all of the Company's personal property and assets, all money, goods, machinery, equipment, fixtures, inventory, accounts, chattel paper, letter of credit rights, deposit accounts, commercial tort claims, documents, instruments, investment property and general intangibles now owned or hereafter acquired by the Company and wherever located, as well as a first lien deed of trust on the Company's real property.



Long-term debt as of October 31, 2016 and 2015 consists of the following:

	October 31,	
	2016	2015
Virginia Real Estate Loan (\$6.5 million original principal) payable in monthly installments of \$36,426, including interest (at 4.25%), with final payment of \$4,858,220 due April 30, 2018	\$ 5,165,785	\$ 5,374,777
North Carolina Real Estate Loan (\$2.24 million original principal) payable in monthly installments of \$12,553, including interest (at 4.25%), with final payment of \$1,674,217 due April 30, 2018	1,780,209	1,852,230
<b>Total long-term debt</b>	<b>6,945,994</b>	<b>7,227,007</b>
Less current installments	294,214	280,999
<b>Long-term debt, excluding current installments</b>	<b>\$ 6,651,780</b>	<b>\$ 6,946,008</b>

On April 26, 2016, OCC entered into a Credit Agreement and a Revolving Credit Note (“Revolver”) with BNC to provide the Company with a \$7.0 million revolving line of credit (“Revolving Loan”) for the working capital needs of the Company which replaced the entire indebtedness the Company had with SunTrust Bank (“SunTrust”). Under the Credit Agreement and Revolver, BNC agreed to provide the Company with one or more revolving loans in a collective maximum principal amount of \$7.0 million until February 28, 2017, at which time the Revolving Loan will step down to a maximum principal amount of \$6.5 million, if the Revolving Loan is extended. On February 28, 2018, the maximum principal amount will again step down to \$6.0 million and remain as such until the Revolving Loan terminates. The Company may borrow, repay, and reborrow at any time or from time to time while the Revolving Loan is in effect. There are certain financial and non-financial debt covenants associated with the agreements with BNC that the Company must meet on a quarterly and/or annual basis.

The Revolving Loan accrues interest at adjusted LIBOR plus 3.65% (resulting in a 4.18% rate at October 31, 2016). The Revolving Loan is payable in monthly payments of interest only with principal and any outstanding interest due and payable at maturity. Maturity for the Revolving Loan is February 28, 2018, unless extended.

The Revolving Loan is secured by a perfected first lien security interest on all assets, including but not limited to, accounts, as-extracted collateral, chattel paper, commodity accounts, commodity contracts, deposit accounts, documents, equipment, fixtures, furniture, general intangibles, goods, instruments, inventory, investment property, letter of credit rights, payment intangibles, promissory notes, software and general tangible and intangible assets owned now or later acquired. The Revolving Loan is also cross-collateralized with the Company’s real property.

The Revolving Loan replaced the loan the Company had with SunTrust (the “Commercial Loan”). Under the terms of the Commercial Loan, the Company could borrow an aggregate principal amount at any one time outstanding not to exceed the lesser of (i) \$9.0 million, or (ii) the sum of 85% of certain receivables aged 90 days or less plus 35% of the lesser of \$1.0 million or certain foreign receivables plus 25% of certain raw materials inventory.

Also on April 26, 2016, the Company, as borrower, and BNC, as lender, entered into an amended and restated Virginia Real Estate Loan and North Carolina Real Estate Loan in the amount of \$5,271,411 and \$1,816,609, respectively.

As of October 31, 2016, the Company had \$5.0 million of outstanding borrowings on its Revolving Loan and \$2.0 million in available credit. As of October 31, 2015 the Company had \$6.0 million of outstanding borrowings on its Commercial Loan and \$2.6 million in available credit.

The aggregate maturities of long-term debt for each of the two years subsequent to October 31, 2016 are: \$294,214 in fiscal year 2017 and \$11,651,780 in fiscal year 2018.

## (8) Leases

The Company has an operating lease agreement for approximately 34,000 square feet of office, manufacturing and warehouse space in Plano, Texas (near Dallas). The original lease of approximately 21,000 square feet became effective September 15, 2009 and had an original term of five years. Effective May 19, 2011, the Company extended the term of the lease through November 30, 2016 and agreed to lease approximately 13,000 square feet of additional space adjacent to the existing leased property. The lease term for the additional space became effective September 1, 2011 and had the same termination date, November 30, 2016, as the original leased property. Effective August 10, 2016, the Company extended the term of the lease through November 30, 2019. The minimum rent payments, including rent holidays, are recognized on a straight-line basis over the term of the lease.

Centric Solutions entered into an operating lease agreement in August 2008 for approximately 23,000 square feet of office and manufacturing space in Coppell, Texas, with a term of approximately seven years. On November 30, 2015 Centric Solutions' operating lease expired and was not renewed.

The Company entered into an operating lease agreement in April 2015 for approximately 36,000 square feet of warehouse space in Roanoke, Virginia. The lease term is for twelve months and terminated on April 30, 2016, but the Company exercised the first of its four (4) one year options to renew the lease and anticipates it will exercise the remaining three (3) one year options. The rent payments are recognized on a straight-line basis over the extended term of the lease.

The Company's future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of October 31, 2016 consist of the following:

<b>Fiscal year</b>	<b>Operating Lease</b>
2017	\$ 309,743
2018	318,629
2019	327,106
2020	72,041
Total	<u>\$ 1,027,519</u>

Total rent expense associated with the operating leases for the fiscal years ended October 31, 2016, 2015 and 2014 was \$391,116, \$479,937 and \$425,084, respectively.

## (9) 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, 2016, 2015 and 2014, total expense of \$3,042,441, \$3,665,320 and \$3,957,668, respectively, was incurred under the Company's insured health care program.

*401(k) Plan*

The Company maintains a 401(k) retirement savings plan 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 plan. The Company's plan document provides that the Company's matching contributions are discretionary. The Company made or accrued matching contributions to the plan of \$29,396, \$145,181 and \$161,836 for the years ended October 31, 2016, 2015 and 2014, respectively.

*Stock Incentives for Key Employees and Non-Employee Directors*

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

In March 2015, the Company's shareholders approved the Optical Cable Corporation Second Amended and Restated 2011 Stock Incentive Plan (the "2015 Restatement") that was recommended for approval by the Company's Board of Directors. The 2015 Restatement reserved an additional 550,000 common shares of the Company for issuance under the 2015 Restatement and succeeded and replaced the Optical Cable Corporation Amended and Restated 2011 Stock Incentive Plan and the Optical Cable Corporation 2004 Non-employee Directors Stock Plan. As of October 31, 2016, there were approximately 325,000 remaining shares available for grant under the 2015 Restatement.

Share-based compensation expense for employees, a consultant and non-employee members of the Company's Board of Directors recognized in the consolidated statements of operations for the years ended October 31, 2016, 2015 and 2014 was \$800,520, \$1,078,563 and \$956,859, respectively.

*Restricted and Other Stock Awards*

The Company has granted, and anticipates granting, from time to time, restricted stock awards to employees, subject to approval by the Compensation Committee of the Board of Directors. A portion of the restricted stock awards granted under the 2015 Restatement vest based on the passage of time and the remainder vest over time if certain operational performance-based criteria are met. Failure to meet the criteria required for vesting will result in a portion or all of the shares being forfeited.

The Company recognizes expense on the service-based shares each quarter based on the actual number of shares vested during the quarter multiplied by the closing price of the Company's shares of common stock on the date of grant. 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 shares of common stock on the date of grant.

The Company recorded compensation expense related to its restricted stock awards granted to employees and a consultant totaling \$599,450, \$948,190 and \$844,754 during the fiscal years ended October 31, 2016, 2015 and 2014, respectively.

A summary of the status of the Company's nonvested shares granted to employees under the 2015 Restatement as of October 31, 2016, and changes during the year ended October 31, 2016, is as follows:

<b>Nonvested shares</b>	<b>Shares</b>	<b>Weighted- average grant date fair value</b>
Balance at October 31, 2015	830,817	\$ 3.98
Granted	36,584	2.31
Vested	(146,908)	3.98
Forfeited	(53,445)	3.96
Balance at October 31, 2016	667,048	\$ 3.89

As of October 31, 2016, the estimated amount of compensation cost related to nonvested equity-based compensation awards in the form of service-based and operational performance-based shares that the Company will recognize over a 2.6 year weighted-average period is approximately \$2.1 million.

During the fiscal years ended October 31, 2016 and 2015, stock awards to non-employee Directors under the 2015 Restatement totaling 86,296 shares and 33,515 shares, respectively, were approved by the Board of Directors of the Company. The shares are part of the non-employee Directors' annual compensation for service on the Board of Directors. During the fiscal year ended October 31, 2014, restricted stock awards under the Optical Cable Corporation 2004 Non-employee Directors Stock Plan totaling 29,424 shares were approved by the Board of Directors of the Company. The shares granted under the 2015 Restatement and the Optical Cable Corporation 2004 Non-employee Directors Stock Plan 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 shares of common stock on the date of grant. The Company recorded compensation expense totaling \$201,070, \$130,373 and \$112,105 during the years ended October 31, 2016, 2015 and 2014, respectively.

#### **(10) Business and Credit Concentrations, Major Customers and Geographic Information**

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, 2016 and 2015 have been adequately provided for in the consolidated financial statements.

For the year ended October 31, 2016, 15.1%, or approximately \$9.7 million of consolidated net sales were attributable to one customer. No other customer accounted for more than 10% of consolidated net sales for the year ended October 31, 2016. As of October 31, 2016, the same customer had an outstanding balance payable to the Company totaling 8.6% of total consolidated shareholders' equity. No other customer had an outstanding balance payable to the Company in excess of 5% of total consolidated shareholders' equity.

For the year ended October 31, 2015, 13.6% and 10.8%, or approximately \$10.0 million and \$8.0 million, of consolidated net sales were attributable to two customers. No other customer accounted for more than 10% of consolidated net sales for the year ended October 31, 2015. As of October 31, 2015, no single customer had an outstanding balance payable to the Company in excess of 5% of total consolidated shareholders' equity.

For the year ended October 31, 2014, 16.8%, or approximately \$14.0 million of consolidated net sales were attributable to one customer. No other customer accounted for more than 10% of consolidated net sales for the year ended October 31, 2014.

For the years ended October 31, 2016, 2015 and 2014, approximately 80%, 78% and 79%, respectively, of net sales were from customers in the United States, while approximately 20%, 22% and 21%, respectively, were from customers outside of the United States.

Net sales attributable to the United States and all other countries in total for the years ended October 31, 2016, 2015 and 2014 were as follows:

	Years ended October 31,		
	2016	2015	2014
United States	\$ 51,379,528	\$ 57,402,020	\$ 65,457,787
Outside the United States	13,236,473	16,166,718	17,519,945
Total net sales	<u>\$ 64,616,001</u>	<u>\$ 73,568,738</u>	<u>\$ 82,977,732</u>

No individual country outside of the United States accounted for more than 10% of total net sales in fiscal years 2016, 2015 or 2014.

The Company has a single reportable segment for purposes of segment reporting.

#### **(11) Non-controlling Interest**

On August 1, 2008, OCC acquired 70% of the authorized membership interests of Centric Solutions LLC (“Centric Solutions”), a limited liability company focused on sales of turnkey cabling and connectivity solutions for the datacenter market. OCC consolidated Centric Solutions for financial reporting purposes and a non-controlling interest was recorded for the other members’ interests in the net assets and operations of Centric Solutions to the extent of the non-controlling members’ investment.

Effective February 1, 2016, OCC purchased, for a nominal amount, the membership interest in Centric Solutions of one of the non-controlling members, and Centric Solutions purchased, for a nominal amount, and retired the membership units of the remaining non-controlling member. As a result, Centric Solutions became a wholly owned subsidiary of OCC. OCC continues to consolidate Centric Solutions for financial reporting purposes, however, beginning February 1, 2016, the Company no longer records a non-controlling interest in its consolidated financial statements.

**(12) Income Taxes**

Income tax expense (benefit) for the years ended October 31, 2016, 2015 and 2014 consists of:

<b>Fiscal year ended October 31, 2016</b>	<b>Current</b>	<b>Deferred</b>	<b>Total</b>
U.S. Federal	\$ 35,118	\$ —	\$ 35,118
State	(29,219)	—	(29,219)
<b>Totals</b>	<b>\$ 5,899</b>	<b>\$ —</b>	<b>\$ 5,899</b>

<b>Fiscal year ended October 31, 2015</b>	<b>Current</b>	<b>Deferred</b>	<b>Total</b>
U.S. Federal	\$ (624,825)	\$ 2,098,615	\$ 1,473,790
State	(120,917)	129,509	8,592
<b>Totals</b>	<b>\$ (745,742)</b>	<b>\$ 2,228,124</b>	<b>\$ 1,482,382</b>

<b>Fiscal year ended October 31, 2014</b>	<b>Current</b>	<b>Deferred</b>	<b>Total</b>
U.S. Federal	\$ 666,517	\$ (370,553)	\$ 295,964
State	24,680	(52,971)	(28,291)
<b>Totals</b>	<b>\$ 691,197</b>	<b>\$ (423,524)</b>	<b>\$ 267,673</b>

Reported income tax expense for the years ended October 31, 2016, 2015 and 2014 differs from the “expected” tax expense (benefit), computed by applying the U.S. Federal statutory income tax rate of 34% to income before income taxes as follows:

	<b>Years ended October 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
“Expected” tax expense (benefit)	\$ (610,332)	\$ (957,121)	\$ 302,797
Increase (reduction) in income tax expense (benefit) resulting from:			
Benefits from domestic manufacturing deduction	—	—	(61,024)
State income taxes, net of federal benefit	(79,386)	(78,880)	(23,031)
Loss of permanent deductions due to NOL carryback	—	35,636	—
Other differences, net	50,627	67,491	48,931
Change in valuation allowance	644,990	2,415,256	—
Reported income tax expense	<b>\$ 5,899</b>	<b>\$ 1,482,382</b>	<b>\$ 267,673</b>

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, 2016 and 2015 are presented below:

	October 31,	
	2016	2015
<b>Deferred tax assets:</b>		
Accounts receivable, due to allowances for doubtful accounts and sales returns	\$ 87,472	\$ 53,316
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	999,468	1,118,735
Liabilities recorded for accrued expenses, deductible for tax purposes when paid	67,758	65,213
Share-based compensation expense	134,653	131,487
Investment in Centric Solutions	6,984	114,118
Net operating loss carryforwards	1,958,734	1,437,611
Other	110,773	57,413
Total gross deferred tax assets	3,365,842	2,977,893
Valuation allowance	(3,060,246)	(2,415,256)
Net deferred tax assets	305,596	562,637
<b>Deferred tax liabilities:</b>		
Plant and equipment, due to differences in depreciation and capital gain recognition	(301,590)	(558,222)
Other receivables, due to accrual for financial reporting purposes	(4,006)	(4,415)
Total gross deferred tax liabilities	(305,596)	(562,637)
Net deferred tax asset	\$ —	\$ —

As a result of the acquisition of AOS, the Company recorded certain deferred tax assets totaling \$1,517,605 (after purchase accounting adjustments), related to gross net operating loss ("NOL") carryforwards of \$4,455,525, estimated to be available after considering Internal Revenue Code Section 382 limitations. As of October 31, 2016, \$1,680,000 of these gross NOL carryforwards remain unused and may be used to reduce future taxable income. These remaining gross NOL carryforwards begin to expire in fiscal year ending October 31, 2028.

Additionally, we have federal and state gross NOL carryforwards of \$3,879,154 and \$1,463,694, respectively; all of which originated during fiscal years 2016 and 2015, and will not begin to expire until fiscal year 2030. Included in these carryforwards is \$27,432 of net excess tax benefits from share-based compensation for which shareholders' equity will be increased when such benefits are realized.

For the years ended October 31, 2016 and 2015, the Company considered all positive and negative evidence available to assess whether it is "more likely than not" that some portion or all of the deferred tax assets will not be realized. For each year, the Company concluded that in accordance with the provisions of Accounting Standards Codification 740, *Income Taxes*, the negative evidence outweighed the objectively verifiable positive evidence. As a result, the Company established a valuation allowance of \$3,060,246 and \$2,415,256, respectively, against net deferred tax assets existing as of October 31, 2016 and 2015.

The Company estimates a liability for uncertain tax positions taken or expected to be taken in a tax return. The liability for uncertain tax positions is included in other noncurrent liabilities on the accompanying consolidated balance sheets.

A reconciliation of the unrecognized tax benefits for fiscal years 2016 and 2015 follows:

	October 31,	
	2016	2015
Unrecognized tax benefits balance at beginning of year	\$ 79,322	\$ 168,756
Gross decreases for tax positions of prior years	(1,000)	(88,050)
Settlements with taxing authorities	—	(1,384)
Unrecognized tax benefits balance at end of year	<u>\$ 78,322</u>	<u>\$ 79,322</u>

During fiscal year 2016, the Company accrued interest of \$6,284 and reduced accrued penalties by \$250 related to unrecognized tax benefits. During fiscal year 2015, the Company reduced accrued interest and penalties by \$35,873 and \$19,283, respectively, related to unrecognized tax benefits. As of October 31, 2016 and 2015, the Company had approximately \$44,587 and \$38,553, respectively, of accrued interest and penalties related to uncertain tax positions. The total amount of unrecognized tax benefits that would affect the Company's effective tax rate if recognized is \$43,191 and \$45,987 as of October 31, 2016 and 2015, 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, 2013 through October 31, 2015.

### (13) Fair Value Measurements

The carrying amounts reported in the consolidated balance sheets for cash, trade accounts receivable, other receivables, and accounts payable and accrued expenses, including accrued compensation and payroll taxes approximate fair value because of the short maturity of these instruments. The carrying values of the Company's note payable to bank and long-term debt approximate fair value based on similar long-term debt issues available to the Company as of October 31, 2016 and 2015. Fair value is defined as 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.

The Company uses a fair value hierarchy that prioritizes the inputs for valuation methods used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The Company utilizes the best available information in measuring fair value.



**(14) 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:

	Years ended October 31,		
	2016	2015	2014
Net income (loss) attributable to OCC (numerator)	\$ (1,778,822)	\$ (4,255,665)	\$ 684,227
Shares (denominator)	6,443,162	6,201,478	6,764,263
Basic and diluted net income (loss) per share	\$ (0.28)	\$ (0.69)	\$ 0.10

Nonvested shares as of October 31, 2016 and October 31, 2015 totaling 646,887 and 750,120, respectively, were not included in the computation of basic and diluted net loss per share for the years ended October 31, 2016 and October 31, 2015 (because to include such shares would have been antidilutive, or in other words, to do so would have reduced the net loss per share for that period).

**(15) Shareholders' Equity***Share Repurchases*

The Company, through plans approved by its Board of Directors and other programs, has repurchased and retired certain of its outstanding common stock. The following is a summary of the Company's repurchase of shares and the costs associated with the repurchases, including brokerage and legal fees, for the periods presented.

Fiscal years ended October 31,	Shares repurchased	Cost
2016	14,225	\$ 40,150
2015	80,636	379,675
2014	44,464	195,206

After the Company's purchase and retirement of the shares of its common stock as set forth in the table above, the Company had 7,081,159 shares of its common stock issued and outstanding at October 31, 2016.

The Company has a plan (the "Repurchase Plan"), approved by its Board of Directors on July 14, 2015, to purchase and retire up to 400,000 shares of the Company's common stock, or approximately 6.0% of the shares then outstanding. The Company anticipates that the purchases will be made over a 24- to 36-month period, but there is no definite time period for repurchase. As of October 31, 2016, the Company had 398,400 shares of its outstanding common stock remaining to purchase under the Repurchase Plan.

The Company has repurchased outstanding common stock outside of the Repurchase Plan directly from certain shareholders and through an odd lot repurchase offer. During fiscal year 2016, OCC repurchased and retired a total of 14,225 shares for \$40,150, outside of the Repurchase Plan.

*Stockholder Protection Rights Agreement*

On October 28, 2011, the Board of Directors of the Company adopted a Stockholder Protection Rights Agreement (the “Rights Agreement”) and declared a dividend of one preferred share purchase right (a “Right”) for each outstanding share of Common Stock, no par value, of the Company (“Common Shares”), held of record at the close of business on November 2, 2011, or issued thereafter and prior to the Separation Time as defined in the Rights Agreement. Under the terms of the Rights Agreement, if a person or group who is deemed an Acquiring Person as defined in the Rights Agreement acquires 15% (or other applicable percentage, as provided in the Rights Agreement) 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 purchase from the Company one one-thousandth of a Series A Participating Preferred Share (“Preferred Share”), no par value, at an exercise price of \$25, 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, 2021, unless the Rights are earlier redeemed or exchanged by the Company for \$0.0001 per Right. The adoption of the Rights Agreement has no impact on the financial position or results of operations of the Company.

The Company has reserved 100,000 shares of its authorized preferred stock for issuance upon exercise of the Rights.

*Dividends*

The Company initiated a quarterly cash dividend of \$0.01 per share on its common stock in October 2010. In January 2012, the quarterly cash dividend was increased to \$0.015 per share and in December 2012, the quarterly cash dividend was increased to \$0.02 per share. In January 2016, the quarterly cash dividend was suspended.

**(16) Contingencies**

On May 31, 2016, G. Thomas Hazelton, Jr. was terminated by Applied Optical Systems, Inc., a wholly owned subsidiary of OCC (“AOS”) for Cause as defined both in his employment agreement dated October 31, 2009 (the “Employment Agreement”) and also in the Stock Purchase Agreement dated October 31, 2009 by and among OCC, as buyer, and G. Thomas Hazelton, Jr. (“Hazelton”) and Daniel Roehrs (“Roehrs”), as sellers.

OCC acquired AOS from Hazelton and Roehrs pursuant to the terms of the SPA. In addition to its claims under the Employment Agreement, OCC also has asserted claims of indemnification against Hazelton under the SPA related to alleged unlawful actions by Hazelton and Roehrs.

As a result, OCC has not paid Hazelton any severance compensation and does not intend to pay Hazelton any of the minimum earn out amount (a maximum amount of \$470,665 payable on January 31, 2017 under the terms of the SPA) that otherwise would have been owed to Hazelton, but for Hazelton’s termination for Cause and OCC’s indemnification claims under the SPA.

As a result of this dispute, OCC and AOS filed suit against Hazelton on September 9, 2016 in state court in Roanoke City, Virginia. Hazelton has filed suit against OCC and AOS on September 7, 2016 in state court in Collin County, Texas.

Additionally, OCC, AOS, and Centric Solutions LLC, a wholly owned subsidiary of OCC (“Centric Solutions”) have filed suit against Roehrs, William DiBella (“DiBella”) (a former employee of Centric Solutions), and Rosenberger CDS, LLC and Rosenberger North America (together, “Rosenberger”) on September 20, 2016 in state court in Roanoke County, Virginia, in connection with related alleged unlawful actions by Roehrs, DiBella and Rosenberger.

At this time, OCC does not believe any of these disputes or the litigation resulting therefrom will have a material adverse effect on OCC.

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.

**(17) New Accounting Standards Not Yet Adopted**

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 is a comprehensive new revenue recognition model that expands disclosure requirements and requires an entity to recognize revenue when promised goods or services are transferred to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, the FASB issued Accounting Standards Update 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* ("ASU 2015-14") which defers the effective date of the new revenue recognition standard by one year. Under ASU 2015-14, the new revenue recognition standard is effective for the Company beginning in fiscal year 2019. In March 2016, the FASB issued Accounting Standards Update 2016-08, *Revenue from Contracts with Customers (Topic 606) Principle versus Agent Considerations*, ("ASU 2016-08"). ASU 2016-08 clarifies the implementation guidance on principal-versus-agent considerations. In April 2016, the FASB issued Accounting Standards Update 2016-10, *Revenue from Contracts with Customers (Topic 606) Identifying Performance Obligations and Licensing* ("ASU 2016-10"). ASU 2016-10 clarifies two aspects of Topic 606: identifying performance obligation and the licensing implementation guidance, while retaining the related principles for those areas. In May 2016, the FASB issued Accounting Standards Update 2016-12, *Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients* ("ASU 2016-12"). The amendments in ASU 2016-12 address the areas of collectability, presentation of sales tax and other similar taxes collected from customers, noncash consideration, contract modifications and completed contracts at transition. The update also amends the disclosure requirements within ASU 2014-09 for entities that retrospectively apply the guidance. The amendments in ASU 2016-08, ASU 2016-10 and ASU 2016-12 are effective in conjunction with ASU 2015-14. The Company is currently evaluating the impact of the adoption of this guidance on the Company's results of operations, financial position and liquidity and its related financial statement disclosures.

In April 2015, the FASB issued Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as an asset. In August 2015, the FASB issued Accounting Standards Update 2015-15, *Interest - Imputed Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* ("ASU 2015-15") which clarifies that entities may continue to defer and present debt issuance costs associated with a line-of-credit as an asset and subsequently amortize the deferred costs ratably over the term of the arrangement. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. The new guidance must be applied retrospectively to all prior reporting periods presented. The adoption of ASUs 2015-03 and 2015-15 are not expected to have a material impact on the Company's results of operations, financial position or liquidity or its related financial statement disclosures.

In July 2015, the FASB issued Accounting Standards Update 2015-11, *Simplifying the Measurement of Inventory* (“ASU 2015-11”). ASU 2015-11 changes the inventory valuation method from lower of cost or market to lower of cost and net realizable value for inventory valued using first-in, first-out or average cost. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and should be applied prospectively with early adoption permitted. The adoption of ASU 2015-11 is not expected to have any impact on the Company’s results of operations, financial position or liquidity or its related financial statement disclosures.

In November 2015, the FASB issued Accounting Standards Update 2015-17, *Income Taxes* (“ASU 2015-17”). ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those periods, with early adoption permitted. The adoption of ASU 2015-17 is not expected to have a material impact on the Company’s results of operations, financial position or liquidity or its related financial statement disclosures.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (“ASU 2016-02”). ASU 2016-02 requires the recognition of a separate lease liability representing the required lease payments over the lease term and a separate lease asset representing the right to use the underlying asset during the same lease term. Additionally, this ASU provides clarification regarding the identification of certain components of contracts that would represent a lease as well as requires additional disclosures to the notes of the financial statements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period with early adoption permitted. The adoption of ASU 2016-02 is not expected to have a material impact on the Company’s results of operations, financial position or liquidity or its related financial statement disclosures.

In March 2016, the FASB issued Accounting Standards Update 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). ASU 2016-09 simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period, with early adoption permitted. The adoption of ASU 2016-09 is not expected to have a material impact on the Company’s results of operations, financial position or liquidity or its related financial statement disclosures.

In August 2016, the FASB issued Accounting Standards Update 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). ASU 2016-15 provides guidance related to the classification of certain cash receipts and cash payments on the statement of cash flows. The pronouncement provides clarification guidance on eight specific cash flow presentation issues that have developed due to diversity in practice. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The adoption of ASU 2016-15 is not expected to have a material impact on the Company’s results of operations, financial position or liquidity or its related financial statement disclosures.

In October 2016, the FASB issued Accounting Standards Update 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (“ASU 2016-16”). ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset (with the exception of inventory) when the transfer occurs. Under current GAAP, entities are prohibited from recognizing current and deferred income taxes for an intra-entity transfer until the asset is sold to a third party. Examples of assets that would be affected by the new guidance are intellectual property and property, plant and equipment. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The adoption of ASU 2016-16 is not expected to have a material impact on the Company’s results of operations, financial position or liquidity or its related financial statement disclosures.

There are no other new accounting standards issued, but not yet adopted by the Company, which are expected to materially impact the Company’s financial position, operating results or financial statement disclosures.

**(18) Quarterly Results of Operations (Unaudited)**

The following is a summary of the unaudited quarterly results of operations for the years ended October 31, 2016 and 2015:

<b>Fiscal year ended October 31, 2016</b>	<b>Quarter ended</b>			
	<b>January 31</b>	<b>April 30</b>	<b>July 31</b>	<b>October 31</b>
Net sales	\$ 14,047,890	\$ 16,340,153	\$ 16,915,135	\$ 17,312,823
Gross profit	3,502,431	4,551,295	5,461,691	6,209,719
Selling, general & administrative expenses	5,087,481	5,351,577	5,074,839	5,246,838
Income (loss) before income taxes	(1,743,321)	(992,653)	181,003	759,876
Net income (loss) attributable to Optical Cable Corporation	(1,745,021)	(983,122)	188,163	761,158
Basic and diluted net income (loss) per share attributable to Optical Cable Corporation	\$ (0.28)	\$ (0.15)	\$ 0.03	\$ 0.11
Cash dividends declared per common share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

<b>Fiscal year ended October 31, 2015</b>	<b>Quarter ended</b>			
	<b>January 31</b>	<b>April 30</b>	<b>July 31</b>	<b>October 31</b>
Net sales	\$ 17,358,844	\$ 18,676,107	\$ 20,781,340	\$ 16,752,447
Gross profit	5,385,391	5,669,311	5,708,843	5,032,342
Selling, general & administrative expenses	5,720,420	6,474,414	6,084,514	5,763,206
Loss before income taxes	(497,621)	(938,546)	(516,247)	(862,649)
Net loss attributable to Optical Cable Corporation	(228,183)	(490,144)	(572,572)	(2,964,766)
Basic and diluted net loss per share attributable to Optical Cable Corporation	\$ (0.04)	\$ (0.08)	\$ (0.09)	\$ (0.48)
Cash dividends declared per common share	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders  
Optical Cable Corporation  
Roanoke, VA

We have audited the accompanying consolidated balance sheet of Optical Cable Corporation and Subsidiaries (the “Company”) as of October 31, 2016, and the related consolidated statement of operations, shareholders’ equity, and cash flows for the year ended October 31, 2016. Optical Cable Corporation’s management is responsible for these financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of the Company as of October 31, 2015 were audited by other auditors whose report dated January 28, 2016, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion on the effectiveness of the Company’s internal control over financial reporting. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Optical Cable Corporation and Subsidiaries as of October 31, 2016, and the consolidated results of its operations and its cash flows for the year ended October 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ Brown, Edwards & Company, L.L.P.

1715 Pratt Drive, Suite 2700  
Blacksburg, Virginia  
December 20, 2016

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders  
Optical Cable Corporation:

We have audited the accompanying consolidated balance sheet of Optical Cable Corporation and subsidiaries as of October 31, 2015, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the two-year period ended October 31, 2015. 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, 2015, and the results of their operations and their cash flows for each of the years in the two-year period ended October 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/KPMG LLP

Roanoke, Virginia  
January 28, 2016

## Corporate Information

### **Corporate Headquarters**

Optical Cable Corporation (OCC)  
5290 Concourse Drive  
Roanoke, VA 24019

### **Primary Legal Counsel**

Woods Rogers PLC  
10 South Jefferson Street  
Suite 1400  
Roanoke, VA 24011

### **Independent Registered Public Accounting Firm**

Brown, Edwards & Company, L.L.P.  
1715 Pratt Drive  
Suite 2700  
Blacksburg, VA 24060

### **Transfer Agent**

American Stock Transfer & Trust Company, LLC  
6201 15<sup>th</sup> Avenue  
Brooklyn, NY 11219

### **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 2017 annual meeting of shareholders will be held at 10:00 a.m. on Tuesday, March 28, 2017, at the Green Ridge Recreation Center, 7415 Wood Haven Road, Roanoke, Virginia.



# Corporate Information

(Continued)

## Common Stock and Dividend Data

Our common stock is traded on the Nasdaq Global Market under the symbol OCC. According to the records of our transfer agent, the Company had approximately 300 shareholders of record as of December 13, 2016. Additionally, there are approximately 1,100 beneficial owners as of December 13, 2016. On December 13, 2016, our common stock closed at a price of \$2.85 per share.

Employees of the Company and members of the Board of Directors owned at least 36.6% of the shares outstanding as of October 31, 2016, including shares still subject to potential forfeiture based on vesting requirements.

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:

<b>Fiscal year ended October 31, 2016</b>	<b>Range of Bid Prices</b>	
	<b>High</b>	<b>Low</b>
Fourth Quarter	\$ 3.60	\$ 2.16
Third Quarter	\$ 2.89	\$ 2.14
Second Quarter	\$ 2.96	\$ 2.15
First Quarter	\$ 3.15	\$ 2.10

<b>Fiscal year ended October 31, 2015</b>	<b>Range of Bid Prices</b>	
	<b>High</b>	<b>Low</b>
Fourth Quarter	\$ 3.72	\$ 3.04
Third Quarter	\$ 4.13	\$ 3.28
Second Quarter	\$ 5.48	\$ 3.86
First Quarter	\$ 5.56	\$ 4.05

## Dividend Declaration

In October 2010, the Board of Directors authorized the initiation of a quarterly cash dividend and declared a cash dividend on our common stock of \$0.01 per share. In fiscal year 2011, we declared dividends of \$0.01 per share on a quarterly basis. In fiscal year 2012, the dividend rate was increased to \$0.015 per share and we declared dividends at the increased rate on a quarterly basis. In fiscal year 2013, the dividend rate was increased to \$0.02 per share and we declared dividends at the increased rate on a quarterly basis for fiscal years 2013, 2014 and 2015. In January 2016, the Board of Directors suspended the declaration of dividends to shareholders. The payment of future dividends, if any, and the amount of future dividends is at the discretion of our Board of Directors and may change at any time. The declaration and payment of any future dividends by the Company is dependent on the consideration of various relevant factors by the Board of Directors, including, but not limited to, recent and future earnings, cash flow and financial condition, future investment opportunities, and/or other relevant factors.

# 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

## Board of Directors of Optical Cable Corporation

Neil D. Wilkin, Jr., Chairman	Chairman of the Board, President and Chief Executive Officer Optical Cable Corporation
Randall H. Frazier	President and Founder R. Frazier, Incorporated
John M. Holland	President and Founder Holland Technical Services
John A. Nygren	Retired, former President ChemTreat, Inc.
Craig H. Weber	Chief Executive Officer Home Care Delivered, Inc.
John B. Williamson, III	Chairman of the Board RGC Resources, Inc. and Roanoke Gas Company



**ROANOKE, VA**

Corporate Headquarters and Fiber Optic Cable  
Manufacturing Facility  
ISO 9001:2008 registered  
MIL-STD-790F certified

**ASHEVILLE, NC**

Enterprise Connectivity Manufacturing Facility  
ISO 9001:2008 registered

**DALLAS, TX**

Harsh Environment and Specialty Connectivity  
Manufacturing Facility  
ISO 9001:2008 registered  
MIL-STD-790F certified

**JOIN OUR SOCIAL NETWORK**

For the most up-to-date information on all of OCC's  
products, news and information, visit our website.  
Registered users get added benefits, access to  
additional information, white papers and more.

[occfiber.com](http://occfiber.com)



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Join the conversation on Linked-In:  
[linkedin.com/groups/optical-cable-corporation](https://linkedin.com/groups/optical-cable-corporation)





**CORPORATE HEADQUARTERS**

5290 Concourse Drive | Roanoke, VA 24019 | USA

Phone: +1-540-265-0690 | 800-622-7711

Fax: +1-540-265-0724

**LIST OF SUBSIDIARIES**

Applied Optical Systems, Inc., incorporated in the State of Delaware.

Centric Solutions LLC, organized in the State of Delaware.

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Optical Cable Corporation:

We consent to the incorporation by reference in Registration Statement Nos. 333-09433, 333-115575, 333-128163, 333-174917, 333-189277, and 333-203129 on Forms S-8 and Registration Statement No. 333-103108 on Form S-3 of Optical Cable Corporation of our report dated December 20, 2016, with respect to the consolidated balance sheets of Optical Cable Corporation and subsidiaries as of October 31, 2016, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended, which report is incorporated by reference in the October 31, 2016 Annual Report on Form 10-K of Optical Cable Corporation.

/s/ Brown, Edwards and Company, L.L.P.

1715 Pratt Drive, Suite, 2700  
Blacksburg, Virginia  
December 20, 2016

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Optical Cable Corporation:

We consent to the incorporation by reference in Registration Statement Nos. 333-09433, 333-115575, 333-128163, 333-174917, 333-189277, and 333-203129 on Forms S-8 and Registration Statement No. 333-103108 on Form S-3 of Optical Cable Corporation of our report dated January 28, 2016, with respect to the consolidated balance sheets of Optical Cable Corporation and subsidiaries as of October 31, 2015, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the two-year period ended October 31, 2015, which report is incorporated by reference in the October 31, 2016 Annual Report on Form 10-K of Optical Cable Corporation.

/s/ KPMG LLP

Roanoke, Virginia  
December 16, 2016

## 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: December 20, 2016

/s/ Neil D. Wilkin, Jr.

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Neil D. Wilkin, Jr.  
Chairman of the Board of Directors,  
President and Chief Executive Officer  
Optical Cable Corporation



## 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: December 20, 2016

/s/ Tracy G. Smith

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Tracy G. Smith  
Senior Vice President and Chief Financial Officer  
Optical Cable Corporation

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, 2016 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, 2016, and for the period then ended.

/s/ Neil D. Wilkin, Jr.

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

December 20, 2016

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, 2016 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, 2016, and for the period then ended.

/s/ Tracy G. Smith

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Tracy G. Smith  
Senior Vice President and  
Chief Financial Officer

December 20, 2016