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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended April 30, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-27022

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**OPTICAL CABLE CORPORATION**

(Exact name of registrant as specified in its charter)

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**Virginia**  
(State or other jurisdiction of  
incorporation or organization)

54-1237042  
(I.R.S. Employer  
Identification No.)

5290 Concourse Drive  
Roanoke, Virginia 24019  
(Address of principal executive offices, including zip code)

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

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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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. (See definition 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 Exchange Act). Yes  No

As of June 7, 2010, 6,512,446 shares of the registrant's Common Stock, no par value, were outstanding.

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**OPTICAL CABLE CORPORATION**  
**Form 10-Q Index**  
**Six Months Ended April 30, 2010**

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**PART I. FINANCIAL INFORMATION**

## Item 1. Financial Statements

**OPTICAL CABLE CORPORATION**  
Condensed Consolidated Balance Sheets  
(Unaudited)

|   | April 30,<br>2010   | October 31,<br>2009 |
|---|---------------------|---------------------|
| <b>Assets</b>   |                     |                     |
| Current assets:   |                     |                     |
| Cash and cash equivalents   | \$ 1,105,316        | \$ 1,948,334        |
| Trade accounts receivable, net of allowance for doubtful accounts of \$98,994 at April 30, 2010 and \$108,913 at October 31, 2009                     | 9,564,298           | 9,532,869           |
| Other receivables   | 611,497             | 433,219             |
| Income taxes refundable   | 1,441,146           | 1,842,008           |
| Inventories   | 13,318,456          | 12,306,286          |
| Prepaid expenses and other assets   | 627,765             | 479,601             |
| Deferred income taxes - current   | 1,223,731           | 1,160,046           |
| Total current assets  | 27,892,209          | 27,702,363          |
| Property and equipment, net   | 14,072,932          | 14,972,379          |
| Goodwill  | —                   | 6,288,803           |
| Intangible assets, net  | 970,908             | 1,271,624           |
| Deferred income taxes - noncurrent  | 731,479             | —                   |
| Other assets, net   | 103,052             | 91,629              |
| Total assets  | <u>\$43,770,580</u> | <u>\$50,326,798</u> |
| <b>Liabilities and Shareholders' Equity</b>   |                     |                     |
| Current liabilities:  |                     |                     |
| Current installments of long-term debt  | \$ 172,036          | \$ 166,909          |
| Accounts payable and accrued expenses   | 5,421,281           | 6,116,946           |
| Accrued compensation and payroll taxes  | 1,294,805           | 1,348,281           |
| Deferred revenue  | 761,603             | —                   |
| Total current liabilities   | 7,649,725           | 7,632,136           |
| Note payable to bank  | 1,112,019           | —                   |
| Long-term debt, excluding current installments  | 8,281,125           | 8,369,126           |
| Deferred income taxes - noncurrent  | —                   | 149,768             |
| Other non-current liabilities   | 910,661             | 919,013             |
| Total liabilities   | 17,953,530          | 17,070,043          |
| Shareholders' equity:   |                     |                     |
| Preferred stock, no par value, authorized 1,000,000 shares; none issued and outstanding   | —                   | —                   |
| Common stock, no par value, authorized 50,000,000 shares; issued and outstanding 6,512,446 shares at April 30, 2010 and 6,508,821 at October 31, 2009 | 5,621,828           | 5,166,016           |
| Retained earnings   | 20,308,756          | 28,090,739          |
| Total shareholders' equity attributable to Optical Cable Corporation  | 25,930,584          | 33,256,755          |
| Noncontrolling interest   | (113,534)           | —                   |
| Total shareholders' equity  | 25,817,050          | 33,256,755          |
| Commitments and contingencies   |                     |                     |
| Total liabilities and shareholders' equity  | <u>\$43,770,580</u> | <u>\$50,326,798</u> |

See accompanying condensed notes to condensed consolidated financial statements.

**OPTICAL CABLE CORPORATION**  
Condensed Consolidated Statements of Operations  
(Unaudited)

|  | Three Months Ended |              | Six Months Ended |              |
|--|--------------------|--------------|------------------|--------------|
|  | April 30,          |              | April 30,        |              |
|  | 2010               | 2009         | 2010             | 2009         |
| Net sales  | \$15,255,913       | \$15,343,024 | \$30,263,148     | \$30,301,401 |
| Cost of goods sold   | 10,970,382         | 9,620,203    | 20,476,516       | 19,790,296   |
| Gross profit   | 4,285,531          | 5,722,821    | 9,786,632        | 10,511,105   |
| Selling, general and administrative expenses   | 6,191,427          | 5,811,571    | 12,240,470       | 11,622,128   |
| Royalty income, net  | (363,275)          | (220,338)    | (609,478)        | (382,686)    |
| Amortization of intangible assets  | 146,808            | 208,518      | 293,616          | 418,340      |
| Impairment of goodwill   | 6,246,304          | —            | 6,246,304        | —            |
| Loss from operations   | (7,935,733)        | (76,930)     | (8,384,280)      | (1,146,677)  |
| Other income (expense), net:   |                    |              |                  |              |
| Interest income  | 78,494             | 1,473        | 79,437           | 9,427        |
| Interest expense   | (159,081)          | (168,249)    | (305,093)        | (342,697)    |
| Other, net   | 75,596             | 36           | 68,602           | 24,631       |
| Other expense, net   | (4,991)            | (166,740)    | (157,054)        | (308,639)    |
| Loss before income taxes   | (7,940,724)        | (243,670)    | (8,541,334)      | (1,455,316)  |
| Income tax benefit   | (423,620)          | (259,647)    | (645,817)        | (728,831)    |
| Net income (loss)  | \$ (7,517,104)     | \$ 15,977    | \$ (7,895,517)   | \$ (726,485) |
| Net loss attributable to noncontrolling interest   | (50,975)           | —            | (113,534)        | —            |
| Net income (loss) attributable to Optical Cable Corporation                              | \$ (7,466,129)     | \$ 15,977    | \$ (7,781,983)   | \$ (726,485) |
| Net income (loss) per share attributable to Optical Cable Corporation: Basic and diluted | \$ (1.27)          | \$ 0.00      | \$ (1.32)        | \$ (0.12)    |

See accompanying condensed notes to condensed consolidated financial statements.

**OPTICAL CABLE CORPORATION**  
Condensed Consolidated Statement of Shareholders' Equity  
(Unaudited)

|                               | <u>Six Months Ended April 30, 2010</u> |                    |                              |   |                                    |   |
|-------------------------------|--|--------------------|------------------------------|---|------------------------------------|---|
|                               | <u>Common Stock</u>                    |                    | <u>Retained<br/>Earnings</u> | <u>Total<br/>Shareholders'<br/>Equity<br/>Attributable<br/>to OCC</u> | <u>Noncontrolling<br/>Interest</u> | <u>Total<br/>Shareholders'<br/>Equity</u> |
|                               | <u>Shares</u>                          | <u>Amount</u>      |                              |   |                                    |   |
| Balances at October 31, 2009  | 6,508,821                              | \$5,166,016        | \$28,090,739                 | \$ 33,256,755   | \$ —                               | \$33,256,755                              |
| Share-based compensation, net | 3,625                                  | 455,812            | —                            | 455,812   | —                                  | 455,812                                   |
| Net loss                      | —                                      | —                  | (7,781,983)                  | (7,781,983)   | (113,534)                          | (7,895,517)                               |
| Balances at April 30, 2010    | <u>6,512,446</u>                       | <u>\$5,621,828</u> | <u>\$20,308,756</u>          | <u>\$ 25,930,584</u>  | <u>(\$ 113,534)</u>                | <u>\$25,817,050</u>                       |

See accompanying condensed notes to condensed consolidated financial statements.

**OPTICAL CABLE CORPORATION**  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

|   | Six Months Ended    |                     |
|---|---------------------|---------------------|
|   | April 30,           |                     |
|   | 2010                | 2009                |
| Cash flows from operating activities:   |                     |                     |
| Net loss  | \$(7,895,517)       | \$ (726,485)        |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                     |                     |
| Depreciation and amortization   | 1,479,331           | 1,553,812           |
| Bad debt expense (recovery)   | (9,319)             | 2,661               |
| Deferred income tax benefit   | (968,785)           | (57,531)            |
| Impairment of goodwill  | 6,246,304           | —                   |
| Share-based compensation expense  | 519,865             | 470,067             |
| (Increase) decrease in:   |                     |                     |
| Trade accounts receivable   | (22,110)            | 2,416,979           |
| Other receivables   | (178,278)           | 333,825             |
| Income taxes refundable   | 400,862             | (1,142,589)         |
| Inventories   | (1,012,170)         | 549,521             |
| Prepaid expenses and other assets   | (150,464)           | (73,754)            |
| Intangible assets, net  | (11,148)            | —                   |
| Other assets, net   | 3,280               | 5,690               |
| Increase (decrease) in:   |                     |                     |
| Accounts payable and accrued expenses   | (657,939)           | (1,169,383)         |
| Accrued compensation and payroll taxes  | (53,476)            | (1,769,438)         |
| Deferred revenue  | 761,603             | —                   |
| Other non-current liabilities   | (8,352)             | 30,095              |
| Net cash provided by (used in) operating activities                                       | <u>(1,556,313)</u>  | <u>423,470</u>      |
| Cash flows from investing activities:   |                     |                     |
| Purchase of and deposits for the purchase of property and equipment                       | (230,325)           | (585,481)           |
| Investment in other assets  | —                   | (104,823)           |
| Net cash used in investing activities   | <u>(230,325)</u>    | <u>(690,304)</u>    |
| Cash flows from financing activities:   |                     |                     |
| Reversal of outstanding checks in excess of funds on deposit                              | —                   | (279,520)           |
| Payroll taxes withheld and remitted on share-based payments                               | (64,053)            | (66,521)            |
| Proceeds from note payable  | 1,112,019           | —                   |
| Principal payments on long-term debt  | (82,874)            | (78,038)            |
| Payments for financing costs  | (21,472)            | —                   |
| Repurchase of common stock  | —                   | (329,827)           |
| Net cash provided by (used in) financing activities                                       | <u>943,620</u>      | <u>(753,906)</u>    |
| Net decrease in cash and cash equivalents   | (843,018)           | (1,020,740)         |
| Cash and cash equivalents at beginning of period  | 1,948,334           | 3,910,120           |
| Cash and cash equivalents at end of period  | <u>\$ 1,105,316</u> | <u>\$ 2,889,380</u> |

See accompanying condensed notes to condensed consolidated financial statements.

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Consolidated Financial Statements

Three Months and Six Months Ended April 30, 2010

(Unaudited)

**(1) General**

The accompanying unaudited condensed consolidated financial statements of Optical Cable Corporation and its subsidiaries (collectively, the "Company" or "OCC") have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments considered necessary for a fair presentation have been included. Operating results for the six months ended April 30, 2010 are not necessarily indicative of the results for the fiscal year ending October 31, 2010 because the following items, among other things, may impact those results: changes in market conditions, seasonality, changes in technology, competitive conditions, ability of management to execute its business plans, as well as other variables, uncertainties, contingencies and risks set forth as risks in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2009 (including those set forth in the "Forward-Looking Information" section), or as otherwise set forth in other filings by the Company as variables, contingencies and/or risks possibly affecting future results. The unaudited condensed consolidated financial statements and condensed notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual consolidated financial statements and notes. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended October 31, 2009.

Certain reclassifications have been made to the prior period's condensed notes to the condensed consolidated financial statements to place them on a basis comparable with the current period's condensed notes to the condensed consolidated financial statements.

**(2) Stock Option Plan and Other Stock-Based Compensation**

As of April 30, 2010, there were approximately 80,000 remaining shares available for grant under the Optical Cable Corporation 2005 Stock Incentive Plan (the "2005 Plan"). The Company anticipated that the 2005 Plan would be depleted of shares available for grant during fiscal year 2009. Due to the severe economic recession and at the recommendation of senior management, the Board of Directors has approved neither reserving additional shares available for grant under the 2005 Plan nor adopting a new stock incentive plan.

Share-based compensation expense for employees and non-employee Directors recognized in the condensed consolidated statements of operations for the three months and six months ended April 30, 2010 was \$290,787 and \$519,865, respectively, and for the three months and six months ended April 30, 2009 was \$240,123 and \$470,067, respectively, and was entirely related to expense recognized in connection with the vesting of restricted stock awards.

*Stock Option Awards*

In the past, employees and outside contractors were issued options to purchase common stock, all of which were issued prior to July 2002. Additionally, during 2002, non-employee members of the Company's Board of Directors were granted options to purchase shares of the Company's common stock. The exercise price equaled the market price of the Company's common stock on the date of grant.

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Consolidated Financial Statements

Three Months and Six Months Ended April 30, 2010

(Unaudited)

Stock option activity during the six months ended April 30, 2010 is as follows:

|   | Number of<br>options | Weighted-<br>average<br>exercise price | Weighted-<br>average<br>remaining<br>contractual<br>term (in yrs) |
|---|----------------------|--|---|
| Outstanding and exercisable at October 31, 2009 | 166,577              | \$ 7.62                                | 2.27  |
| Forfeited                                       | —                    | —                                      | —   |
| Outstanding and exercisable at April 30, 2010   | <u>166,577</u>       | <u>\$ 7.62</u>                         | <u>1.77</u>   |

*Restricted Stock Awards*

The Company has granted, and anticipates granting from time to time, restricted stock awards subject to approval by the Compensation Committee of the Board of Directors.

The Company generally grants restricted stock awards each fiscal year to members of the Company's leadership team and select key employees. Such grants are approved by the Compensation Committee and are subject to any vesting requirements required by the Compensation Committee. According to policies adopted by the Board of Directors, the Company targets April of each year as the time to make such grants. At this time, no such grants have been made for fiscal year 2010.

Restricted stock award activity during the six months ended April 30, 2010 consisted of restricted share grants totaling 22,860 shares, and 19,235 restricted shares withheld for taxes in connection with the vesting of restricted shares.

As of April 30, 2010, the maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based, market condition-based, and operational performance-based shares that the Company will have to recognize over a 2.7 year weighted-average period is approximately \$1.7 million.

**(3) Allowance for Doubtful Accounts for Trade Accounts Receivable**

A summary of changes in the allowance for doubtful accounts for trade accounts receivable for the six months ended April 30, 2010 and 2009 follows:

|                                  | Six Months Ended<br>April 30, |                   |
|----------------------------------|-------------------------------|-------------------|
|                                  | 2010                          | 2009              |
| Balance at beginning of period   | \$ 108,913                    | \$ 150,941        |
| Bad debt expense (recovery), net | (9,319)                       | 2,661             |
| Losses charged to allowance      | (600)                         | (11,106)          |
| Balance at end of period         | <u>\$ 98,994</u>              | <u>\$ 142,496</u> |

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Consolidated Financial Statements

Three Months and Six Months Ended April 30, 2010

(Unaudited)

**(4) Inventories**

Inventories as of April 30, 2010 and October 31, 2009 consist of the following:

|                     | <u>April 30,</u><br><u>2010</u> | <u>October 31,</u><br><u>2009</u> |
|---------------------|---------------------------------|-----------------------------------|
| Finished goods      | \$ 4,675,960                    | \$ 4,524,502                      |
| Work in process     | 2,784,409                       | 1,937,317                         |
| Raw materials       | 5,624,671                       | 5,033,761                         |
| Production supplies | <u>233,416</u>                  | <u>810,706</u>                    |
| Total               | <u>\$13,318,456</u>             | <u>\$12,306,286</u>               |

**(5) Product Warranties**

As of April 30, 2010 and October 31, 2009, the Company's accrual for estimated product warranty claims totaled \$202,000 and \$160,000 and is included in accounts payable and accrued expenses. Warranty claims expense for the three months and six months ended April 30, 2010 totaled \$166,395 and \$203,795, respectively, and warranty claims expense for the three months and six months ended April 30, 2009 totaled \$179,283 and \$255,390, respectively.

The following table summarizes the changes in the Company's accrual for product warranties during the six months ended April 30, 2010 and 2009:

|  | <u>Six Months Ended</u><br><u>April 30,</u> |                   |
|--|---|-------------------|
|  | <u>2010</u>                                 | <u>2009</u>       |
| Balance at beginning of period                                     | \$ 160,000                                  | \$ 210,000        |
| Liabilities accrued for warranties issued during the period        | 169,458                                     | 242,628           |
| Warranty claims and costs paid during the period                   | (161,795)                                   | (160,390)         |
| Changes in liability for pre-existing warranties during the period | <u>34,337</u>                               | <u>12,762</u>     |
| Balance at end of period   | <u>\$ 202,000</u>                           | <u>\$ 305,000</u> |

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

On May 30, 2008, the Company established \$17.0 million in credit facilities (collectively, the "Credit Facilities") with Valley Bank to provide for the working capital needs of the Company and to finance the acquisition of Superior Modular Products Incorporated, doing business as SMP Data Communications ("SMP Data Communications"). The Credit Facilities provided a working capital line of credit (the "Revolving Loan"), a real estate term loan (the "Virginia Real Estate Loan"), a supplemental real estate term loan (the "North Carolina Real Estate Loan"), and a capital acquisitions term loan (the "Capital Acquisitions Term Loan"). The Capital Acquisitions Term Loan was fully funded in fiscal year 2008 and repaid in fiscal year 2009. Therefore, the \$2.3 million portion of the credit facility related to the Capital Acquisitions Term Loan is no longer available.

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Consolidated Financial Statements

Three Months and Six Months Ended April 30, 2010

(Unaudited)

Long-term debt as of April 30, 2010 and October 31, 2009 consists of the following:

|   | <u>April 30,</u><br><u>2010</u> | <u>October 31,</u><br><u>2009</u> |
|---|---------------------------------|-----------------------------------|
| Virginia Real Estate Loan (\$6.5 million original principal) payable in monthly installments of \$42,241, including interest (at 6.0%), with final payment of \$5,896,867 due June 1, 2013        | \$6,286,676                     | \$6,348,310                       |
| North Carolina Real Estate Loan (\$2.24 million original principal) payable in monthly installments of \$14,557, including interest (at 6.0%), with final payment of \$2,032,150 due June 1, 2013 | 2,166,485                       | 2,187,725                         |
| Total long-term debt  | 8,453,161                       | 8,536,035                         |
| Less current installments   | 172,036                         | 166,909                           |
| Long-term debt, excluding current installments  | <u>\$8,281,125</u>              | <u>\$8,369,126</u>                |

The Revolving Loan originally provided up to \$6.0 million for the Company's working capital needs and bore interest at LIBOR plus 2.15%, but provided a lower rate option if the Company maintained specific depository amounts with Valley Bank. The Revolving Loan was modified on February 16, 2010 ("Amended Revolving Loan") and provided up to \$3.0 million for the Company's working capital needs and bore interest at LIBOR plus 2.15%, but at no time was the applicable rate to decrease below 4.50% per annum. The Company could borrow up to 85% of the Company's consolidated eligible accounts receivable (excluding foreign accounts receivable), plus 35% of certain consolidated uninsured foreign receivables (or 100% of insured foreign receivables, without duplication) up to a maximum of \$1,500,000 plus 25% of the Company's consolidated eligible inventory. The Amended Revolving Loan was due to expire on May 31, 2010.

On April 30, 2010, the Company and SunTrust Bank entered into a revolving credit facility consisting of a Commercial Note and Agreement to Commercial Note under which SunTrust Bank will provide the Company with a revolving line of credit for approximately 2 years for the working capital needs of the Company (the "Commercial Loan"). The Commercial Loan provides a \$6.0 million working capital line of credit and replaces the Company's Amended Revolving Loan with Valley Bank. Under the Commercial Loan, the Company may borrow an aggregate principal amount at any one time outstanding not to exceed the lesser of (i) \$6.0 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. Advances under the Commercial Loan accrue at the greater of (x) LIBOR plus 2.0%, or (y) 3.0%. Accrued interest on the outstanding principal balance is due on the first day of each month beginning June 1, 2010, with all then outstanding principal, interest, fees and costs due at the Commercial Loan Termination Date of May 31, 2012.

As of April 30, 2010, the Company had \$1.1 million of outstanding borrowings on its Commercial Loan and, as a result, \$4.9 million in available credit.

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Consolidated Financial Statements

Three Months and Six Months Ended April 30, 2010

(Unaudited)

Additionally, on April 30, 2010, the Company entered into a Second Loan Modification Agreement with Valley Bank whereby upon satisfaction and termination of the Amended Revolving Loan, Valley Bank consented to the release of certain collateral used to secure the Amended Revolving Loan, including but not limited to the Company's accounts, deposit accounts, inventory and general intangibles and permitted the existence of the Commercial Loan.

The Commercial Loan is secured by a first priority lien on all of the Company's inventory, accounts, general intangibles, deposit accounts, instruments, investment property, letter of credit rights, commercial tort claims, documents and chattel paper. The Virginia Real Estate Loan and the North Carolina Real Estate Loan are secured by a first priority lien on all of the Company's personal property and assets, except for the Company's inventory, accounts, general intangibles, deposit accounts, instruments, investment property, letter of credit rights, commercial tort claims, documents and chattel paper, as well as a first lien deed of trust on the Company's real property, in both cases including the assets at the Company's Asheville facility.

**(7) Fair Value Measurements**

*(a) Fair Value of Financial Instruments*

The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, trade accounts receivable, income taxes refundable, other receivables, accounts payable and accrued expenses, including accrued compensation and payroll taxes, the current installments of long-term debt, and deferred revenue approximate fair value because of the short maturity of these instruments. The carrying value of the Company's note payable to bank and long-term debt, excluding current installments, approximates the fair value based on similar long-term debt issues available to the Company as of April 30, 2010. 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.

*(b) Fair Value Hierarchy*

The Company adopted FASB ASC 820, *Fair Value Measurements and Disclosures*, on November 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. On November 1, 2009, the Company adopted the provisions of ASC 820 for fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). 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.

**OPTICAL CABLE CORPORATION**

Condensed Notes to Condensed Consolidated Financial Statements

Three Months and Six Months Ended April 30, 2010

(Unaudited)

- Level 3 inputs are observable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

**(8) Net Income (Loss) Per Share**

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

The following is a reconciliation of the numerators and denominators of the net income (loss) per share computations for the periods presented:

|   | Net Loss<br>attributable to OCC<br>(Numerator) | Shares<br>(Denominator) | Per Share<br>Amount |
|---|--|-------------------------|---------------------|
| <b>Three Months Ended April 30, 2010</b>      |  |                         |                     |
| Basic net loss per share                      | \$ (7,466,129)                                 | 5,891,103               | \$ (1.27)           |
| Effect of dilutive stock options and warrants | —  | —                       |                     |
| Diluted net loss per share                    | <u>\$ (7,466,129)</u>                          | <u>5,891,103</u>        | <u>\$ (1.27)</u>    |
| <b>Three Months Ended April 30, 2009</b>      |  |                         |                     |
| Basic net income per share                    | \$ 15,977                                      | 6,139,972               | \$ 0.00             |
| Effect of dilutive stock options and warrants | —  | —                       |                     |
| Diluted net income per share                  | <u>\$ 15,977</u>                               | <u>6,139,972</u>        | <u>\$ 0.00</u>      |
| <b>Six Months Ended April 30, 2010</b>        |  |                         |                     |
| Basic net loss per share                      | \$ (7,781,983)                                 | 5,895,837               | \$ (1.32)           |
| Effect of dilutive stock options and warrants | —  | —                       |                     |
| Diluted net loss per share                    | <u>\$ (7,781,983)</u>                          | <u>5,895,837</u>        | <u>\$ (1.32)</u>    |
| <b>Six Months Ended April 30, 2009</b>        |  |                         |                     |
| Basic net loss per share                      | \$ (726,485)                                   | 6,135,579               | \$ (0.12)           |
| Effect of dilutive stock options and warrants | —  | —                       |                     |
| Diluted net loss per share                    | <u>\$ (726,485)</u>                            | <u>6,135,579</u>        | <u>\$ (0.12)</u>    |

Stock options that could potentially dilute net income (loss) per share in the future that were not included in the computation of diluted net income (loss) per share (because to do so would have been antidilutive for the periods presented) totaled 166,577 for the three months and six months ended April 30, 2010 and

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175,205 for the three months and six months ended April 30, 2009. Unvested shares as of April 30, 2010, totaling 608,404, were not included in the computation of basic and diluted net loss per share for the three months and six months ended April 30, 2010 (because to do so would have been antidilutive).

**(9) Shareholders' Equity**

On October 16, 2009, the Company's Board of Directors approved a plan to purchase and retire up to 325,848 shares of the Company's common stock, or approximately 5% of the shares then outstanding. The Company anticipates that the purchases will be made over a 12- to 24-month period unless the entire number of shares expected to be purchased under the plan is sooner acquired. As of April 30, 2010, no purchases were made under the plan. As of April 30, 2010, 6,512,446 shares of the Company's common stock were outstanding.

**(10) Segment Information and Business and Credit Concentrations**

The Company has a single reportable segment for purposes of segment reporting, exclusive of Centric Solutions LLC ("Centric Solutions"). For the three month and six month periods ended April 30, 2010, Centric Solutions generated revenues totaling \$194,430 and \$236,537, respectively, and incurred operating losses of \$352,586 and \$716,851, respectively. For the three month and six month periods ended April 30, 2009, Centric Solutions generated no revenues and incurred operating losses of \$414,429 and \$744,497, respectively. Total assets of Centric Solutions of approximately \$597,000 (net of intercompany amounts) are included in the total consolidated assets of the Company.

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 April 30, 2010 and October 31, 2009 have been adequately provided for in the condensed consolidated financial statements.

For the three months ended April 30, 2010 and 2009, 10.5% and 11.1%, respectively, of consolidated net sales were attributable to one major domestic distributor. No other single customer accounted for more than 10% of the Company's consolidated net sales during the three months ended April 30, 2010. One other customer accounted for more than 10% of the Company's consolidated net sales during the three months ended April 30, 2009, with such customer accounting for 11.3% during such period. For the six months ended April 30, 2010 and 2009, 10.2% and 11.4%, respectively, of consolidated net sales were attributable to one major domestic distributor. No other single customer accounted for more than 10% of the Company's consolidated net sales during the six months ended April 30, 2010 and 2009.

For the six months ended April 30, 2010 and 2009, approximately 73% and 71%, respectively, of consolidated net sales were from customers located in the United States, and approximately 27% and 29%, respectively, were from customers outside of the United States.

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**(11) Contingencies**

Applied Optical Systems, Inc. ("AOS"), a wholly owned subsidiary of the Company effective October 31, 2009, is the defendant in a patent infringement lawsuit brought by Amphenol Fiber Systems International ("AFSI"). On November 19, 2009, a jury in the U.S. District Court for the Eastern District of Texas unanimously determined that one of the AOS fiber optic connector designs that was the subject of the suit does not infringe on AFSI's U.S. Patent 6,305,849. In an earlier U.S. District Court ruling, the two other AOS fiber optic connector designs that were at issue in the suit were found not to infringe on the patent as a matter of law.

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

Final judgment has not yet been entered in the case because AOS still has a counterclaim pending asserting that AFSI was guilty of inequitable conduct in obtaining the patent at issue. The Court granted summary judgment in favor of AFSI on a second counterclaim asserted by AOS, alleging that AFSI had violated the U.S. antitrust laws. The inequitable conduct claim was tried to the Court (without a jury) in April 2010 and the post-trial briefing was completed at the end of May 2010. No decision has been issued by the Court as of this date. If AOS is successful on the inequitable conduct counterclaim it could potentially recover some or all of the attorney's fees and expenses it has incurred.

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

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

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

From time to time, 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.

**OPTICAL CABLE CORPORATION**

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**(12) Impairment of Goodwill**

In accordance with ASC 350-20, *Intangibles—Goodwill and Other*, the Company tests for the impairment of goodwill at the reporting unit level on an annual basis and between annual tests in certain circumstances. The Company uses the two-step impairment test to first identify whether a potential impairment of goodwill is deemed to exist and then to estimate the amount of any impairment to be recorded. The Company's impairment testing required the Company to make certain assumptions and judgements in calculating a reasonable carrying amount of goodwill. The Company selected April 30<sup>th</sup> as the measurement date for annual impairment testing in accordance with ASC 350-20.

In connection with the acquisition of AOS on October 31, 2009 as described in note 13, the Company recorded goodwill in the amount of \$6,246,304 which was capitalized as part of the purchase price allocation process. The Company and its industry continue to face challenges given the current worldwide economic recession. The Company compared its current market capitalization to the Company's book value (including goodwill) in determining there was a potential impairment of goodwill. The implied fair value of reporting unit goodwill was estimated (Level 2 inputs) and compared to the carrying amount of goodwill, and in the Company's judgment, based on this analysis, it is appropriate to write-off the carrying value of the goodwill on the consolidated balance sheet. As a result, the Company recorded a non-recurring, non-cash impairment charge in the amount of \$6,246,304 to write-off the carrying value of goodwill as of April 30, 2010.

The changes in the carrying value of goodwill for the six months ended April 30, 2010 are as follows:

|                                |              |
|--------------------------------|--------------|
| Balance as of October 31, 2009 | \$ 6,288,803 |
| Purchase accounting adjustment | (42,499)     |
| Impairment loss                | (6,246,304)  |
| Balance as of April 30, 2010   | \$ —         |

**(13) Business Combination**

On October 31, 2009, the Company acquired AOS in a series of transactions that resulted in the Company owning 100% of the equity of AOS. AOS is a designer, developer and manufacturer of specialty fiber optic connectors and connectivity solutions for military and harsh environment applications and has office, manufacturing and warehouse facilities located near Dallas, Texas.

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

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(Unaudited)

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

The acquisition was accounted for under Statement of Financial Accounting Standards No. 141, *Business Combinations*, (“SFAS 141”), which was not included in the FASB’s Codification, but was still applicable for the Company as of October 31, 2009. The purchase price of \$2.6 million was allocated to the assets acquired and the liabilities assumed based on the fair values at the date of acquisition. This allocation, including the impact of the pre-acquisition note of \$4.5 million and accrued interest payable to OCC of \$761,009, resulted in the recognition of \$6.4 million in intangible assets, \$6.2 million of which related to goodwill. The consideration for the transaction included certain earn out provisions based upon the future performance of AOS. The agreement provided for a minimum earn out payment of \$750,000 and a maximum of \$14.75 million to be paid in 2017. The present value of the minimum earn out of \$459,000 and capitalized acquisition costs associated with the transaction of \$434,000 were included in the \$2.6 million purchase price. As the transaction was effective on October 31, 2009, AOS’s assets and liabilities are included in the Company’s consolidated balance sheet at estimated fair value as of October 31, 2009. AOS’s results of operations are included in the Company’s consolidated results of operations beginning in fiscal year 2010.

During the first quarter of 2010, the Company made a purchase accounting adjustment that resulted in a net decrease to goodwill in the amount of \$42,499. The purchase accounting adjustment was related to a change in the estimated fair value of certain long-lived assets and the related deferred income tax effects. As described in note 12, the Company recorded a \$6,246,304 goodwill impairment charge to write-off the carrying value of the goodwill as of April 30, 2010.

Presented below is the pro forma impact on the unaudited results of operations for the three month and six month periods ended April 30, 2009 as though the transaction was completed as of November 1, 2008 as it relates to the unaudited interim results. The pro forma adjustments include the amortization of the fair market value adjustments to property and equipment, and amortizing intangibles; and an estimate of incremental interest cost related to the transaction, all reduced by the estimated income tax benefits. In addition, certain intercompany items of income and expense have been eliminated in the pro forma results of operations. The following amounts are presented in thousands, except for net loss per share.

|  | <u>Three months ended</u><br><u>April 30, 2009</u><br>(unaudited) | <u>Six months ended</u><br><u>April 30, 2009</u><br>(unaudited) |
|--|---|---|
| Net sales                              | \$ 16,502   | \$ 32,786   |
| Net loss                               | (512)   | (1,487)   |
| Net loss per share (basic and diluted) | \$ (0.08)   | \$ (0.24)   |

**OPTICAL CABLE CORPORATION**

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(Unaudited)

**(14) New Accounting Standards**

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

In December 2007, the FASB issued Accounting Standards Codification 805-10, *Business Combinations* (“ASC 805-10”). ASC 805-10 requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred to as the purchase method). Companies applying this method will have to identify the acquirer, determine the acquisition date and purchase price and recognize at their acquisition-date fair values the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree. In the case of a bargain purchase the acquirer is required to reevaluate the measurements of the recognized assets and liabilities at the acquisition date and recognize a gain on that date if an excess remains. The adoption of ASC 805-10, effective November 1, 2009, did not have any impact on the Company’s results of operations, financial position or liquidity.

In December 2007, the FASB issued Accounting Standards Codification 810-10, *Consolidation* (“ASC 810-10”). ASC 810-10 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. In addition, this statement establishes a single method of accounting for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. The adoption of ASC 810-10, effective November 1, 2009, did not have a material impact on the Company’s results of operations, financial position or liquidity. However, the Company has disclosed on the face of the condensed consolidated statement of operations for the three months and six months ended April 30, 2010, the amount of consolidated net loss attributable to the noncontrolling interest associated with Centric Solutions, LLC. Similar disclosure has also been reflected on the face of the condensed consolidated balance sheet as of April 30, 2010, the condensed consolidated statement of shareholders’ equity for the six months ended April 30, 2010 and in certain condensed notes to the condensed consolidated financial statements.

**OPTICAL CABLE CORPORATION**

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In April 2008, the FASB issued Accounting Standards Codification 350-30, *Determination of the Useful Life of Intangible Assets* (“ASC 350-30”). ASC 350-30 amends the factors that an entity should consider in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. ASC 350-30 requires an entity to consider its own historical experience in renewing or extending the term of the arrangement, consistent with its expected use of the asset. In the absence of historical experience, an entity should consider assumptions that market participants would use about renewal or extension as adjusted for entity-specific factors. The adoption of ASC 350-30, effective November 1, 2009, did not have any impact on the Company’s results of operations, financial position or liquidity.

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

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-Looking Information**

This Form 10-Q may contain certain forward-looking information within the meaning of the federal securities laws. The forward-looking information may include, among other information, (i) statements concerning our outlook for the future, (ii) statements of belief, anticipation or expectation, (iii) future plans, strategies or anticipated events, and (iv) similar information and statements concerning matters that are not historical facts. Such forward-looking information is subject to variables, uncertainties, contingencies and risks that may cause actual events to differ materially from our expectations, and such variables, uncertainties, contingencies and risks may adversely affect the Company and the Company’s future results of operations and future financial condition. Factors that could cause or contribute to such differences from our expectations or could adversely affect the Company include, but are not limited to, the level of sales to key customers, including distributors; timing of certain projects and purchases by key customers; the economic conditions affecting network service providers; corporate and/or government spending on information technology; actions by competitors; fluctuations in the price of raw materials (including optical fiber, copper, gold and other precious metals, and plastics and other materials affected by petroleum product pricing); fluctuations in transportation costs; our dependence on customized equipment for the manufacture of our products and a limited number of production facilities; our ability to protect our proprietary manufacturing technology; our ability to replace royalty income as existing patented and licensed products expire by developing and licensing new products; market conditions influencing prices or pricing; our dependence on a limited number of suppliers; the loss of or conflict with one or more key suppliers or customers; an adverse outcome in litigation, claims and other actions, and potential litigation, claims and other actions against us; an adverse outcome in regulatory reviews and audits and potential regulatory reviews and audits; adverse changes in state tax laws and/or positions taken by state taxing authorities affecting us; technological changes and introductions of new competing products; changes in end-user preferences for competing technologies, relative to our product offering; economic conditions that affect the telecommunications sector, certain technology sectors or the economy as a whole; changes in demand of our products from certain competitors for which we provide private label connectivity products; terrorist attacks or acts of war, and any current or potential future military conflicts; changes in the level of military spending by the United States government; ability to retain key personnel; inability to recruit needed personnel; poor labor relations; the inability to successfully integrate the operations of our new subsidiaries; the impact of changes in accounting policies, including those by the Securities and Exchange Commission and the Public Company Accounting Oversight Board; our ability to continue to successfully comply with, and the cost of compliance with, the provisions of Section 404 of the Sarbanes-Oxley Act of 2002 or any revisions to that act which apply to us; the impact of changes and potential changes in federal laws and regulations adversely affecting our business and/or which result in increases in our direct and indirect costs as we comply with such laws and regulations; impact of future consolidation among competitors and/or among customers adversely affecting our position with our customers and/or our market position; actions by customers adversely affecting us in reaction to the expansion of our product offering in any manner, including, but not limited to, by offering products that compete with our customers, and/or by entering into alliances with, making investments in or with, and/or acquiring parties that compete with and/or have conflicts with customers of ours; adverse reactions by customers, vendors or other service providers to unsolicited proposals regarding the management of the Company; the additional costs of considering and possibly defending our position on such unsolicited proposals; impact of weather or natural disasters in the areas of the world in which we operate and market our products; economic downturns and/or changes in market demand, exchange rates, productivity, or market and economic conditions in the areas of the world in which we operate and market our products, and our success in managing the risks involved in the foregoing.

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

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Dollar amounts presented in the following discussion have been rounded to the nearest hundred thousand, unless the amounts are less than one million and except in the case of the table set forth in the “Results of Operations” section below, in which cases the amounts have been rounded to the nearest thousand.

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

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

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

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

OCC sells its products internationally and domestically through its sales force to its customers, which include major distributors, regional distributors, various smaller distributors, original equipment manufacturers and value-added resellers.

On May 30, 2008, OCC acquired Superior Modular Products Incorporated (doing business as SMP Data Communications) (“SMP Data Communications”), located near Asheville, North Carolina. SMP Data Communications, previously a wholly owned subsidiary of OCC, was merged with and into OCC on October 31, 2009. The acquisition of SMP Data Communications provided OCC with the capability to design, develop and manufacture a broad range of top-tier copper and fiber optic connectors and connectivity products, which we refer to as our “enterprise connectivity products”. The acquisition of SMP Data Communications was a strategic acquisition for OCC, allowing OCC to provide customers and end-users with a broad range of integrated fiber optic and copper datacom cabling and connectivity solutions.

On October 31, 2009, OCC acquired Applied Optical Systems, Inc. (“AOS”) located near Dallas, Texas. AOS, a wholly owned subsidiary of OCC, designs, develops and manufactures a broad range of specialty fiber optic connectors and connectivity solutions primarily for use in military and other harsh environment applications, which we refer to as our “applied interconnect system products”. The acquisition of AOS was a strategic acquisition for OCC, allowing OCC to enhance the integrated fiber optic and copper datacom cabling and connectivity solutions OCC provides in its targeted markets and to permit OCC to pair AOS’s innovative and unique fiber optic connectivity products with OCC’s fiber optic cabling products for military and other harsh environment applications.

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OCC markets and sells the products manufactured at its facility near Dallas, Texas under the names Optical Cable Corporation and OCC through the efforts of our integrated sales team.

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

### **Acquisition of Applied Optical Systems, Inc.**

On October 31, 2009, we acquired AOS in a series of transactions that resulted in us owning 100% of the equity of AOS. In accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations* ("SFAS 141"), which was not included in the FASB's Codification, but still applicable for us as of October 31, 2009, the purchase price of \$2.6 million has been allocated to the assets and liabilities assumed based on the fair values at the date of acquisition. This allocation, including the impact of the pre-acquisition note of \$4.5 million and accrued interest payable to OCC of \$761,009, resulted in the recognition of \$6.4 million in intangible assets, \$6.2 million of which related to goodwill. The consideration for the transaction includes certain earn out provisions based upon the future performance of the product lines developed by our Dallas team. The agreement provides for a minimum earn out payment of \$750,000 and a maximum of \$14.75 million to be paid in 2017. The present value of the minimum earn out of \$459,000 was included in the \$2.6 million purchase price.

During the first quarter of 2010, we made a purchase accounting adjustment that resulted in a net decrease to goodwill in the amount of \$42,499, with no impact to our condensed consolidated statement of operations. The purchase accounting adjustment was related to a change in the estimated fair value of certain long-lived assets and the related deferred income tax effects. During the second quarter of fiscal year 2010, we recorded a \$6.2 million impairment charge to write-off the carrying value of the goodwill as of April 30, 2010.

### **Summary of Company Performance for Second Quarter 2010**

- Consolidated net sales for each of the second quarters of fiscal years 2010 and 2009 were \$15.3 million. Consolidated net sales for each of the first halves of fiscal years 2010 and 2009 were \$30.3 million.
- Gross profit decreased 25.1% to \$4.3 million for the second quarter of fiscal year 2010 compared to \$5.7 million for the same period last year. Gross profit decreased 6.9% to \$9.8 million for the first half of fiscal year 2010 compared to \$10.5 million for the same period last year.
- We recorded a non-recurring, non-cash impairment charge in the amount of \$6.2 million in the quarter ended April 30, 2010 related to the goodwill associated with the acquisition of AOS on October 31, 2009. This write-off was based on our determination that the goodwill no longer had fair value as of April 30, 2010.
- We reported a net loss attributable to OCC of \$7.5 million, or \$1.27 per share, during the second quarter of fiscal year 2010, compared to net income of \$16,000, or earnings per share of less than \$0.01, for the comparable period last year. We reported a net loss attributable to OCC of \$7.8 million, or \$1.32 per share, during the first half of fiscal year 2010, compared to a net loss of \$726,000, or \$0.12 per share for the comparable period last year. Excluding the non-recurring, non-cash goodwill impairment charge recorded in the second quarter of fiscal year 2010, we would have reported loss before income taxes of \$1.7 million and \$2.3 million during the second quarter of fiscal year 2010 and the first half of fiscal year 2010, respectively.

## Results of Operations

All of our sales to customers located outside of the United States are denominated in U.S. dollars. We can experience fluctuations in the percentage of net sales to customers located outside of the United States from period to period based on the timing of large orders, coupled with the impact of increases and decreases in sales to customers located in the United States.

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

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

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

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

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

*Amortization of intangible assets* consists of the amortization of developed technology acquired in the acquisition of SMP Data Communications on May 30, 2008 and the amortization of intellectual property and customer list acquired in the acquisition of AOS on October 31, 2009. Amortization of intangible assets is calculated using an accelerated method and straight line method over the estimated useful lives of the intangible assets.

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

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

|                                       | Three Months Ended |              |                | Six Months Ended |              |                |
|---------------------------------------|--------------------|--------------|----------------|------------------|--------------|----------------|
|                                       | April 30,          |              | Percent Change | April 30,        |              | Percent Change |
| 2010                                  | 2009               | 2010         |                | 2009             |              |                |
| Net sales                             | \$15,256,000       | \$15,343,000 | (0.6)%         | \$30,263,000     | \$30,301,000 | (0.1)%         |
| Gross profit                          | 4,286,000          | 5,723,000    | (25.1)%        | 9,787,000        | 10,511,000   | (6.9)%         |
| SG&A expenses                         | 6,191,000          | 5,812,000    | 6.5%           | 12,240,000       | 11,622,000   | 5.3%           |
| Impairment of goodwill                | 6,246,000          | —            | 100.0%         | 6,246,000        | —            | 100.0%         |
| Net income (loss) attributable to OCC | (7,466,000)        | 16,000       | 46,830.5%      | (7,782,000)      | (726,000)    | 971.2%         |

### Three Months Ended April 30, 2010 and 2009

#### Net Sales

Consolidated net sales for each of the second quarters of fiscal years 2010 and 2009 were \$15.3 million. Sequentially, consolidated net sales for the second quarter of fiscal year 2010 increased 1.7% compared to consolidated net sales of \$15.0 million during the first quarter of fiscal year 2010.

We experienced an increase in our net sales during the second quarter of fiscal year 2010 in our commercial markets compared to the same period last year. This increase was partially offset by decreases in net sales in our specialty markets. We experienced increases in our net sales during the second quarter of fiscal year 2010 of our enterprise connectivity products, compared to the same period last year. These increases were offset by decreases in net sales of our fiber optic cable products.

Net sales to customers located outside of the United States decreased 23.4% in the second quarter of fiscal year 2010 compared to the same period last year, while net sales to customers located in the United States increased 9.7%.

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. This pattern may be substantially altered by the timing of larger projects or other economic factors impacting our industry or impacting the industries of our customers and end-users. 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 believe our consolidated net sales continue to be negatively impacted by the global economic recession. However, when comparing net sales for the second quarter of fiscal year 2010 to the second quarter of fiscal year 2009 and to the first quarter of fiscal year 2010, the sale of our enterprise connectivity products has improved. We believe that net sales of our product lines tend to be a lagging indicator of economic recovery and downturn when compared to the general economy. Generally, we believe our improvement in the sales of enterprise connectivity products may indicate the beginning of improvement in our markets. We cannot be certain at this time if this improvement is an indication of a trend or predict whether or not or how soon we may see a similar improvement in the sale of our fiber optic cable product line.

#### Gross Profit

Our gross profit decreased 25.1% to \$4.3 million in the second quarter of fiscal year 2010, compared to \$5.7 million in the second quarter of fiscal year 2009. Gross profit margin, or gross profit as a percentage of net sales, decreased to 28.1% in the second quarter of fiscal year 2010 from 37.3% in the second quarter of fiscal year 2009.

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The primary reason for the decrease in gross profit margin is that the gross profit margin associated with the sale of fiber optic cable products decreased to 31.7% for the second quarter of fiscal year 2010 compared to 41.4% for the same period last year due primarily to higher variable production costs associated with mix of products sold during the quarter as well as certain fixed manufacturing costs being spread over lower sales volumes. Further, sales of fiber optic cable products (which historically enjoy relatively higher gross profit margins when compared to our enterprise connectivity products) fell as a percentage of total net sales during the second quarter, negatively impacting total gross profit margin. The decrease in gross profit margin was partially mitigated by improvement in the gross profit margin associated with the sale of our enterprise connectivity products, which was 22.2% during the second quarter of fiscal year 2010 compared to 16.0% during the second quarter of fiscal year 2009. Historically, our enterprise connectivity and applied interconnect system products have lower gross profit margins than our fiber optic cable products. A trend we expect to continue.

We do not believe the lower gross profit margins we experienced for fiber optic cable products during the second quarter of fiscal year 2010 indicate a trend toward lower margins.

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

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

SG&A expenses increased to \$6.2 million in the second quarter of fiscal year 2010 from \$5.8 million for the same period last year. SG&A expenses as a percentage of net sales were 40.6% in the second quarter of 2010 compared to 37.9% in the second quarter of 2009. Excluding the acquisition of AOS, we believe our SG&A expenses would have decreased in the second quarter of fiscal year 2010, when compared to the same period last year, as a result of cost reduction initiatives.

The acquisition of AOS added at least \$848,000 to our consolidated SG&A expenses in our second quarter of fiscal year 2010, including \$270,000 of employee related costs and \$275,000 of legal fees (related to litigation in the patent infringement lawsuit). Despite the addition of these SG&A expenses, continued integration efforts, continued efforts to reduce costs and reductions in our work force completed in fiscal year 2009 partially offset the increase.

### *Royalty Income, Net*

We recognized royalty income, net of related expenses, totaling \$363,000 during the second quarter of fiscal year 2010, compared to royalty income, net of related expenses totaling \$220,000 during the same period last year. The increase is due to the increased sale of licensed product by licensees during the second quarter of fiscal year 2010 compared to the same period last year. This income is largely offset by the expense of the amortization of the intangible assets associated with our royalty income, net (as further described in the *Amortization of Intangible Assets* section described herein), resulting from the required write-up of intangible assets to fair value when acquired as part of the acquisition of SMP Data Communications on May 30, 2008.

### *Amortization of Intangible Assets*

We recognized \$147,000 of amortization expense, associated with intangible assets, for the second quarter of fiscal year 2010, compared to amortization expense of \$209,000 during the second quarter of fiscal year 2009. The decrease in amortization expense, when comparing the two periods, is due to the fact that the trade name and customer list intangible assets, acquired in connection with the acquisition of SMP Data Communications, were written off during the third and fourth quarters, respectively, of fiscal year 2009 when it was concluded that these assets were impaired.

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### *Impairment of Goodwill*

As of April 30, 2010, we performed our annual impairment analysis of goodwill as required by U.S. GAAP. OCC and our industry continue to face challenges given the current worldwide economic recession. We analyzed the carrying value of goodwill and determined that it is appropriate to write-off the carrying value of goodwill on our consolidated balance sheet. As a result, we recorded a non-recurring, non-cash impairment charge in the amount of \$6.2 million to write-off the carrying value of the goodwill as of April 30, 2010.

### *Other Expense, Net*

We recognized other expense, net, in the second quarter of fiscal year 2010 of \$5,000 compared to other expense, net, of \$167,000 in the second quarter of fiscal year 2009. Other expense, net is comprised of interest income, interest expense and other miscellaneous items which may fluctuate from period to period.

### *Loss Before Income Taxes*

We reported a loss before income taxes of \$7.9 million for the second quarter of fiscal year 2010 compared to loss before income taxes of \$244,000 for the second quarter of fiscal year 2009. This increase was primarily due to the loss on the impairment of goodwill of \$6.2 million. Also contributing to the increase in the loss before income taxes was the decrease in gross profit of \$1.4 million in the second quarter of fiscal year 2010 compared to the same period in 2009.

### *Income Tax Benefit*

Income tax benefit totaled \$424,000 for the second quarter of fiscal year 2010 compared to income tax benefit of \$260,000 for the same period in fiscal year 2009. Our effective tax rate for the second quarter of fiscal year 2010 was 5.3% compared to 106.6% in the second quarter of fiscal year 2009. Our effective tax rate for the second quarter of fiscal year 2010 is significantly lower, and our effective tax rate for the second quarter of fiscal year 2009 was significantly higher, than the statutory tax rate as a result of permanent differences in the GAAP and tax accounting treatment of certain expenses relative to our projected income or loss before taxes for the fiscal year. Generally, fluctuations in our effective tax rates are primarily due to permanent differences in GAAP and tax accounting for various tax deductions and benefits, but can also be significantly different from the statutory tax rate when income before taxes is at a level, generally close to breakeven, that permanent differences in GAAP and tax accounting treatment have a disproportional impact on our projected effective tax rate.

As of April 30, 2010, we recorded a non-recurring, non-cash impairment charge in the amount of \$6.2 million to write-off the carrying value of goodwill. Since our tax basis in the goodwill was zero, this resulted in a permanent \$6.2 million difference between book and taxable income and was the primary cause of our significantly lower effective tax rate.

### *Net Income (Loss)*

Net loss attributable to OCC for the second quarter of fiscal year 2010 was \$7.5 million compared to net income of \$16,000 for the second quarter of fiscal year 2009. This change was due primarily to the increase in the loss before income taxes of \$7.7 million in the second quarter of fiscal year 2010 compared with the same period in fiscal year 2009, partially offset by the increase in the tax benefit when comparing the two periods.

## Six Months Ended April 30, 2010 and 2009

### *Net Sales*

Consolidated net sales for each of the first halves of fiscal years 2010 and 2009 were \$30.3 million. We experienced an increase in net sales during the first half of fiscal year 2010 in our commercial markets compared to the same period last year. The increase in net sales in our commercial markets was partially offset by a decrease in net sales in our specialty markets for the first half of fiscal year 2010. We experienced increases in our net sales during the first half of fiscal year 2010 of our enterprise connectivity products, compared to the same period last year. These increases were offset by decreases in net sales of our fiber optic cable products.

Net sales to customers located outside of the United States decreased 7.0% in the first half of fiscal year 2010 compared to the same period last year, while net sales to customers located in the United States increased 2.7%.

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 or other economic factors impacting our industry or impacting the industries of our customer and end-users. 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*

Our gross profit decreased 6.9% to \$9.8 million for the first half of fiscal 2010 from \$10.5 million for the same period in fiscal year 2009. Gross profit margin, or gross profit as a percentage of net sales, decreased to 32.3% for the first half of fiscal year 2010 from 34.7% for the same period last year.

The primary reason for the decrease in the gross profit margin for the first half of fiscal year 2010 is that the gross profit margins associated with the sale of fiber optic cable products decreased to 37.8% during the first half of fiscal year 2010, compared to 39.0% for the same period last year due primarily to higher variable production costs associated with mix or products sold during the first half of the fiscal year as well as certain fixed manufacturing costs being spread over lower sales volumes. Further, sales of fiber optic cable products (which historically enjoy relatively higher gross profit margins when compared to our enterprise connectivity products) fell as a percentage of total net sales during the first half of the fiscal year, negatively impacting total gross profit margin. Our enterprise connectivity and applied interconnect system products, both had gross profit margins of 20.8% during the first half of fiscal year 2010. Historically, our enterprise connectivity and applied interconnect system products have lower gross profit margins than our fiber optic cable products. A trend we expect to continue.

Our gross profit margin percentages are heavily dependent upon product mix on a quarterly basis and may deviate from expectations based on both anticipated and unanticipated changes in product mix.

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

SG&A expenses increased 5.3% to \$12.2 million in the first half of 2010 from \$11.6 million for the same period last year. SG&A expenses as a percentage of net sales were 40.4% for the six months ended April 30, 2010 compared to 38.4% for the same period in 2009. Excluding the acquisition of AOS, we believe our SG&A expenses would have decreased in the first half of fiscal year 2010, when compared to the same period last year, as a result of cost reduction initiatives.

The acquisition of AOS added at least \$1.7 million to our consolidated SG&A expenses in the first half of fiscal year 2010, including \$468,000 of employee related costs and \$589,000 of legal fees (related to litigation in the

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patent infringement lawsuit). Despite the addition of these SG&A expenses, continued integration efforts, continued efforts to reduce costs and reductions in our work force completed in fiscal year 2009 partially offset the increase.

### *Royalty Income, Net*

We recognized royalty income, net of related expenses, totaling \$609,000 during the six months ended April 30, 2010, compared to royalty income, net of related expenses totaling \$383,000 during the same period last year. The increase is due to the increased sale of licensed product by licensees during the first half of fiscal year 2010 compared to the same period last year. This income is largely offset by the expense of the amortization of the intangible assets associated with our royalty income, net (as further described in the *Amortization of Intangible Assets* section described herein), resulting from the required write-up of intangible assets to fair value when acquired as part of the acquisition of SMP Data Communications on May 30, 2008.

### *Amortization of Intangible Assets*

We recognized \$294,000 of amortization expense, associated with intangible assets, during the first half of fiscal year 2010, compared to amortization expense of \$418,000 during the first half of fiscal year 2009. The decrease in amortization expense, when comparing the two periods, is due to the fact that the trade name and customer list intangible assets, acquired in connection with the acquisition of SMP Data Communications, were written off during the third and fourth quarters, respectively, of fiscal year 2009 when it was concluded that these assets were impaired.

### *Impairment of Goodwill*

As of April 30, 2010, we performed our annual impairment analysis of goodwill as required by U.S. GAAP. OCC and our industry continue to face challenges given the current worldwide economic recession. We analyzed the carrying value of goodwill and determined that it is appropriate to write-off the carrying value of goodwill on our consolidated balance sheet. As a result, we recorded a non-recurring, non-cash impairment charge in the amount of \$6.2 million to write-off the carrying value of the goodwill as of April 30, 2010.

### *Other Expense, Net*

We recognized other expense, net, of \$157,000 in the first half of fiscal 2010 compared to other expense, net, of \$309,000 in the first half of 2009. Other expense, net is comprised of interest income, interest expense and other miscellaneous items.

### *Loss Before Income Taxes*

We reported a loss before income taxes of \$8.5 million for the first half of fiscal year 2010 compared to a loss before income taxes of \$1.5 million for the first half of fiscal year 2009. This increase was primarily due to the loss on the impairment of goodwill of \$6.2 million. Also contributing to the increase in the loss before income taxes was the decrease in gross profit of \$724,000 and the increase in SG&A expenses of \$618,000 in the first half of fiscal year 2010 compared to the same period in fiscal year 2009.

### *Income Tax Benefit*

Income tax benefit totaled \$646,000 for the first half of fiscal year 2010 compared to income tax benefit of \$729,000 for the same period in fiscal 2009. Our effective tax rate was 7.6% in the first half of 2010 compared to 50.1% in the first half of 2009. Generally, fluctuations in our effective tax rates are primarily due to permanent differences in 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, generally close to breakeven, that permanent differences in GAAP and tax accounting treatment have a disproportional impact on

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our projected effective tax rate. In the first half of fiscal year 2009, our effective tax rate was higher than the statutory tax rate as a result of permanent differences in the GAAP and tax accounting treatment of certain expenses relative to our projected income before taxes for the fiscal year.

As of April 30, 2010, we recorded a non-recurring, non-cash impairment charge in the amount of \$6.2 million to write-off the carrying value of goodwill. Since our tax basis in the goodwill was zero, this resulted in a permanent \$6.2 million difference between book and taxable income and was the primary cause of our significantly lower effective tax rate.

### *Net Loss*

Net loss attributable to OCC for the first half of 2010 was \$7.8 million compared to a net loss of \$726,000 for the first half of fiscal 2009. This increase was due primarily to the increase in the loss before income taxes of \$7.1 million in the first half of fiscal year 2010 compared to the same period last year and to the decrease in the tax benefit when comparing the two periods.

### **Financial Condition**

Total assets decreased \$6.6 million or 13.0%, to \$43.8 million at April 30, 2010, from \$50.3 million at October 31, 2009. This decrease was primarily due to the \$6.2 million non-recurring, non-cash impairment charge related to goodwill, a \$843,000 decrease in cash and cash equivalents, partially offset by a \$1.0 million increase in inventories. Further detail regarding the decrease in cash and cash equivalents is provided in our discussion of "Liquidity and Capital Resources." The increase in inventories is largely due to the timing of raw material purchases and efforts to decrease lead times by increasing certain standard stock items.

Total liabilities increased \$883,000, or 5.2%, to \$18.0 million at April 30, 2010, from \$17.1 million at October 31, 2009. This increase was primarily due to a \$1.0 million increase in long term debt and note payable to bank under our line of credit and a \$762,000 increase in deferred revenue related to a shipment made during the quarter, for which revenue was not recognized due to the nature of the terms of the sale, partially offset by a \$696,000 decrease in accounts payable and accrued expenses, largely due to the timing of related payments when comparing the two periods.

Total shareholders' equity attributable to OCC at April 30, 2010 decreased \$7.3 million in the first half of fiscal year 2010. The decrease resulted from the net loss attributable to OCC of \$7.8 million, partially offset by share-based compensation totaling \$456,000.

### **Liquidity and Capital Resources**

Our primary capital needs during the first half of fiscal year 2010 have been to fund working capital requirements and capital expenditures. Our primary source of capital for these purposes has been existing cash and cash equivalents and our bank credit facilities. As of April 30, 2010, we had outstanding loan balances under our bank credit facilities totaling \$9.6 million. As of October 31, 2009, we had outstanding loan balances under our bank credit facilities totaling \$8.5 million.

Our cash totaled \$1.1 million as of April 30, 2010, a decrease of \$843,000 compared to \$1.9 million as of October 31, 2009. The decrease in cash for the six months ended April 30, 2010 primarily resulted from net cash used in operating activities of \$1.6 million and capital expenditures totaling \$230,000, partially offset by the net cash provided by financing activities of \$944,000 primarily related to proceeds from a note payable to our bank under our line of credit.

On April 30, 2010, we had working capital of \$20.2 million compared to \$20.1 million on October 31, 2009. The ratio of current assets to current liabilities as of April 30, 2010 and October 31, 2009 was 3.6 to 1.

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### *Net Cash*

Net cash used in operating activities was \$1.6 million in the first half of fiscal year 2010, compared to net cash provided by operating activities of \$423,000 in the first half of fiscal year 2009. Net cash used in operating activities during the first half of fiscal year 2010 primarily resulted from a net loss of \$7.9 million, the increase in inventories of \$1.0 million and the decrease in accounts payable and accrued expenses of \$658,000, partially offset by the increase in deferred revenue of \$762,000. The aforementioned factors contributing to cash used in operating activities were partially offset by certain adjustments to reconcile net loss to net cash used in operating activities, including the loss on the impairment of goodwill of \$6.2 million and depreciation and amortization of \$1.5 million. Net cash provided by operating activities during the first half of fiscal year 2009 primarily resulted from certain adjustments to reconcile net loss to net cash provided by operating activities, including depreciation and amortization of \$1.6 million and share-based compensation expense of \$470,000. Additionally, the decrease in trade accounts receivable in the amount of \$2.4 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 increase in income taxes refundable of \$1.1 million, a decrease in accounts payable and accrued expenses (including accrued compensation and payroll taxes) totaling \$2.9 million and a net loss totaling \$726,000.

Net cash used in investing activities totaled \$230,000 in the first half of fiscal year 2010 compared to \$690,000 in the first half of fiscal year 2009. Net cash used in investing activities during the first half of fiscal year 2010 resulted from purchases of property and equipment. Net cash used in investing activities during the first half of fiscal year 2009 resulted from purchases of property and equipment and an investment in other assets.

Net cash provided by financing activities totaled \$944,000 in the first half of fiscal year 2010, compared to net cash used in financing activities of \$754,000 in the first half of fiscal year 2009. Net cash provided by financing activities in the first half of fiscal year 2010 resulted primarily from proceeds from a note payable to our bank under our line of credit in the amount of \$1.1 million. Net cash used in financing activities during the first half of fiscal year 2009 resulted primarily from the repurchase and retirement of 110,000 shares of our common stock and the reversal of outstanding checks in excess of funds on deposit.

### *Credit Facilities*

On May 30, 2008, we established \$17.0 million in credit facilities (collectively, the "Credit Facilities") with Valley Bank to provide for our working capital needs and to finance the acquisition of Superior Modular Products Incorporated, doing business as SMP Data Communications. The Credit Facilities provided a working capital line of credit (the "Revolving Loan"), a real estate term loan (the "Virginia Real Estate Loan"), a supplemental real estate term loan (the "North Carolina Real Estate Loan"), and a capital acquisitions term loan (the "Capital Acquisitions Term Loan"). The Capital Acquisitions Term Loan was fully funded in fiscal year 2008 and repaid in fiscal year 2009. Therefore, the \$2.3 million portion of the credit facility related to the Capital Acquisitions Term Loan is no longer available.

The Revolving Loan originally provided up to \$6.0 million for our working capital needs and bore interest at LIBOR plus 2.15%, but provided a lower rate option if we maintained specific depository amounts with Valley Bank. The Revolving Loan was modified on February 16, 2010 ("Amended Revolving Loan") and provided up to \$3.0 million for our working capital needs and bore interest at LIBOR plus 2.15%, but at no time was the applicable rate to decrease below 4.5% per annum. We could borrow up to 85% of our consolidated eligible accounts receivable, (excluding foreign accounts receivable), plus 35% of certain consolidated uninsured foreign receivables (or 100% of insured foreign receivables, without duplication) up to a maximum of \$1.5 million plus 25% of our consolidated eligible inventory. The Amended Revolving Loan was due to expire on May 31, 2010.

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On April 30, 2010, we entered into a revolving credit facility with SunTrust Bank consisting of a Commercial Note and Agreement to Commercial Note under which SunTrust Bank will provide us with a revolving line of credit for approximately 2 years for our working capital needs (the "Commercial Loan"). The Commercial Loan provides a \$6.0 million working capital line of credit and replaces our Amended Revolving Loan with Valley Bank. Under the Commercial Loan, we may borrow an aggregate principal amount at any one time outstanding not to exceed the lesser of (i) \$6.0 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. Advances under the Commercial Loan accrue at the greater of (x) LIBOR plus 2.0%, or (y) 3.0%. Accrued interest on the outstanding principal balance is due on the first day of each month beginning June 1, 2010, with all then outstanding principal, interest, fees and costs due at the Commercial Loan Termination Date of May 31, 2012.

As of April 30, 2010, we had \$1.1 million of outstanding borrowings on our Commercial Loan and, as a result, \$4.9 million in available credit.

Additionally, on April 30, 2010, we entered into a Second Loan Modification Agreement with Valley Bank whereby upon satisfaction and termination of the Amended Revolving Loan, Valley Bank consented to the release of certain collateral used to secure the Amended Revolving Loan, including but not limited to our accounts, deposit accounts, inventory and general intangibles and permitted the existence of the Commercial Loan.

The Virginia Real Estate Loan was fully funded on May 30, 2008. The Virginia Real Estate Loan accrues interest at 6% and payments of principal and interest are based on a 25 year amortization. Payments on the Virginia Real Estate Loan will be made in 59 equal installments of principal and interest in the amount of \$42,241 for the period from July 1, 2008 through May 1, 2013. The balance of the Virginia Real Estate Loan will be due June 1, 2013. As of April 30, 2010, we had outstanding borrowings of \$6.3 million under our Virginia Real Estate Loan.

The North Carolina Real Estate Loan was fully funded on May 30, 2008. The North Carolina Real Estate Loan accrues interest at 6% and payments of principal and interest are based on a 25 year amortization. Payments on the North Carolina Real Estate Loan will be made in 59 equal installments of principal and interest in the amount of \$14,557 for the period from July 1, 2008 through May 1, 2013. The balance of the North Carolina Real Estate Loan will be due June 1, 2013. As of April 30, 2010, we had outstanding borrowings of \$2.2 million under our North Carolina Real Estate Loan.

The Commercial Loan is secured by a first priority lien on all of our inventory, accounts, general intangibles, deposit accounts, instruments, investment property, letter of credit rights, commercial tort claims, documents and chattel paper. The Virginia Real Estate Loan and the North Carolina Real Estate Loan are secured by a first priority lien on all of our personal property and assets, except for our inventory, accounts, general intangibles, deposit accounts, instruments, investment property, letter of credit rights, commercial tort claims, documents and chattel paper, as well as a first lien deed of trust on our real property, in both cases including the assets at our Asheville facility.

### *Capital Expenditures*

We did not have any material commitments for capital expenditures as of April 30, 2010. During our 2010 fiscal year budgeting process, we included an estimate for capital expenditures for the fiscal year of \$2.0 million. This budget includes estimates for capital expenditures for new manufacturing equipment, improvements to existing manufacturing equipment, new information technology equipment and software, upgrades to existing information technology equipment and software, furniture and all other capitalizable expenditures for property, plant and equipment. These expenditures will be funded out of our working capital or our credit facilities. Capital

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

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

### *Future Cash Flow Considerations*

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

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

### **Seasonality**

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

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

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of financial condition and results of operations is based on the condensed consolidated financial statements and accompanying condensed notes that have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting information and the instructions to Form 10-Q and Article 10 of Regulation S-X. The preparation of these condensed 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 condensed 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 filed with our Annual Report on Form 10-K for fiscal year 2009 provides a summary of our significant accounting policies. Those significant accounting policies detailed in our fiscal year 2009 Form 10-K did not change during the period from November 1, 2009 through April 30, 2010.

### **Future Accounting Considerations**

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

In December 2007, the FASB issued Accounting Standards Codification 805-10, *Business Combinations* (“ASC 805-10”). ASC 805-10 requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred to as the purchase method). Companies applying this method will have to identify the acquirer, determine the acquisition date and purchase price and recognize at their acquisition-date fair values the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree. In the case of a bargain purchase the acquirer is required to reevaluate the measurements of the recognized assets and liabilities at the acquisition date and recognize a gain on that date if an excess remains. The adoption of ASC 805-10, effective November 1, 2009, did not have any impact on our results of operations, financial position or liquidity.

In December 2007, the FASB issued Accounting Standards Codification 810-10, *Consolidation* (“ASC 810-10”). ASC 810-10 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. In addition, this statement establishes a single method of accounting for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. The adoption of ASC 810-10, effective November 1, 2009, did not have a material impact on our results of operations, financial position or liquidity. However, we have disclosed on the face of the condensed consolidated statement of operations for the three months and six months ended April 30, 2010, the amount of consolidated net loss attributable to the noncontrolling interest associated with Centric Solutions, LLC. Similar disclosure has also been reflected on the face of our condensed consolidated balance sheet as of April 30, 2010, our condensed consolidated statement of shareholders’ equity for the six months ended April 30, 2010 and in certain condensed notes to the condensed consolidated financial statements.

In April 2008, the FASB issued Accounting Standards Codification 350-30, *Determination of the Useful Life of Intangible Assets* (“ASC 350-30”). ASC 350-30 amends the factors that an entity should consider in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. ASC 350-30 requires an entity to consider its own historical experience in renewing or extending the term of the arrangement, consistent with its expected use of the asset. In the absence of historical experience, an entity should consider assumptions that market participants would use about renewal or extension as adjusted for entity-specific factors. The adoption of ASC 350-30, effective November 1, 2009, did not have any impact on our results of operations, financial position or liquidity.

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

**Item 4T. 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.

Our management evaluated, with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) the effectiveness of the Company's disclosure controls and procedures as of April 30, 2010. Based on this evaluation process, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of April 30, 2010 and that there were no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter ended April 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Applied Optical Systems, Inc. (“AOS”), a wholly owned subsidiary of the Company effective October 31, 2009, is the defendant in a patent infringement lawsuit brought by Amphenol Fiber Systems International (“AFSI”). On November 19, 2009, a jury in the U.S. District Court for the Eastern District of Texas unanimously determined that one of the AOS fiber optic connector designs that was the subject of the suit does not infringe on AFSI’s U.S. Patent 6,305,849. In an earlier U.S. District Court ruling, the two other AOS fiber optic connector designs that were at issue in the suit were found not to infringe on the patent as a matter of law.

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

Final judgment has not yet been entered in the case because AOS still has a counterclaim pending asserting that AFSI was guilty of inequitable conduct in obtaining the patent at issue. The Court granted summary judgment in favor of AFSI on a second counterclaim asserted by AOS, alleging that AFSI had violated the U.S. antitrust laws. The inequitable conduct claim was tried to the Court (without a jury) in April 2010 and the post-trial briefing was completed at the end of May 2010. No decision has been issued by the Court as of this date. If AOS is successful on the inequitable conduct counterclaim it could potentially recover some or all of the attorney’s fees and expenses it has incurred.

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

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

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

From time to time, 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.

**PART II. OTHER INFORMATION**

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On October 16, 2009, the Company's Board of Directors approved a plan to purchase and retire up to 325,848 shares of the Company's common stock, or approximately 5% of the shares then outstanding. At the time the plan was approved, the Company anticipated that the purchases would be made over a 12- to 24-month period unless the entire number of shares expected to be purchased under the plan is sooner acquired. For the three month period ended April 30, 2010, the Company did not repurchase and retire any shares of its outstanding common stock. As of April 30, 2010, 6,512,446 shares of the Company's common stock were outstanding.

**PART II. OTHER INFORMATION**

**Item 6. Exhibits**

The exhibits listed on the Exhibit Index are filed as part of, and incorporated by reference into, this report.

**SIGNATURES**

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

**OPTICAL CABLE CORPORATION**  
(Registrant)

Date: June 14, 2010

/s/ Neil D. Wilkin, Jr.

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

Date: June 14, 2010

/s/ Tracy G. Smith

Tracy G. Smith  
Senior Vice President and Chief Financial Officer

**Exhibit Index**

| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
| 2.1                | Agreement and Plan of Merger dated May 30, 2008, by and among Optical Cable Corporation, Aurora Merger Corporation, Preformed Line Products Company and Superior Modular Products Incorporated (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed June 2, 2008).   |
| 3.1                | Articles of Amendment filed November 5, 2001 to the Amended and Restated Articles of Incorporation, as amended through November 5, 2001 (incorporated herein by reference to Exhibit 1 to the Company's Form 8-A filed with the Commission on November 5, 2001).   |
| 3.2                | Bylaws of Optical Cable Corporation, as amended (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2004 (file number 0-27022)).  |
| 4.1                | Form of certificate representing Common Stock (incorporated herein by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2004 (file number 0-27022)).  |
| 4.2                | Rights Agreement dated as of November 2, 2001 (incorporated herein by reference to Exhibit 4 to the Company's Form 8-A filed with the Commission on November 5, 2001).   |
| 4.3                | Form of certificate representing preferred share purchase right (incorporated herein by reference to Exhibit 5 to the Company's Form 8-A filed with the Commission on November 5, 2001).   |
| 4.4                | Credit Agreement dated May 30, 2008 by and between Optical Cable Corporations and Superior Modular Products Incorporated as borrowers and Valley Bank as lender in the amount of \$17,000,000 consisting of a Revolver in the amount of \$6,000,000; Term Loan A in the amount of \$2,240,000; Term Loan B in the amount of \$6,500,000; and a Capital Acquisitions Term Loan in the amount of \$2,260,000 (incorporated herein by reference to Exhibit 4.16 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008). |
| 4.5                | 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).   |
| 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).   |
| 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).   |

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- 4.8 Revolving Loan Note in the amount of \$6,000,000 by Optical Cable Corporation and Superior Modular Products Incorporated dated May 30, 2008 (incorporated herein by reference to Exhibit 4.20 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008).
- 4.9 Term Loan A Note in the amount of \$2,240,000 by Optical Cable Corporation and Superior Modular Products Incorporated dated May 30, 2008 (incorporated herein by reference to Exhibit 4.21 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008).
- 4.10 Term Loan B Note in the amount of \$6,500,000 by Optical Cable Corporation and Superior Modular Products Incorporated dated May 30, 2008 (incorporated herein by reference to Exhibit 4.22 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008).
- 4.11 Capital Acquisitions Term Note in the amount of \$2,260,000 by Optical Cable Corporation and Superior Modular Products Incorporated dated May 30, 2008 (incorporated herein by reference to Exhibit 4.23 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008).
- 4.12 First Loan Modification Agreement dated February 28, 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).
- 4.13 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. FILED HEREWITH.
- 4.14 Addendum A to Commercial Note dated April 30, 2010 by and between Optical Cable Corporation and SunTrust Bank. FILED HEREWITH.
- 4.15 Commercial Note dated April 30, 2010 by and between Optical Cable Corporation and SunTrust Bank in the principal amount of \$6,000,000. FILED HEREWITH.
- 4.16 Security Agreement dated April 30, 2010 by Optical Cable Corporation in favor of SunTrust Bank. FILED HEREWITH.
- 4.17 Agreement to Commercial Note dated April 30, 2010 by and between Optical Cable Corporation and SunTrust Bank. FILED HEREWITH.
- 10.1\* Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective November 1, 2002 (incorporated herein by reference to Exhibit 10.1 to the Company's Amended Quarterly Report on Form 10-Q/A for the quarterly period ended January 31, 2003 (file number 0-27022)).
- 10.2\* Employment Agreement dated December 10, 2004 by and between Optical Cable Corporation and Tracy G. Smith (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 24, 2005 (file number 0-27022)).
- 10.4\* Employment Agreement by and between Superior Modular Products Incorporated and William R. Reynolds effective May 30, 2008 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2008 (file number 0-27022)).

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- 10.5\* Optical Cable Corporation Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the period ended July 31, 1998 (file number 0-27022)).
- 10.6\* Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 28.1 to the Company's Registration Statement on Form S-8 No. 333-09733).
- 10.7\* Optical Cable Corporation Amended 2004 Non-Employee Directors Stock Plan (incorporated herein by reference to Appendix B to the Company's definitive proxy statement on Form 14A filed February 23, 2005).
- 10.8\* Form of December 17, 2004 restricted stock award agreement under the Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed January 24, 2005).
- 10.9\* Form of December 17, 2004 restricted stock award agreement under the Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed January 24, 2005).
- 10.10\* Form of award agreement under the Optical Cable Corporation Amended 2004 Non-Employee Directors Stock Plan (incorporated herein by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K for the period ended October 31, 2004).
- 10.11\* Optical Cable Corporation 2005 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed February 23, 2005).
- 10.12\* Form of time vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
- 10.13\* Form of stock performance vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
- 10.14\* Form of operational performance vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
- 10.15\* Form of operational performance (Company financial performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2007).
- 10.16 Redemption Agreement by and between Optical Cable Corporation and BB&T Investment Services, Inc. dated March 27, 2007 (incorporated herein by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2007).

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- 10.17\* Amendment No. 1 dated December 31, 2008 to Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective November 1, 2002 (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed January 6, 2009).
- 10.18\* Amendment No. 1 dated December 31, 2008 to Employment Agreement by and between Optical Cable Corporation and Tracy G. Smith effective December 10, 2004 (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed January 6, 2009).
- 10.19\* Amendment No. 1 dated December 31, 2008 to Employment Agreement by and between Superior Modular Products Incorporated and William R. Reynolds effective May 30, 2008 (incorporated herein by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed January 6, 2009).
- 10.20\* Form of operational performance (Company financial performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.20 of the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2009).
- 10.21\* Notice of Exercise of Warrant by the Company to purchase 98,741 shares of common stock of Applied Optical Systems, Inc. dated October 30, 2009 (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).
- 10.22\* Stock Purchase Agreement dated October 31, 2009 by and among the Company, as buyer and G. Thomas Hazelton, Jr. and Daniel Roehrs as sellers (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).
- 10.23\* Employment agreement dated October 31, 2009, between Applied Optical Systems, Inc. and G. Thomas Hazelton, Jr. (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).
- 10.24\* Employment agreement dated October 31, 2009, between Applied Optical Systems, Inc. and Daniel Roehrs (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).
- 10.25\* 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 10.21 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009).
- 10.26\* Buy-Sell Agreement dated October 31, 2009, by and between Daniel Roehrs, as guarantor, and the Company (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).

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- 10.27\* Indemnification Agreement dated October 31, 2009, between the Company and Applied Optical Systems, Inc. (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).
- 10.28\* Supplemental Agreement dated October 31, 2009, by and among the Company, as buyer, Applied Optical Systems, Inc., George T. Hazelton Family Trust, G. Thomas Hazelton, Jr., and Daniel Roehrs (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).
- 10.29\* Termination Agreement dated October 31, 2009, by and among Applied Optical Systems, Inc., the Company, as lender, and G. Thomas Hazelton, Jr. and Daniel Roehrs (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).
- 10.30\* Warrant Exercise Agreement between the Company and 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).
- 10.31 Redemption Agreement by and between Optical Cable Corporation and BB&T Capital Markets dated November 17, 2009 (incorporated herein by reference to Exhibit 10.31 of the Company's Quarterly Report on Form 10-Q for the period ended January 31, 2010).
- 11.1 Statement regarding computation of per share earnings (incorporated by reference to note 8 of the Condensed Notes to Condensed Consolidated Financial Statements contained herein).
- 31.1 Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
- 31.2 Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
- 32.1 Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
- 32.2 Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.

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\* Management contract or compensatory plan or agreement.

**SECOND LOAN MODIFICATION AGREEMENT**

THIS SECOND LOAN MODIFICATION AGREEMENT, is made as of the 30th day of April, 2010, by and between OPTICAL CABLE CORPORATION, a Virginia corporation (the "Borrower"), for itself and as successor by merger to Superior Modular Products Incorporated, formerly a Delaware corporation and VALLEY BANK, a Virginia banking corporation, its affiliates and their successors and assigns (the "Bank").

WHEREAS, the Borrower and Superior Modular Products Incorporated and the Bank entered into that certain Credit Agreement dated May 30, 2008, which was amended by that certain First Loan Modification Agreement between the Borrower and the Bank dated as of the 16th day of February, 2010 (the "Credit Agreement"); and

WHEREAS, the Borrower and the Bank desire to modify the terms of the Credit Agreement and the Security Agreement to (i) terminate the Revolving Loan, (ii) reflect the release of the Bank's lien on, and security interest in, certain collateral securing the Loans, (iii) permit debt of the Borrower made available by SunTrust Bank, and (iv) affirm the Loan Documents as modified hereby, as a condition of the Bank entering into this Agreement.

NOW, THEREFORE, in consideration of the mutual promises and conditions contained herein, the parties hereto agree as follows:

1. The foregoing recitals are incorporated in and constitute terms of this Agreement.
2. Capitalized terms contained in this Agreement which are not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement.

3. Upon payment in full and satisfaction of the Revolving Loan, in accordance with that certain Letter of Consent to Release Collateral from the Bank to the Borrower dated even date herewith, the Revolving Loan shall be deemed paid in full, satisfied, and terminated (the "Satisfaction and Termination") and the Bank's lien on, and security interest in, the Borrower's accounts, deposit accounts, inventory, general intangibles, instruments, investment property, letter of credit rights, commercial tort claims, documents, and chattel paper, and with respect to all of the foregoing, without limitation, all goods represented thereby, all accessions thereto, and all goods that may be substituted therefor, reclaimed or repossessed from or returned by account debtors and all proceeds, products, rents and profits thereof, as all such terms are defined in the Uniform Commercial Code in effect in Virginia, shall be deemed released. The Bank hereby consents to and permits the existence of the SunTrust Debt (as defined in the Credit Agreement as modified hereby) and the Borrower's execution of and performance in accordance with all agreements and instruments evidencing and securing the SunTrust Debt, none of which shall constitute a default under the Loan Documents or the Loans.

4. Notwithstanding anything in the Loan Documents to the contrary, the Bank consents to the merger of any wholly owned subsidiary or majority owned subsidiary of the Borrower into the Borrower, provided that the Borrower is the surviving entity.

5. In connection with the Satisfaction and Termination, the Credit Agreement shall be amended as follows:

A. The definitions of "Debt Service Coverage Ratio" and "Minimum Tangible Net Worth" in Section 1.1 are deleted in their entirety.

B. The following new definition of "Released Collateral" is inserted in Section 1.1:

"Released Collateral" means the Borrower's accounts, deposit accounts, inventory, general intangibles, instruments, investment property, letter of credit rights, commercial tort claims, documents, and chattel paper, and with respect to all of the foregoing, without limitation, all goods represented thereby, all accessions thereto, and all goods that may be substituted therefor, reclaimed or repossessed from or returned by account debtors and all proceeds, products, rents and profits thereof, as all such terms are defined in the UCC to secure the SunTrust Debt.

C. The following new definition of SunTrust Debt is inserted in Section 1.1:

"SunTrust Debt" means that certain \$6,000,000 revolving loan made by SunTrust Bank to the Borrower evidenced by that certain commercial note from the Borrower to the Bank dated April 30, 2010, and the related Commercial Security Agreement, Agreement to Note and other related documents.

D. The following new provision (l) is inserted into the definition of Permitted Encumbrances in Section 1.1:

(l) liens on the Borrower's Released Collateral securing the SunTrust Debt.

E. Section 4.1 Description of Collateral is amended and restated as follows:

4.1 Description of Collateral. The Bank shall receive, subject to Permitted Encumbrances, as collateral security for the Loans, the Notes and all other present and future indebtedness of the Borrower owing to the Bank: (a) A perfected first priority lien on and security interest in all of the Borrower's personal property and assets of every kind and description, whether now owned or hereafter acquired, including all furniture, fixtures and equipment, except the Released Collateral; and (b) A first lien deed of trust on the Real Property ((a) and (b) collectively constituting the "Collateral").

F. Section 7.10 is amended and restated as follows:

7.10 Financial Covenants. Have and maintain, on a consolidated basis among the Borrower and each of its subsidiaries, as of the end of each quarter (pursuant to the financial statements provided pursuant to Section 7.1(b)) tested on a rolling four quarter basis commencing with the quarter ending July 31, 2010:

(a) A ratio of Debt to Tangible Net Worth no greater than 1.00 to 1.00. For purposes hereof, "Debt" shall mean consolidated total liabilities and "Tangible Net Worth" shall mean consolidated total assets less consolidated (a) goodwill, (b) other intangible assets, and (c) total liabilities, as defined in accordance with GAAP consistently applied; and

(b) A consolidated Debt Service Coverage Ratio of not less than 1.50 to 1.00. For purposes hereof “Debt Service Coverage Ratio” means Adjusted EBITDA divided by current maturities of long term debt plus consolidated interest expense, defined in accordance with GAAP consistently applied (“Debt Service Coverage Ratio”). “Adjusted EBITDA” means earnings before interest expense, taxes, depreciation and amortization and the following non-cash expenses: (i) any impairment of intangible assets including, without limitation, goodwill and (ii) stock compensation expense, all as presented in the consolidated financial statements. Regarding consolidated interest expense, (x) the amortization of deferred financing costs is included as interest expense in the consolidated statement of operations and is also included as depreciation and amortization in the consolidated statement of cash flows, (y) in the calculation of the numerator, amortization of deferred financing costs should be deducted from the interest expense to avoid duplication, and (z) in the calculation of the denominator, amortization of deferred financing costs should be deducted from interest expense since it is the amortization of a cash payment that occurred in the year the financing was completed and does not represent a periodic interest payment.

G. Section 7.11 Non-Bank Debt is amended and restated as follows:

7.11 Non-Bank Debt. Except as to the SunTrust Debt secured by the Borrower’s Released Collateral, cause all non-Bank indebtedness for borrowed money of the Borrower (other than capitalized lease obligations) to be subordinate to the Loans and the Collateral.

H. Section 7.15 Operating Accounts is deleted in its entirety.

I. The following language is inserted at the end of Section 8.3: “; (f) the SunTrust Debt.”

J. The following new provision (o) is inserted into Section 9.1 Events of Default:

(o) the occurrence of a default under the SunTrust Debt.

6. In connection with the Satisfaction and Termination, the Security Agreement shall be amended as follows:

A. Section 1. Security Interest is amended and restated as follows:

Section 1. Security Interest. Debtor hereby grants to Secured Party a security interest ("Security Interest") in all of Debtor's right, title and interest in and to all of its real and personal property, including all furniture, fixtures and equipment, whether now owned or hereafter acquired, except accounts, deposit accounts, inventory, general intangibles, instruments, investment property, letter of credit rights, commercial tort claims, documents, and chattel paper, and with respect to all of the foregoing, without limitation, all goods represented thereby, all accessions thereto, and all goods that may be substituted therefor, reclaimed or repossessed from or returned by account debtors and all proceeds, products, rents and profits thereof, as all such terms are defined in the UCC ("Collateral").

7. The modifications contained in this Agreement do not constitute or create a novation of any of the Loan Documents or the Loans.

8. Except as expressly modified hereby, all terms and conditions of the Loan Documents remain unchanged, and of full force and effect in accordance with their terms.

9. The Borrower hereby ratifies all of the Loan Documents, as expressly modified hereby, and certifies that they are enforceable in accordance with their terms, without defense or offset.

10. The Borrower represents and warrants to the Bank to induce the Bank to enter into this Agreement, that the execution, delivery and performance of this Agreement has been duly authorized by all requisite action, and that all representations and warranties made by it in the Loan Documents are true, correct and enforceable on and as of the date hereof.

11. The effective date of this Agreement shall be the date first hereinabove written.

12. This Agreement shall be governed by, and construed in accordance with, the laws

of the Commonwealth of Virginia. The parties consent to the jurisdiction and venue of the courts of the Commonwealth of Virginia, specifically to the courts of the City of Roanoke, Virginia, and to the jurisdiction and venue of the United States District Court for the Western District of Virginia in connection with any action, suit or proceeding arising out of or relating to this Agreement.

13. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

14. This Agreement may be signed in several counterparts, each which shall be an original and all of which shall constitute one and the same document.

[signature page follows]

IN WITNESS WHEREOF, the parties have caused this Second Loan Modification Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

BORROWER:

OPTICAL CABLE CORPORATION

By: /s/ Tracy G. Smith

Name: Tracy G. Smith

Title: Senior Vice President and  
Chief Financial Officer

BANK:

VALLEY BANK

By: /s/ Scott L. Leffel

Name: Scott L. Leffel

Title: Vice President



## SECTION 1

**Definitions.** As used in this Addendum, the following terms shall have the meanings set forth below:

“Bank” shall mean SunTrust Bank and its successors and assigns.

“Borrower” shall collectively and individually refer to the maker of the attached note dated April 30, 2010 (“Note”). The terms of this Addendum are hereby incorporated into the Note and in the event of any conflict between the terms of the Note and the terms of this Addendum, the terms of this Addendum shall control.

“Business Day” shall mean, with respect to Interest Periods applicable to the LIBOR Rate, a day on which the Bank is open for business and on which dealings in U.S. dollar deposits are carried on in the London Inter-Bank Market.

“Interest Period” shall mean a period of one (1) month, provided that (i) the initial Interest Period may be less than one month, depending on the initial funding date and (ii) no Interest Period shall extend beyond the maturity date of the Note.

“Interest Rate Determination Date” shall mean the date the Note is initially funded and the first Business Day of each calendar month thereafter.

“LIBOR Rate” shall mean that rate per annum effective on any Interest Rate Determination Date which is equal to the quotient of:

(i) the rate per annum equal to the offered rate for deposits in U.S. dollars for a one (1) month period, which rate appears on that page of Bloomberg reporting service, or such similar service as determined by the Bank, that displays British Bankers’ Association interest settlement rates for deposits in U.S. Dollars, as of 11:00 A.M. (London, England time) two (2) Business Days prior to the Interest Rate Determination Date; provided, that if no such offered rate appears on such page, the rate used for such Interest Period will be the per annum rate of interest determined by the Bank to be the rate at which U.S. dollar deposits for the Interest Period, are offered to the Bank in the London Inter-Bank Market as of 11:00 A.M. (London, England time), on the day which is two (2) Business Days prior to the Interest Rate Determination Date, divided by

(ii) a percentage equal to 1.00 *minus* the maximum reserve percentages (including any emergency, supplemental, special or other marginal reserves) expressed as a decimal (rounded upward to the next 1/100th of 1%) in effect on any day to which the Bank is subject with respect to any LIBOR loan pursuant to regulations issued by the Board of Governors of the Federal Reserve System with respect to eurocurrency funding (currently referred to as “eurocurrency liabilities” under Regulation D). This percentage will be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“Prime Rate” shall mean the publicly announced prime lending rate of the Bank from time to time in effect, which rate may not be the lowest or best lending rate made available by the Bank or, if the Note is governed by Subtitle 10 of Title 12 of the Commercial Law Article of the Annotated Code of Maryland, “Prime Rate” shall mean the Wall Street Journal Prime Rate, which is the Prime Rate published in the “Money Rates” section of the *Wall Street Journal* from time to time.

## SECTION 2

**Interest.** The Borrower shall pay interest upon the unpaid principal balance of the Note at the LIBOR Rate plus the margin provided in the Note. Interest shall be due and payable as provided in the Note and shall be calculated as described in the Note. The interest rate shall remain fixed during each month based upon the interest rate established pursuant to this Addendum on the applicable Interest Rate Determination Date.

## SECTION 3

**Additional Costs.** In the event that any applicable law or regulation or the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law) (i) shall change the basis of taxation of payments to the Bank of any amounts payable by the Borrower hereunder (other than taxes imposed on the overall net income of the Bank) or (ii) shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by the Bank, or (iii) shall impose any other condition with respect to the Note, and the result of any of the foregoing is to increase the cost to the Bank of making or maintaining the Note or to reduce any amount receivable by the Bank hereunder, and the Bank determines that such increased costs or reduction in amount receivable was attributable to the LIBOR Rate basis used to establish the interest rate hereunder, then the Borrower shall from time to time, upon demand by the Bank, pay to the Bank additional amounts sufficient to compensate the Bank for such increased costs (the “Additional Costs”). A detailed statement as to the amount of such Additional Costs, prepared in good faith and submitted to the Borrower by the Bank, shall be conclusive and binding in the absence of manifest error.

**SECTION 4**

**Unavailability Of Dollar Deposits.** If the Bank determines in its sole discretion at any time (the "Determination Date") that it can no longer make, fund or maintain LIBOR based loans for any reason, including without limitation illegality, or the LIBOR Rate cannot be ascertained or does not accurately reflect the Bank's cost of funds, or the Bank would be subject to Additional Costs that cannot be recovered from the Borrower, then the Bank will notify the Borrower and thereafter will have no obligation to make, fund or maintain LIBOR based loans. Upon such Determination Date the Note will be converted to a variable rate loan based upon the Prime Rate. Thereafter the interest rate on the Note shall adjust simultaneously with any fluctuation in the Prime Rate.

**Individual(s) Signature(s):**

\_\_\_\_\_ (Seal)

\_\_\_\_\_ (Seal)

**Non-Individual Signature:**

Optical Cable Corporation  
\_\_\_\_\_

By: /s/ Tracy G. Smith

Tracy G. Smith, CFO, Senior Vice President and Secretary  
\_\_\_\_\_  
Name and title, printed or typed

By: \_\_\_\_\_

\_\_\_\_\_  
Name and title, printed or typed



|                    |   |         |                   |
|--------------------|---|---------|-------------------|
| Borrower           | Optical Cable Corporation, a Virginia corporation | Date    | April 30, 2010    |
| Borrower's Address | 5290 Concourse Drive, Roanoke, Virginia 24019     |         |                   |
| Loan Amount        | Six Million and 00/100                            | Dollars | (\$6,000,000.00 ) |
| Account Number     | _____ Note Number                                 | Officer | _____             |
|                    | One (1)   |         |                   |

**IMPORTANT NOTICE**

For value received, the borrower(s) named above, whether one or more (the "Borrower"), jointly and severally promise to pay to the order of SunTrust Bank, a Georgia banking corporation ("SunTrust") at any of its offices, or at such place as SunTrust may in writing designate, without offset in U.S. Dollars in immediately available funds, the Loan Amount shown above, or the total of all amounts advanced under this commercial note and any modifications, renewals, extensions or replacements thereof (this "Note") if less than the full Loan Amount is advanced, plus interest and any other amounts due, upon the terms specified below.

- | Note Type   | Repayment Terms  |
|---|--|
| <input type="checkbox"/> <b>Demand Note</b>   | <b>This obligation is payable on demand.</b> SunTrust shall have the right to demand payment at any time in its sole and absolute discretion. Principal is payable on demand; accrued interest will be payable on the _____ day of each _____ beginning on _____, _____, and on demand.  |
| <input type="checkbox"/> <b>Time Note</b>   | <input type="checkbox"/> One payment of all principal, interest and any other amounts owed will be due and payable on _____, _____.<br><input type="checkbox"/> Accrued interest will be payable on the _____ day of each _____ beginning on _____, _____. Principal plus any accrued and unpaid interest and any other amounts owed will be due and payable on _____, _____.  |
| <input type="checkbox"/> <b>Fixed Payment Term Note</b>                                       | Fixed payment schedule consisting of _____ consecutive _____ installments of principal and interest of \$ _____ each, payable on the _____ day of each _____, beginning _____, _____, and a final payment equal to the unpaid balance of principal plus accrued and unpaid interest and any other amounts owed due and payable on _____, _____.  |
| <input type="checkbox"/> <b>Variable Payment Term Note</b>                                    | Variable payment schedule consisting of _____ consecutive _____ installments of principal of \$ _____ each, plus accrued interest, payable on the _____ day of each _____, beginning _____, _____, and a final payment of \$ _____ plus accrued and unpaid interest and any other amounts owed due and payable on _____, _____.  |
| <input checked="" type="checkbox"/> <b>Revolving Master Borrowing Note With Maturity Date</b> | <p>This is an open end revolving line of credit. Borrower may borrow an aggregate principal amount up to the Loan Amount outstanding at any one time and may repay principal amounts and reborrow at any time from the date hereof through the Maturity Date.</p> <p>Principal is due and payable in full on the Maturity Date, but the Borrower shall be liable for only so much of the Loan Amount as shall be equal to the total amount advanced to the Borrower by SunTrust from time to time, less all payments made by or for the Borrower and applied by SunTrust to principal. Advances under this Note shall be recorded and maintained by SunTrust in its internal records and such records shall be conclusive of the principal and interest owed by Borrower unless there is a material error in such records. Accrued interest will be payable on the 1st day of each Month beginning on June 1, 2010, with all unpaid accrued interest due and payable on the Maturity Date.</p> <p>"Maturity Date" means May 31, 2012, or such date to which this Note may be extended or renewed in the sole discretion of SunTrust by written notice from SunTrust to Borrower.</p> |

**Revolving Master Borrowing Note Payable On Demand** This is an open end revolving line of credit; Borrower may borrow an aggregate principal amount up to the Loan Amount outstanding at any one time.  
**This obligation is payable on demand**, but the Borrower shall be liable for only so much of the Loan Amount as shall be equal to the total amount advanced to the Borrower by SunTrust from time to time, less all payments made by or for the Borrower and applied by SunTrust to principal, plus interest on each such advance, and any other amounts due. Advances under this Note shall be recorded and maintained by SunTrust in its internal records and such records shall be conclusive of the principal and interest owed by Borrower unless there is a material error in such records. SunTrust shall have no obligation to make advances and all amounts outstanding are due on demand.  
Accrued interest will be payable on the \_\_\_\_\_ day of each \_\_\_\_\_ beginning on \_\_\_\_\_, \_\_\_\_\_, and on demand. This Master Borrowing Note may be terminated without notice to the undersigned by SunTrust.

**Closed End Master Borrowing Note With Maturity Date** This is a closed end transaction; Borrower may borrow up to the Loan Amount but may not reborrow amounts that have been repaid. Principal is due and payable in full on the Maturity Date, but the Borrower shall be liable for only so much of the Loan Amount as shall be equal to the total amount advanced to the Borrower by SunTrust from time to time, less all payments made by or for the Borrower and applied by SunTrust to principal. Advances under this Note shall be recorded and maintained by SunTrust in its internal records and such records shall be conclusive of the principal and interest owed by Borrower unless there is a material error in such records. Accrued interest will be payable on the \_\_\_\_\_ day of each \_\_\_\_\_ beginning on \_\_\_\_\_, \_\_\_\_\_, with all unpaid accrued interest due and payable on the Maturity Date.  
“Maturity Date” means \_\_\_\_\_, \_\_\_\_\_, or such date to which this Note may be extended or renewed in the sole discretion of SunTrust by written notice from SunTrust to Borrower.

**Closed End Master Borrowing Note Payable On Demand** This is a closed end transaction; Borrower may borrow up to the Loan Amount but may not reborrow amounts that have been repaid. **This obligation is payable on demand**, but the Borrower shall be liable for only so much of the Loan Amount as shall be equal to the total amount advanced to the Borrower by SunTrust from time to time, less all payments made by or for the Borrower and applied by SunTrust to principal, plus interest on each such advance, and any other amounts due. Advances under this Note shall be recorded and maintained by SunTrust in its internal records and such records shall be conclusive of the principal and interest owed by Borrower unless there is a material error in such records. SunTrust shall have no obligation to make advances and all amounts outstanding are due on demand.  
Accrued interest will be payable on the \_\_\_\_\_ day of each \_\_\_\_\_ beginning on \_\_\_\_\_, \_\_\_\_\_, and on demand. This Master Borrowing Note may be terminated without notice to the undersigned by SunTrust.

**Irregular Payment Schedule Note**  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Payout Requirement for Revolving Line.** Borrower agrees that for each twelve-month or 364-day period that this Master Revolving line is available, beginning with the date of this Note, Borrower shall maintain a zero balance outstanding on the line for at least one 30 consecutive day period

**Additional Terms And Conditions**

This Note is governed by additional terms and conditions contained in a Agreement to Commercial Note between the Borrower and SunTrust dated April 30, 2010 and any modifications, renewals, extensions or replacements thereof (the “Agreement”), which is incorporated herein by reference. In the event of a conflict between any term or condition contained in this Note and in the Agreement, such term or condition of the Agreement shall control.

**Interest**

Interest will accrue on a actual/360 basis (calculated on the actual number of days elapsed over a year of 360 days)

Interest shall accrue from the date of disbursement on the unpaid balance and shall continue to accrue until this Note is paid in full.

Subject to the above, interest per annum payable on this Note (the “Rate”) shall be:

- Fixed: \_\_\_\_\_ % per annum fixed for the term of the loan.
- Variable: This is a variable rate transaction. The interest rate is prospectively subject to increase or decrease without prior notice and is based on the following Index.
  - SunTrust Prime Rate, the Prime Rate as established from time to time by SunTrust.
  - Wall Street Journal Prime, the Prime Rate published in the Money Rates section of the *Wall Street Journal* from time to time.
  - The LIBOR Rate as defined on the attached Addendum A.
  - \_\_\_\_\_.

Note: The "Prime Rate" is a reference for fixing the lending rate for commercial loans. The Prime Rate is a reference rate only and does not necessarily represent the lowest rate of interest charged for commercial borrowings. If the Index is the SunTrust Prime Rate, the Index is subject to increase or decrease at the sole option of SunTrust.

The Rate shall equal  the Index.  
 the Index plus 2.0 % per annum.  
 \_\_\_\_\_ % of the Index plus \_\_\_\_\_ % per annum.  
 \_\_\_\_\_.

Adjustments to the Rate shall be effective:

as of the date the Index changes.  
 as of the date referenced on the attached Addendum A.  
 \_\_\_\_\_.

The Rate shall not exceed the maximum rate permitted by applicable law and shall never be less than 3.0% per annum.

#### **Renewal**

This Note represents a renewal and amendment of note number \_\_\_\_\_ dated or last renewed or extended as of \_\_\_\_\_, \_\_\_\_\_ executed by Borrower and does not, and is not intended to, constitute a novation of the indebtedness evidenced by such note.

#### **Collateral**

Unless otherwise agreed in writing, any collateral pledged to SunTrust to secure any of the existing or future liabilities of the Borrower to SunTrust shall also secure this Note. To the extent permitted by law, the Borrower grants to SunTrust a security interest in and a lien upon all deposits or investments maintained by the Borrower with SunTrust and any affiliates thereof.

The collateral for this Note includes, but is not limited to, the following:

First priority lien on all Accounts, deposit accounts, Inventory, general intangibles, instruments, investment property, letter of credit rights, commercial tort claims, documents, and chattel paper, and with respect to all of the foregoing, without limitation, all goods represented thereby, all accessions thereto, and all goods that may be substituted therefore, reclaimed or repossessed from or returned by account debtors and all proceeds, products, rents and profits thereof, now owned or hereinafter acquired and proceeds thereof.

All of the foregoing security is referred to collectively as the "Collateral". The Collateral is security for the payment of this Note and any other liability (including overdrafts and future advances) of the Borrower to SunTrust, however evidenced, now existing or hereafter incurred, matured or unmatured, direct or indirect, absolute or contingent, several, joint, or joint and several, including any extensions, modifications or renewals. The proceeds of any Collateral may be applied against the liabilities of the Borrower to SunTrust in such order as SunTrust deems proper.

#### **Loan Purpose And Updated Financial Information Required**

The Borrower warrants and represents that the loan evidenced by this Note is being made solely for the purpose of acquiring or carrying on a business, professional or commercial activity or acquiring real or personal property as an investment (other than a personal investment) or for carrying on an investment activity (other than a personal investment activity). The Borrower agrees to provide to SunTrust updated financial information, including, but not limited to, tax returns, current financial statements in form satisfactory to SunTrust, as well as additional information, reports or schedules (financial or otherwise), all as SunTrust may from time to time request.

#### **Representations and Warranties**

This Note has been duly executed and delivered by Borrower, constitutes Borrower's valid and legally binding obligations and is enforceable in accordance with its terms against Borrower. The execution, delivery and performance of this Note and the consummation of the transaction contemplated will not, with or without the giving of notice or the lapse of time, (a) violate any material law applicable to Borrower, (b) violate any judgment, writ, injunction or order of any court or governmental body or officer applicable to Borrower, (c) violate or result in the breach of any material agreement to which Borrower is a party, nor (d) violate Borrower's charter or bylaws as applicable. No consent, approval, license, permit or other authorization of any third party or any governmental body or officer is required for the valid and lawful execution and delivery of this Note.

#### **Default, Acceleration And Setoff**

This section is not applicable to notes payable on demand.

An "event of default" shall occur hereunder upon the occurrence of any one or more of the following events or conditions:

- a. the failure by any Obligor (as defined below) to pay when due, whether by acceleration or otherwise, any amount owed under this Note;
- b. the occurrence of any event of default under any agreement or loan document executed in conjunction with this Note or the failure of any Obligor to perform any covenant, promise or obligation contained in this Note or any other agreement to which any Obligor and SunTrust are parties, any of which continues for 30 days after Borrower has received written notice thereof;
- c. the breach of any of Obligor's representation or warranties contained in this Note or any other agreement with SunTrust which breach continues for 30 days after Borrower has received written notice thereof;
- d. the failure of any Obligor to pay when due any amount owed to any creditor other than SunTrust under a written agreement calling for the payment of money except for amounts disputed by Obligor in good faith, which failure continues for 30 days

- after Borrower has received written notice thereof from such creditor; provided that, for any such dispute involving an amount greater than \$200,000, Borrower shall provide SunTrust with a copy of such notice and the failure to do so shall constitute a default hereunder;
- e. the death, declaration of incompetency, dissolution, liquidation, termination or suspension of usual business of any Obligor or merger or consolidation having an aggregate consideration of more than \$2,000,000;
  - f. intentionally deleted;
  - g. the insolvency or inability to pay debts as they mature of any Obligor, the application for the appointment of a receiver for any Obligor, the filing of a petition or the commencement of a proceeding by or against any Obligor under any provision of any applicable Bankruptcy Code or other insolvency law or statute, or any assignment for the benefit of creditors by or against any Obligor;
  - h. the entry of a judgment or the issuance or service of any attachment, levy or garnishment against any Obligor or the property of any Obligor or the repossession or seizure of property of any Obligor that is greater than \$200,000;
  - i. a determination by SunTrust that a material adverse change in the financial condition of Borrower has occurred since the date of this Note that, in the sole determination of SunTrust, would likely result in Borrower's failure to satisfy a financial covenant set forth in the Agreement;
  - j. any Obligor commits fraud or makes a material misrepresentation at any time in connection with this Note or any Collateral;
  - k. any deterioration or impairment of the tangible Collateral or Accounts or any decline or depreciation in the value of the tangible Collateral or Accounts which causes a material reduction in the value of tangible Collateral or Accounts in the judgment of SunTrust;
  - l. the sale or transfer by any Obligor of all or substantially all of such Obligor's assets other than in the ordinary course of business;
  - m. the termination of any guaranty of this Note by a guarantor; or
  - n. any other act or circumstance leading SunTrust to deem itself insecure.

SunTrust shall not be obligated to fund this Note or make any advance under this Note if an event of default exists or would exist if such funding occurred or such advance made. Upon the occurrence of an event of default, SunTrust shall, at its option, have the remedies provided herein and by any other agreement between SunTrust and any Obligor or under applicable law, including without limitation, declaring the entire outstanding principal balance, together with all interest thereon and any other amounts due under this Note, to be due and payable immediately without presentment, demand, protest, or notice of any kind, except notice required by law. Upon the occurrence of an event of default under section g above, the entire outstanding principal balance, together with all interest thereon and any other amounts due under this Note, shall automatically become due and payable without presentment, demand, protest, or notice of any kind except notice required by law, and SunTrust's obligation to make advances under this Note shall automatically terminate without notice or further action by SunTrust. Upon the occurrence of an event of default, while such default is continuing, SunTrust shall be entitled to interest on the unpaid balance of this Note at the lesser of (a) the Rate plus 4.00% per annum or (b) the maximum rate allowed by law (the "Default Rate"). To the extent permitted by law, upon default SunTrust will have the right, in addition to all other remedies provided herein, to set off the amount due under this Note or due under any other obligation to SunTrust against any and all accounts, whether checking or savings or otherwise, credits, money, stocks, bonds or other security or property of any nature whatsoever on deposit with, held by, owed by, or in the possession of, SunTrust to the credit of or for the account of any Obligor, without notice to or consent by any Obligor. The remedies provided in this Note and any other agreement between SunTrust and any Obligor and by applicable law are cumulative and not exclusive of any other remedies provided by law.

#### **Setoff and Other Remedies Applicable to Notes Payable on Demand**

To the extent permitted by law, if payment is not made upon demand, SunTrust will have the right, in addition to all other remedies permitted by law, to set off the amount due under this Note or due under any other obligation of Borrower to SunTrust against any and all accounts, whether checking or savings or otherwise, credits, money, stocks, bonds or other security or property of any nature whatsoever on deposit with, held by, owed by, or in the possession of, SunTrust to the credit of or for the account of any Obligor (as defined below), without notice to or consent by any Obligor. If payment is not made upon demand, Borrower shall be deemed to be in default and SunTrust shall be entitled to interest on the unpaid balance of this Note at the lesser of (a) the Rate plus 4.00% per annum or (b) the maximum rate allowed by law (the "Default Rate") from the time of demand until paid in full. The remedies provided in this Note and any other agreement between SunTrust and any Obligor and by applicable law are cumulative and not exclusive of any other remedies provided by law.

#### **Late Charges And Other Authorized Fees And Charges**

As used herein, the term "Obligor" shall individually and collectively refer to the Borrower and any person or entity that is primarily or secondarily liable on this Note and any person or entity that has conveyed or may hereafter convey any security interest or lien to SunTrust in any real or personal property to secure payment of this Note. If any portion of a payment is at least ten (10) days past due, the Borrower agrees to pay a late charge of 5% of the amount which is past due. Unless prohibited by applicable law, the Borrower agrees to pay the fee established by SunTrust from time to time for returned checks if a payment is made on this Note with a check and the check is dishonored for any reason after the second presentment. In addition to any other amounts owed under the terms of this Note, the Borrower agrees to pay those fees and charges disclosed in the attached Disbursements and Charges Summary which is incorporated in this Note by reference and, as permitted by applicable law, the Borrower agrees to pay the following: (a) all reasonable expenses, including, without limitation, any and all costs incurred by SunTrust related to default, all court costs and out-of-pocket collection expenses and reasonable attorneys' fees, whether suit be brought or not, incurred in collecting this Note; (b) all costs incurred in evaluating, preserving or disposing of any Collateral granted as security for the payment of this Note, including the cost of any audits, appraisals, appraisal updates, reappraisals or environmental inspections which SunTrust from time to time in its sole discretion may deem necessary; (c) any premiums for property insurance purchased on behalf of the Borrower or on behalf of the owner(s) of any Collateral pursuant to any security instrument relating to any Collateral; (d) any reasonable expenses or costs incurred in defending any claim arising out of the execution of this Note or the obligation which it evidences, or otherwise involving the employment by SunTrust

of attorneys with respect to this Note and the obligations it evidences; and (e) any other reasonable charges permitted by applicable law. The Borrower agrees to pay such amounts on demand or, at SunTrust's option, such amounts may be added to the unpaid balance of the Note and shall accrue interest at the stated Rate. Upon the occurrence of an event of default, or after demand and failure to pay if this Note is payable on demand, interest shall accrue at the Default Rate.

This Note may be repaid or prepaid in whole or in part without any penalty.

### **Waivers**

The Borrower and each other Obligor waive presentment, demand, protest, notice of protest and notice of dishonor and waive all exemptions, whether homestead or otherwise, as to the obligations evidenced by this Note and waive any discharge or defenses based on suretyship or impairment of Collateral or of recourse. The Borrower and each other Obligor waive any rights to require SunTrust to proceed against any other Obligor or any Collateral before proceeding against the Borrower or any of them, or any other Obligor, and agree that without notice to any Obligor and without affecting any Obligor's liability, SunTrust, at any time or times, may grant extensions of the time for payment or other indulgences to any Obligor or permit the renewal or modification of this Note, or permit the substitution, exchange or release of any Collateral for this Note and may add or release any Obligor primarily or secondarily liable. The Borrower and each other Obligor agree that SunTrust may apply all monies made available to it from any part of the proceeds of the disposition of any Collateral or by exercise of the right of setoff either to the obligations under this Note or to any other obligations of any Obligor to SunTrust, as SunTrust may elect from time to time. The Borrower also waives any rights afforded by Sections 49-25 and 49-26 of the Code of Virginia of 1950 as amended.

### **Waiver of Jury Trial**

**THE BORROWER AND SUNTRUST HEREBY KNOWINGLY, VOLUNTARILY, INTENTIONALLY, AND IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE RIGHT EITHER OF THEM MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION, WHETHER IN CONTRACT OR TORT, AT LAW OR IN EQUITY, BASED HEREON OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS NOTE AND ANY OTHER DOCUMENT OR INSTRUMENT CONTEMPLATED TO BE EXECUTED IN CONJUNCTION WITH THIS NOTE, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY HERETO. THIS PROVISION IS A MATERIAL INDUCEMENT FOR SUNTRUST ENTERING INTO OR ACCEPTING THIS NOTE. FURTHER, THE BORROWER HEREBY CERTIFIES THAT NO REPRESENTATIVE OR AGENT OF SUNTRUST, NOR SUNTRUST'S COUNSEL, HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUNTRUST WOULD NOT, IN THE EVENT OF SUCH LITIGATION, SEEK TO ENFORCE THIS WAIVER OF RIGHT TO JURY TRIAL PROVISION.**

### **Patriot Act Notice**

SunTrust hereby notifies Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 signed into law October 26, 2001), SunTrust may be required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow SunTrust to identify the Borrower in accordance with the Act.

### **Hold Harmless and Indemnification**

Borrower hereby indemnifies and agrees to hold SunTrust and its officers, directors, employees, agents and affiliates harmless from and against all claims, damages, liabilities (including attorneys' fees and legal expenses), causes of action, actions, suits and other legal proceedings (collectively, "Claims") in any matter relating to or arising out of this Note or any loan document executed in connection with this Note, or any act, event or transaction related thereto or to the Collateral. Borrower shall immediately provide SunTrust with written notice of any such Claim. Upon request of SunTrust, Borrower shall defend SunTrust from such Claims, and pay the attorneys' fees, legal expenses and other costs incurred in connection therewith, or in the alternative, SunTrust shall be entitled to employ its own legal counsel to defend such Claims at Borrower's sole expense.

### **Miscellaneous**

All amounts received by SunTrust shall be applied to expenses, late fees and interest before principal or in any other order as determined by SunTrust, in its sole discretion, as permitted by law. Any provision of this Note which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Note. No amendment, modification, termination or waiver of any provision of this Note, nor consent to any departure by the Borrower from any term of this Note, shall in any event be effective unless it is in writing and signed by an authorized officer of SunTrust, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. If the interest Rate is tied to an external index and the index becomes unavailable during the term of this loan, SunTrust may, in its sole and absolute discretion, designate a substitute index with notice to the Borrower. No failure or delay on the part of SunTrust to exercise any right, power or remedy under this Note shall be construed as a waiver of the right to exercise the same or any other right at any time. The captions of the paragraphs of this Note are for convenience only and shall not be deemed to constitute a part hereof or used in construing the intent of the parties. All representations, warranties, covenants and agreements contained herein or made in writing by Borrower in connection herewith shall survive the execution and delivery of this Note and any other agreement, document or writing relating to or arising out of any of the foregoing. All notices or communications given to Borrower pursuant to the terms of this Note shall be in writing and may be given to Borrower at Borrower's address as stated below or at the top of this Note unless Borrower notifies SunTrust in writing of a different address. Unless otherwise specifically provided herein to the contrary, such written notices and communications shall be delivered by hand or overnight courier service, or mailed by first class mail, postage prepaid, addressed to the Borrower at the address referred to herein. Any written notice delivered by hand or by overnight courier service shall be deemed given or received upon receipt. Any written notice delivered by U.S. Mail shall be deemed given or received on the third (3rd) business day after being deposited in the U.S. Mail. Notwithstanding any provision of this Note or any loan document executed in connection with this Note to the contrary, the Borrower and SunTrust intend that no provision of this Note or any loan document executed in connection with this

Note be interpreted, construed, applied, or enforced in a way that will permit or require the payment or collection of interest in excess of the highest rate of interest permitted to be paid or collected by the laws of the jurisdiction indicated below, or federal law if federal law preempts the law of such jurisdiction with respect to this transaction (the "Maximum Permitted Rate"). If, however, any such provision is so interpreted, construed, applied, or enforced, Borrower and SunTrust intend (a) that such provision automatically shall be deemed revised so as to require payment only of interest at the Maximum Permitted Rate; and (b) if interest payments in excess of the Maximum Permitted Rate have been received, that the amount of such excess shall be deemed credited retroactively in reduction of the then-outstanding principal amount of this obligation, together with interest at the Maximum Permitted Rate. In connection with all calculations to determine the Maximum Permitted Rate, the Borrower and SunTrust intend (a) that all charges be excluded to the extent they are properly excludable under the usury laws of such jurisdiction or the United States, as they from time to time are determined to apply to this obligation; and (b) that all charges that may be spread in the manner provided by statute of the jurisdiction indicated or any similar law, be so spread.

**Liability, Successors And Assigns And Choice Of Law**

Each Borrower shall be jointly and severally obligated and liable on this Note. This Note shall apply to and bind each of the Borrower's heirs, personal representatives, successors and permitted assigns and shall inure to the benefit of SunTrust, its successors and assigns. Notwithstanding the foregoing, Borrower shall not assign Borrower's rights or obligations under this Note without SunTrust's prior written consent. This Note shall be governed by applicable federal law and the internal laws of the Commonwealth of Virginia. The Borrower agrees that certain material events and occurrences relating to this Note bear a reasonable relationship to the laws of Virginia and the validity, terms, performance and enforcement of this Note shall be governed by the internal laws of Virginia which are applicable to agreements which are negotiated, executed, delivered and performed solely in Virginia. Unless applicable law provides otherwise, in the event of any legal proceeding arising out of or related to this Note, Borrower and SunTrust consent to the jurisdiction and venue of the courts of the City of Roanoke, Virginia, and to the jurisdiction and venue of the United States District Court for the Western District of Virginia and further waive and agree not to assert that Borrower or SunTrust are not personally subject to the jurisdiction of such courts, that proceeding is brought in an inconvenient forum or that venue is improper.

**Transfer of Loan**

SunTrust may, at any time, sell, transfer or assign the Note, the related security instrument and any related loan documents, and any or all servicing rights with respect thereto, or grant participations therein or issue mortgage pass-through certificates or other securities evidencing a beneficial interest in a rated or unrated public offering or private placement (the "Securities"). SunTrust may forward to each purchaser, transferee, assignee, servicer, participant, or investor in such Securities or any Rating Agency (as hereinafter defined) rating such Securities (collectively, the "Investor") and each prospective Investor, all documents and information which SunTrust now has or may hereafter acquire relating to the Borrower, any loan to Borrower, any guarantor or the property, whether furnished by Borrower, any guarantor or otherwise, as SunTrust determines necessary or desirable. The term "Rating Agency" shall mean each statistical rating agency that has assigned a rating to the Securities.

By signing below, the Borrower agrees to the terms of this Note and the disbursement of proceeds as described in the Disbursements and Charges Summary form provided in connection with this transaction.

Individual Borrower(s)

Non-Individual Borrower(s)

Borrower Signature

Optical Cable Corporation

Borrower

Name, printed or typed

By /s/ Tracy G. Smith

Borrower Signature

Tracy G. Smith, CFO, Senior Vice President & Secretary

Name and title, printed or typed

Name, printed or typed

Borrower

Borrower Signature

By

Name, printed or typed

Name and title, printed or typed

Borrower Signature

Borrower

Name, printed or typed

By

Borrower Signature

Name and title, printed or typed

Name, printed or typed

Borrower's Billing Address, if different from address indicated at the top of this Note:

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**Security Agreement (Commercial)  
Blanket Lien; Accounts and General Intangibles  
Inventory, Accounts and General Intangibles  
Furniture, Fixtures and Equipment**

This Security Agreement dated as of April 30, 2010, by Optical Cable Corporation, a Virginia corporation (the "Owner") in favor of SunTrust Bank, its present and future affiliates and their successors and assigns ("SunTrust") provides:

In order to induce SunTrust from time to time to enter into agreements with and to extend or continue to extend credit to Optical Cable Corporation (and any one or more and any combination if more than one, the "Borrower") and in consideration of any credit so extended, the Owner (which may include the Borrower) hereby grants, sells, assigns, transfers and conveys to SunTrust, a security interest in the Collateral and all proceeds, products, rents and profits thereof and all substitutions and replacements therefore and all revenues from the right to use the Collateral to secure the prompt payment and performance of any and all liabilities, obligations, agreements and undertakings of Borrower to SunTrust (and, in addition, all liabilities, obligations, agreements and undertakings of Owner, or any one or more of them, to SunTrust if Owner and Borrower are not the same person or entity) in any amount, whether now existing or hereafter arising, including those owed by Borrower or Owner to others and acquired by SunTrust through purchase, assignment or otherwise, however created, evidenced or arising, whether individually or jointly with others, and whether absolute or contingent, direct or indirect, as maker, endorser, guarantor, surety or otherwise, liquidated or unliquidated, matured or unmatured, whether or not secured by other collateral, and including, without limitation, (a) all obligations to perform or forbear from performing any acts, (b) all overdrafts on deposits or accounts maintained by Borrower or Owner with SunTrust, (c) all liabilities, obligations, agreements and undertakings of Borrower or Owner to SunTrust pursuant to any interest rate hedge agreement or other derivative transaction agreement or any foreign exchange contract or any application or other agreement requesting SunTrust to issue any letter of credit including, without limitation, the obligation of Borrower or Owner to reimburse SunTrust for all amounts funded by SunTrust pursuant to any such letter of credit and (d) all costs of collection and protection of SunTrust's rights, including reasonable attorneys' fees allowed by law (in the amount of 15% of the principal and interest secured hereby if this agreement is governed by the laws of Georgia), whether such collection or protection occurs prior to, during, or after any bankruptcy proceedings filed by or against any Obligor (as such term is defined below) (all the foregoing being hereinafter collectively referred to as the "Obligations").

**Collateral.** As used in this Security Agreement, the term "Collateral" shall mean the following, whether now existing or hereafter acquired:

Check all that are applicable **(IF THE COLLATERAL IS NOT SPECIFICALLY DESIGNATED BY A CHECK MARK, THE OWNER GRANTS SUNTRUST A BLANKET SECURITY INTEREST):**

- Blanket Security Interest Covering All Assets      **All assets** of Owner, as more particularly described herein, and including but not limited to, all Accounts, Inventory, furniture, fixtures and Equipment, goods, deposit accounts, instruments, documents, commercial tort claims, letter of credit rights, investment property, chattel paper and General Intangibles (as all such terms are used herein and in the Uniform Commercial Code).
- All or a portion of the Collateral will be attached as a fixture to real property located at: \_\_\_\_\_  
and such real property is owned by \_\_\_\_\_
- Accounts and General Intangibles      All of the Owner's Accounts, chattel paper, documents, instruments and money, returned and unearned insurance premiums, tax refunds, contract rights, returned goods, reclaimed and repossessed goods deposit accounts and all General Intangibles (as all such terms are used herein and in the Uniform Commercial Code).
- Inventory, Accounts and General Intangibles      All of the Owner's Accounts, deposit accounts, Inventory, general intangibles, instruments, investment property, letter of credit rights, commercial tort claims, documents, and chattel paper, and with respect to all of the foregoing, without limitation, all goods represented thereby, all accessions thereto, and all goods that may be substituted therefore, reclaimed or repossessed from or returned by account debtors and all proceeds, products, rents and profits thereof (as all such terms are used herein and in the Uniform Commercial Code).
- Furniture, Fixtures and Equipment      All of the Owner's furniture, fixtures and Equipment, and leasehold improvements, and including but not limited to, all leases, rental agreements, chattel paper, rental payments and insurance proceeds together with all accessories, accessions, attachments, parts, replacements, substitutions, improvements, repairs installed in or affixed thereto (as all such terms are used herein and in the Uniform Commercial Code).
- All or a portion of the Collateral will be attached as a fixture to real property located at: \_\_\_\_\_  
and such real property is owned by \_\_\_\_\_

**Representations and Warranties.** The Owner represents and warrants to SunTrust as follows:

- a. This Security Agreement has been duly executed and delivered by Owner, constitutes Owner's valid and legally binding obligation and is enforceable in accordance with its terms against Owner. Owner represents and warrants to SunTrust that it

has rights in all of the Collateral and/or has the power to transfer rights in all of the Collateral. The execution, delivery and performance of this Security Agreement, the grant of the security interest in the Collateral and the consummation of the transactions contemplated will not, with or without the giving or notice of the lapse of time, (a) violate any material law applicable to Owner, (b) violate any judgment, writ, injunction or order of any court or governmental body or officer applicable to Owner, (c) violate or result in the breach of any material agreement to which Owner is a party or by which any of Owner's property, including the Collateral, is bound or (d) violate any restriction on the transfer of any of the Collateral. The Owner is and will continue to be the absolute owner of the Collateral and there are no other liens or security interests affecting the Collateral other than the security interest granted in this Security Agreement except those previously disclosed to SunTrust in writing by the Owner and those set forth on Schedule A; If the Owner is acting in the capacity of trustee, administrator or executor of an estate, such fact shall be disclosed and satisfactory evidence of capacity and authorization shall be provided to SunTrust;

b. Check and complete the section which applies.

The Owner is an individual above the age of majority and has the legal capacity to enter into this Security Agreement and the Owner's principal residence is located in the state of \_\_\_\_\_ ;

The Owner is a corporation duly organized and existing under the laws of the state of Virginia ; and the Owner's Organizational Identification Number is 0242955-3. The Owner is duly qualified and in good standing as a foreign corporation in every jurisdiction where such qualification is necessary; the execution and performance of this Security Agreement have been duly authorized by action of its Board of Directors, no action of its shareholders being necessary; the execution and performance of this Security Agreement will not violate or contravene any provisions of law or regulation or its Articles of Incorporation, Shareholder Agreement, By-Laws or other agreements to which it is a party or by which it is bound; and no consent or approval of any governmental agency or authority is required in making or performing the obligations under this Security Agreement;

The Owner is a registered partnership, limited liability company or other registered entity organized under the laws of the state of \_\_\_\_\_ and the Owner's Organizational Identification Number is \_\_\_\_\_. The Owner is duly qualified and in good standing to do business in every jurisdiction where qualification is necessary; the execution and performance of this Security Agreement have been duly authorized by its partners/ members/managers as applicable and no further action of any party is necessary; the execution and performance of this Security Agreement will not violate or contravene any provisions of law or regulation or any partnership agreement, articles of organization, operating agreement or other agreement to which it is a party or by which it is bound; and no consent or approval of any governmental agency or authority is required in making or performing the obligations under this Security Agreement;

The Owner is an entity which is not registered; the execution and performance of this Security Agreement have been duly authorized by all necessary party(ies) and no further action of any party is necessary; the execution and performance of this Security Agreement will not violate or contravene any provisions of law or regulation or agreement to which Owner is a party or by which it is bound; and no consent or approval of any governmental agency or authority is required in making or performing the obligations under this Security Agreement; the Owner's place of business (if only one place of business) or chief executive office (if more than one place of business) is located in the state of \_\_\_\_\_ ;

c. Primary Collateral location will be 5290 Concourse Drive, Roanoke, Virginia 24019; 1700 Capital Avenue, Suite 150, Plano, Texas 75074 and/or 33 Superior Way, Swannanoa, North Carolina 28778. The Owner will maintain the Collateral in the above location(s). The Collateral shall not be moved from the above location(s) without the prior written consent of SunTrust except in the ordinary course of business or in connection with consignment sales;

d. The Owner maintains its books and records at 5290 Concourse Drive, Roanoke, Virginia 24019; 1700 Capital Avenue, Suite 150, Plano, Texas 75074 and/or 33 Superior Way, Swannanoa, North Carolina 28778.

e. All information supplied and statements made to SunTrust in any financial statement are true, correct, complete, valid and genuine in all material respects;

f.  (Check, if applicable) The Owner further represents that the Collateral is being acquired with funds simultaneously advanced to the Borrower by SunTrust, and such funds will be used for no other purpose;

g. No part of the Collateral has been, and never will be so long as this Security Agreement remains a lien on the Collateral, used for the generation, collection, manufacture, storage, treatment, disposal, release or threatened release of any hazardous substance, as those terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C., Section 9601, et seq. ("CERCLA"), Superfund Amendments and Reauthorization Act ("SARA"), applicable state laws, or regulations adopted pursuant to either of the foregoing. The Owner agrees to comply with any federal, state or local law, statute, ordinance or regulation, court or administrative order or decree or private agreement regarding materials which require special handling in collection, storage, treatment or disposal because of their impact on the environment ("Environmental Requirements"). The Owner agrees to indemnify and hold SunTrust harmless against any and all claims, losses and expenses resulting from a breach of this provision of this Security Agreement and the Owner will pay or reimburse SunTrust for all costs and expense for expert opinions or investigations required or requested by SunTrust which, in SunTrust's sole discretion, are necessary to ensure compliance with this provision of this Security Agreement. The obligation to indemnify shall survive the payment of the Obligations and the satisfaction of this Security Agreement; and

- h. All Collateral has been produced in compliance with the Fair Labor Standards Act or other applicable wage and employee law, rule, regulation or order, and that no existing or future liability shall occur as a result thereof. The Owner may contest, in good faith, the applicability of any such law, rule, regulation or order, including prosecuting any appeals, so long as SunTrust's interest in the Collateral, in the opinion of SunTrust, is not jeopardized as a result.

**Choice of Law.** Owner agrees that certain material events and occurrences relating to this Security Agreement bear a reasonable relationship to the laws of **Virginia**. This Security Agreement shall be governed by the laws of such jurisdiction and, unless applicable law provides otherwise, in the event of any legal proceeding arising out of or related to this Security Agreement, Owner and SunTrust consent to the jurisdiction and venue of the courts of the City of Roanoke, Virginia, and to the jurisdiction and venue of the United States District Court for the Western District of Virginia and further waive and agree not to assert that Owner or SunTrust are not personally subject to the jurisdiction of such courts, that proceeding is brought in an inconvenient forum or that venue is improper. Unless otherwise specified, "Uniform Commercial Code" as used herein shall refer to the Uniform Commercial Code of such jurisdiction, both current and as it may be amended or revised from time to time in the future.

**Covenants.**

- a. The Owner shall furnish to SunTrust such financial and business information and reports in form and content satisfactory to SunTrust as and when SunTrust may from time to time require.
- b. The Owner, if a corporation, shall maintain its corporate existence, and if another entity shall maintain such entity standing, in each case in good standing and shall not consolidate or merge with or acquire the stock or other ownership interest of any other corporation or entity without the prior written consent of SunTrust; provided, however, that mergers, consolidations and acquisitions having consideration of less than \$2,000,000 shall not require the consent of SunTrust; the Owner shall, at the request of SunTrust, qualify as a foreign corporation or other applicable entity and obtain all requisite licenses and permits in each jurisdiction where the Owner does business.
- c. The Owner shall notify SunTrust in writing at least 30 days prior to any change of its name or material change to its structure or change in its state of residence, jurisdiction of registration or organization, principal place of business or chief executive office.
- d. The following shall apply if the Collateral consists of tangible personal property: The Owner shall maintain all of the Collateral in good condition and repair. SunTrust shall have the right to inspect the Collateral at any reasonable time and shall have the right to obtain such appraisals, reappraisals, appraisal updates or environmental inspections as SunTrust, in its sole discretion, may deem necessary from time to time. Owner will not use or permit any person or entity to use the Collateral (i) in any manner inconsistent with the provisions of this Security Agreement; or (ii) in violation of any policy of insurance issued with respect to the Collateral; or (iii) in violation of any local, state or federal law or regulation, including but not limited to any such law or regulation pertaining to the protection of the environment or the protection of the health or safety of persons or animals, and any such law or regulation pertaining to the control of drugs, narcotics or other controlled substances. If the Collateral has been used or is hereafter used in violation of the covenants and agreements contained herein, Owner shall indemnify SunTrust and hold SunTrust harmless against all claims, actions, causes of action, costs, expenses, fees and penalties in connection with such use. Without the express prior written consent of SunTrust, Owner shall not cause or permit all or any part of the Collateral to be affixed to real property so as to become a fixture as that term is defined or interpreted in the state in which the Collateral is at any time located.
- e. Except for items set forth on Schedule A, the Owner will not pledge or grant any security interest in any of the Collateral to any person or entity except SunTrust, or permit any lien or encumbrance to attach to any of the Collateral, or any levy to be made on the Collateral, or any financing statement (except financing statements in favor of SunTrust) to be on file against the Collateral.
- f. Upon and during the continuance of an Event of Default, Owner hereby constitutes and appoints any officer or employee of SunTrust as its true and lawful attorney-in-fact (i) to transfer the Collateral into SunTrust's name or the name of its nominee, but SunTrust's failure to do so shall not be interpreted to be a waiver of any interest, and (ii) to do and perform all other acts and things necessary, proper and requisite to carry out the intent of this Security Agreement. The power herein granted shall be deemed to be coupled with an interest and may not be revoked until the Obligations have been paid in full, including all expenses payable by Owner and no amounts may be re-borrowed.
- g. The Owner agrees to pay on demand all legal expenses and reasonable attorneys' fees (in the amount of 15% of the principal and interest secured hereby if this agreement is governed by the laws of Georgia), as permitted by applicable law, any appraisal fees and all expenses incurred or paid by SunTrust in protecting and enforcing the rights of SunTrust under this Security Agreement, including SunTrust's right to take possession of the Collateral and its proceeds, and to hold, prepare for sale, sell and dispose of the Collateral.
- h. This Security Agreement shall be a continuing agreement and shall remain in full force and effect irrespective of any interruptions in the business relations of the Borrower with SunTrust and shall apply to any ultimate balance which shall remain due by the Borrower to SunTrust; provided, however, that the Owner may by written notice terminate this Security Agreement with respect to all Obligations of the Borrower incurred or contracted by the Borrower or acquired by SunTrust after the date on which such notice is personally delivered to or mailed via registered mail to the SunTrust address set forth below and accepted by SunTrust.
- i. The Owner will defend the Collateral against the claims and demands of all parties. The Owner will not, without prior written consent of SunTrust, grant any security interest in the Collateral and will keep it free from any lien, encumbrance or security interest except for items set forth on Schedule A;

**Blanket Security Interest.** If the Collateral is identified a Blanket Security Interest, Owner acknowledges and agrees that this Security Agreement and any financing statement filed in connection with this Security Agreement is intended to cover and does cover all assets of the Owner, wherever located, whether now owned or subsequently acquired or arising and all proceeds and products thereof and includes, but is not limited to all of the Owner's:

- a. Accounts, insurance refund claims and all other insurance claims and proceeds, tax refund claims, license fees, rents, contract rights, instruments, certificates of deposit, documents, tangible chattel paper, electronic chattel paper, promissory notes, drafts, acceptances and other forms of obligations and receivables, whether or not earned by performance;

- b. Inventory;
- c. Equipment;
- d. General Intangibles;
- e. Commercial tort claims, letter of credit rights, awards and other payments in respect of any taking and all insurance proceeds in respect of any of the foregoing, and all monies and claims for money due and to become due to Owner under all its Accounts, contract rights, leases and General Intangibles, all investment property and financial assets, all as said terms are defined in the Uniform Commercial Code.

**Accounts.** If the Collateral includes Accounts, the following shall apply.

- a. The Owner warrants that each and every Account, now owned or hereafter acquired, is a bona fide existing obligation, valid and enforceable against the account debtor, for goods sold or leased and delivered or services rendered in the ordinary course of business; it is subject to no dispute, defense or offset greater than \$200,000 other than those disclosed to SunTrust; the Owner has good title to the Account and has full right and power to grant SunTrust a security interest in the Accounts and the Owner will immediately notify SunTrust of any Account to which these warranties are or become untrue; the Owner agrees that it will not permit any return of merchandise, the sale of which gave rise to any of the Accounts, except in the usual and regular course of business;
- b. The Owner shall maintain complete and accurate books and records, and its principal books and records, including all records concerning Accounts, shall be kept and maintained at the place(s) specified above. The Owner shall not move such books and records without giving SunTrust at least 30 days prior written notice. All accounting records and financial reports furnished to SunTrust shall be maintained and prepared in accordance with generally accepted accounting principles consistently applied. It is specifically agreed that SunTrust shall have and the Owner hereby grants to SunTrust a security interest in all books and records of the Owner and shall have access to them at any time for inspection, verification, examination and audit;
- c. The Owner will prepare and deliver to SunTrust, at SunTrust's request from time to time, a listing and aging of all Accounts and any further schedules or information with respect to Accounts that SunTrust may require;
- d. SunTrust shall have the right at any time during the continuance of an Event of Default, to notify account debtors of its security interest in the Accounts and supporting obligations and require payments to be made directly to SunTrust. During the continuance of an Event of Default, the Owner hereby appoints SunTrust and any officer or employee of SunTrust, as SunTrust may from time to time designate, as its attorneys-in-fact for the Owner, to sign and endorse in the name of the Owner, to give notice in the name of the Owner, and to perform all other actions necessary or desirable in the reasonable discretion of SunTrust to effect these provisions and carry out the intent hereof, all at the cost and expense of the Owner. The Owner hereby ratifies and approves all acts of such attorneys-in-fact and neither SunTrust nor any other such attorneys-in-fact will be liable for any acts of commission or omission nor for any error of judgment. This power being coupled with an interest is irrevocable so long as any Account or General Intangible pledged to SunTrust remains unpaid and the Borrower has any unpaid Obligations to SunTrust. The costs of such collection and enforcement, including reasonable attorneys' fees and out-of-pocket expenses, shall be borne solely by the Owner whether the same are incurred by SunTrust or the Owner;
- e. During the continuance of an Event of Default, at the option of SunTrust, all payments on the Accounts received by the Owner shall be remitted to SunTrust in their original form on the day of receipt; all notes, checks, drafts and other instruments so received shall be duly endorsed to the order of SunTrust. During the continuance of an Event of Default, at SunTrust's election, the payments shall be deposited into a special deposit account ("Special Account") maintained with SunTrust. SunTrust may designate with each such deposit the particular Account upon which payment was made. The Special Account shall be held by SunTrust as additional security for the Obligations. Prior to depositing payments on the Accounts into the Special Account, the Owner agrees that it will not commingle such payments with any of the Owner's funds or property, but will hold them separate and apart and in trust for SunTrust. SunTrust will have the power to withdraw funds from the Special Account. SunTrust may at any time and from time to time, in its sole discretion, apply any part of the funds in the Special Account to the Obligations whether or not the same is due. Upon full and final satisfaction of the Obligations (including without limitation all fees and expenses owing to SunTrust or its attorneys), plus termination of any commitment to extend additional funds, SunTrust will pay to the Owner any excess funds, whether received by SunTrust as a deposit in the Special Account or as a direct payment on any of the Accounts;
- f. If any of the Owner's Accounts arise out of contracts with the United States or any department, agency, or instrumentality thereof, the Owner will immediately notify SunTrust in writing and execute any instruments and take any steps required by SunTrust in order that all moneys due and to become due under such contracts shall be assigned to SunTrust and in order that proper notice be given under the Federal Assignment of Claims Act;
- g. SunTrust shall not be liable and shall suffer no loss on account of loss or depreciation of any Account due to acts or omissions of SunTrust unless SunTrust's conduct is willful and malicious, and SunTrust shall have no duty to take any action to preserve the Collateral or collect Accounts;
- h. Upon request by SunTrust, the Owner will note on its records concerning the Accounts, a notation of the security interest under this Security Agreement, which notation must be satisfactory to SunTrust in both form and content;
- i. During the continuance of an Event of Default, SunTrust may enforce collection of any Account and supporting obligation by suit or otherwise and may surrender, release or exchange all or any part thereof, or compromise, extend or renew the same for any period. All monies so received by SunTrust may in SunTrust's sole discretion, be either (i) applied by SunTrust directly toward payment of all or any part of the Obligations, whether or not then due, in such order of application as SunTrust may determine; or (ii) deposited to the credit of Borrower or in an account with SunTrust as security for payment of the Obligations and SunTrust may, from time to time, in its sole discretion, permit Borrower to use all or any part of the funds on deposit in

said account in the normal course of business. Owner will promptly reimburse SunTrust for all expenses, including reasonable attorneys' fees and legal expenses, incurred by SunTrust in seeking to collect on or enforce collection of such amounts; and

- j. During the continuance of an Event of Default, Owner will forthwith, upon receipt, transmit and deliver to SunTrust, in the form received, all cash, checks, drafts, items, chattel paper and other instruments or writing for the payment of money (properly endorsed, where required, so that such items may be collected by SunTrust) which may be received by Owner at any time in full or partial payment or otherwise as proceeds of any of the Accounts. After such notice from SunTrust, Owner will not commingle any such proceeds with any other of its funds or property, but will hold them separate and apart from Owner's own funds or property and in express trust for SunTrust until delivery is made to SunTrust, and
- k. During the continuance of an Event of Default, to protect SunTrust's rights hereunder, Owner hereby constitutes any officer or employee of SunTrust its true and lawful attorney-in-fact with full power of substitution to endorse or sign the name of Owner upon any invoice, freight or express bill, or bill of lading relating to any Account covered hereby and to notify the post office authorities to change the address for delivery of Owner's mail relating to the Accounts to an address designated by SunTrust and to receive, open, and dispose of all mail relating to the Accounts addressed to Owner and to do and perform all other acts and things necessary, proper and requisite to carry out the intent of this Security Agreement. This power shall be deemed to be coupled with an interest and may not be revoked by Owner until the Obligations have been paid in full.

**Inventory.** If the Collateral includes Inventory, the following shall apply:

- a. The Owner agrees to maintain books and records pertaining to the Inventory in such detail, form and scope as SunTrust shall require. The Owner shall promptly advise SunTrust of any substantial changes relating to the type, or quantity of the Inventory or any event which would have a material effect on the value of the Inventory or on the security interest granted to SunTrust.
- b. If the Inventory remains in the possession or control of any of the Owner's agents or processors, the Owner shall notify such agents or processors of SunTrust's security interest, and, during the continuance of an Event of Default, shall instruct them to hold such Inventory for SunTrust's account and subject to SunTrust's instruction.
- c. The Owner will prepare and deliver to SunTrust, at SunTrust's request from time to time, a listing of all Inventory and such information regarding the Inventory as SunTrust may require.
- d. During the continuance of an Event of Default, SunTrust may require the Owner to assemble the Inventory and make it available to SunTrust at a place to be designated by SunTrust which is reasonably convenient. During the continuance of an Event of Default, SunTrust may take possession of the Inventory without a court order.
- e. Except during the continuance of an Event of Default hereunder, Owner may, unless otherwise provided in this Security Agreement, in the ordinary course of business, at its own expense, sell, lease or furnish under contract of service any of the Inventory normally held by Owner for such purpose.

**Insurance, Taxes and Assessments.** The Owner shall at all times keep insurable Collateral insured against any and all risks, including, without limitation, fire, and such other insurance, including but not limited to flood insurance, as may be required by SunTrust from time to time, and in such amounts as may be satisfactory to SunTrust. Insurance may be purchased from an insurer of the Owner's choice, except as otherwise required by law. All such insurance policies are to be made payable to SunTrust, in the event of loss, under a standard non-contributory "mortgagees", "lenders", or "secured party" clause and shall contain a breach of warranty provision acceptable to SunTrust which shall establish SunTrust's right to be paid the insurance proceeds irrespective of any action, inaction, breach of warranty or conditions, or negligence of Owner or any other person or entity with respect to such policies. All such insurance policies shall provide for a minimum of thirty days written notice to SunTrust prior to cancellation. During the continuance of an Event of Default, Owner appoints SunTrust attorney-in-fact to file claims under any insurance policies, to receive, receipt and give acquittance for any payments that may be payable to Owner hereunder, and to execute any and all endorsements, receipts, releases, assignments, reassignments, or other documents that may be necessary to effect the collection, compromise or settlement of any claims under any such insurance policies, which power of attorney shall be deemed coupled with an interest and irrevocable so long as SunTrust has a security interest in any of the Collateral. Owner shall provide proof of such insurance as requested by SunTrust. The Owner shall pay and discharge all taxes, assessments and charges of every kind prior to the date when such taxes, assessments or charges shall become delinquent and provide proof of such payments to SunTrust, upon request. However, nothing contained in this Security Agreement shall require the Owner to pay any such taxes, assessments and charges so long as it shall contest its validity in good faith and shall post any bond or security required by SunTrust against the payment. Upon the failure of the Owner to purchase required insurance or to pay such required amounts, SunTrust, at its option, and at the Owner's expense, may obtain such insurance or pay such taxes, assessments, and charges. In addition, SunTrust may from time to time, in its sole discretion, perform any undertakings of the Owner which the Owner shall fail to perform and take any other action which SunTrust deems necessary for the maintenance or preservation of any of the Collateral. Any amounts so paid shall be included in the Obligations secured by the Collateral. At SunTrust's request, the Owner agrees to promptly reimburse SunTrust on demand for all such expenses incurred by SunTrust, together with interest thereon from the date paid by SunTrust at the highest rate payable on the Obligations. Any insurance obtained by SunTrust, at its option, may be single or dual interest, protecting its rights, rights of the Owner or joint rights. Any insurance obtained by SunTrust may provide, at its option, that such insurance will pay the lesser of the unpaid balance of the Obligations or the repair or replacement value of the Collateral. SunTrust may use the proceeds of any insurance obtained by Owner or by SunTrust to repair or replace the Collateral or, if SunTrust elects to do so, to repay part or all of the Obligations, whether or not then due, and in such order as SunTrust may determine, and the Borrower will still be responsible to repay any remaining unpaid balance of the Obligations. The whole or partial loss or destruction of all or any part of the Collateral shall not affect or impair the obligation of any person or entity liable under the Obligations.

**Deposit Accounts.** If the Collateral includes deposit accounts, the Collateral shall include all demand, time, savings, passbook and other deposit accounts of the Owner with all banks, credit unions, savings and loan associations and other financial institutions which are now owned or hereafter acquired by the Owner or in which the Owner now has or hereafter acquires any right, title or interest, together with all proceeds of the deposit accounts.

**Additional Covenants and Agreements if Borrower is Different than Owner.** If Borrower is different than Owner, then so long as any of the Obligations remain outstanding or so long as this Security Agreement shall remain in effect Owner covenants and agrees as follows: (a) Owner hereby expressly consents to and adopts any agreements which Borrower has entered into or will enter into with SunTrust regarding any of the Obligations or the Collateral; (b) Owner hereby agrees that the Collateral shall be subject to disposition in accordance with the terms and conditions of this Security Agreement and any agreements executed by Borrower in connection with any of the Obligations or the Collateral; (c) Owner will not be subrogated to SunTrust's rights to any other collateral and any proceeds thereof in which SunTrust holds a security interest to secure payment of any of the Obligations; (d) Owner agrees that SunTrust may at any time and from time to time, without notice to, or the consent of, Owner: (i) retain any of the Collateral in satisfaction of any of the Obligations to the extent permitted by applicable law, (ii) retain or obtain a security interest or lien in any property in addition to the Collateral to secure payment or performance of any of the Obligations, (iii) allow or cause any Obligations to be incurred, (iv) retain or obtain persons or entities that are primarily or secondarily obligated upon any of the Obligations other than the Borrower, (v) extend or renew any of the Obligations for any period (whether or not longer than the original term), (vi) release, compromise or modify any of the Obligations, (vii) release, in whole or in part, any person or entity primarily or secondarily obligated upon any of the Obligations or enter into any compromise with respect to the obligation of any such person or entity relative to any of the Obligations, (viii) release, with or without consideration, SunTrust's security interest or lien in any property other than the Collateral which may at any time secure payment or performance of any of the Obligations, (ix) accept substitutions or exchanges for any property other than the Collateral which may at any time secure payment or performance of any of the Obligations, (x) exercise its rights as a secured party and dispose of the Collateral without having first resorted to any property securing any of the Obligations other than the Collateral and without having first proceeded against or demanded payment from any person or entity primarily or secondarily obligated upon any of the Obligations; and (e) Owner specifically waives any and all rights pursuant to O.C.G.A. Sec. 10-7-24 or T.C.A. Sec. 47-12-101 et seq. if this Security Agreement is governed by the laws of Georgia or Tennessee and the same or similar provision contained in the Uniform Commercial Code of any other state or states which may govern this Security Agreement.

**Events of Default.** As used herein the term "Obligor" shall individually, collectively, jointly and severally refer to Borrower, Owner and any other person or entity that is primarily or secondarily liable upon all or any part of the Obligations secured hereby and any person or entity that has conveyed or may hereafter convey any security interest or lien to SunTrust in any real or personal property to secure payment of all or any part of the Obligations. Unless prohibited by applicable law, an "Event of Default" shall occur hereunder upon the occurrence of any one or more of the following events or conditions:

- a. the failure by any Obligor to pay when due, whether by acceleration or otherwise, any sum constituting all or any part of the Obligations;
- b. the failure of any Obligor to perform any covenant, promise or obligation contained in this Security Agreement, any document evidencing any of the Obligations, or any other agreement to which any Obligor and SunTrust are parties, any of which continues for 30 days after Borrower has received written notice thereof;
- c. the breach of any of Obligor's representations or warranties in this Security Agreement or any other agreement with SunTrust which breach continues for 30 days after Borrower has received written notice thereof;
- d. the failure of any Obligor to pay when due any amount owed to any creditor other than SunTrust under a written agreement calling for the payment of money except for amounts disputed by Obligor in good faith, which failure continues for 30 days after Borrower has received written notice thereof from such creditor; provided that, for any such dispute involving an amount greater than \$200,000, Borrower shall provide SunTrust with a copy of such notice and the failure to do so shall constitute a default hereunder;
- e. the death, declaration of incompetency, dissolution, liquidation, termination or suspension of usual business of any Obligor or merger or consolidation having an aggregate consideration of more than \$2,000,000;
- f. intentionally deleted;
- g. the insolvency or inability to pay debts as they mature of any Obligor, the filing of any petition or the commencement of any proceeding by an Obligor for relief under any bankruptcy or insolvency law, or any law relating to the relief of debtors, readjustment of indebtedness, debtor reorganization, or composition or extension of debt;
- h. the entry of a judgment or the issuance or service of any attachment, levy or garnishment against any Obligor or the property of any Obligor or the repossession or seizure of property of any Obligor that is greater than \$200,000;
- i. any deterioration or impairment of the tangible Collateral or Accounts or any decline or depreciation in the value of the tangible Collateral or Accounts which causes a material reduction in the value of tangible Collateral or Accounts in the judgment of SunTrust;
- j. a determination by SunTrust that a material adverse change in the financial condition of Borrower has occurred since the date of this Security Agreement that, in the sole determination of SunTrust, would likely result in Borrower's failure to satisfy a financial covenant set forth in the Agreement;
- k. any Obligor commits fraud or makes a material misrepresentation at any time in connection with this Security Agreement, the Obligations or the Collateral;
- l. except in the ordinary course of business or in connection with consignment sales, the Collateral or any part thereof is located for more than thirty consecutive days outside the state or states in which the Collateral is to be located pursuant to this Security Agreement or if the Collateral or any part hereof is removed from such state with the intent that it will be located outside such state for more than thirty days;
- m. should the state of organization or registration of Owner (if an entity) change; or
- n. any other act or circumstances leading SunTrust to deem itself insecure.

**Remedies Upon Default; Acceleration of Obligations.** Unless prohibited by applicable law, the Obligations secured hereby shall automatically and simultaneously mature and become due and payable, without notice or demand, upon the filing of any petition or the commencement of any proceeding by or against an Obligor for relief under any bankruptcy or insolvency law, or any law relating to the relief of debtors, readjustment of indebtedness, debtor reorganization, or composition or extension of debt. Unless prohibited by applicable law, upon the occurrence of any one or more of the other Events of Default described above, the Obligations secured

hereby shall, at the option of SunTrust, immediately mature and become due and payable, without notice or demand. If all or any part of the Obligations secured hereby are not paid as and when due and payable, whether by acceleration or otherwise, which failure continues for 5 days after Borrower has received written notice thereof, then SunTrust may, at its option, without notice or demand of any kind: (a) transfer all or any part of the Collateral into the name of SunTrust or its nominee, at Owner's expense, with or without disclosing that such Collateral is subject to SunTrust's security interest; (b) enter upon premises upon which the Collateral is located and, to the extent permitted by law without legal process, take exclusive possession of the Collateral, and redeem the Collateral, or any part thereof (irrespective of redemption penalty); (c) appropriate and apply toward payment of such of the Obligations, and in such order of application, as SunTrust may from time to time elect, all or any part of any balances, credits, items or monies in any bank deposit or deposit account constituting a part of the Collateral; (d) sell the Collateral at public or private sale, either in whole or in part, and SunTrust may purchase the Collateral at any such public sale and at any private sale as permitted by law. Such sale shall result in the sale, conveyance and disposition of all right, title and interest of Owner in all or any part of the Collateral which is the subject of such a disposition and SunTrust is authorized as attorney-in-fact for Owner to sign and execute any transfer, conveyance or instrument in writing that may be necessary or desirable to effectuate any such disposition of the Collateral, which power shall be coupled with an interest; and (e) exercise all other rights of a secured party under the Uniform Commercial Code and all other rights under law or pursuant to this Security Agreement, all of which shall be cumulative. If any notification of intended disposition of any Collateral is required by law, reasonable notification shall be deemed given if written notice is deposited in the U.S. Mail, first class or certified postage prepaid, addressed to Owner and such other persons or entities as SunTrust deems to be appropriate, stating all items required by applicable statutes, including the time and place of any public sale or the time after which any private sale or disposition is to be made, at least ten (10) days prior thereto. The proceeds of any disposition of the Collateral shall be applied in the following order (i) First, to pay all costs and expenses associated with the retaking, holding, preparation and disposition of the Collateral; (ii) Then to pay attorneys' fees; (iii) Next, to pay all accrued but unpaid interest upon the Obligations in such order as SunTrust may determine in its discretion; and (iv) Finally, to all unpaid principal outstanding upon the Obligations, whether or not due and payable, in such order as SunTrust may determine in its discretion. Any remaining surplus shall be paid to Owner or otherwise in accordance with law. If the proceeds of such disposition are insufficient to pay the Obligations in full, Borrower and all other persons or entities liable thereon shall remain fully obligated to SunTrust for the unpaid balance thereof.

**Execution by More than One Party.** To the extent prohibited by applicable law, the term "Owner" as used in this Security Agreement shall, if this instrument is signed by more than one party, mean the "Owner and each of them" and each shall be jointly and severally obligated and liable. If any party is a partnership or limited liability company, the agreements and obligations on the part of the Owner shall remain in force and applicable regardless of any changes in the parties composing the partnership or limited liability company and the term "Owner" shall include any altered or successive partnership or limited liability company and the predecessor partnership or limited liability company and its partners or members/managers shall not be released from any obligation or liability.

**Waivers by the Owner.** The Owner hereby waives (a) notice of acceptance of this Agreement and of any extensions or renewals of credit by SunTrust to the Borrower; (b) presentment and demand for payment of the Obligations; (c) protest and notice of dishonor or default to the Owner or to any other party with respect to the Obligations; (d) all other notices to which the Owner might otherwise be entitled; and (e) if for business purposes, the benefit of any homestead exemption. To the extent permitted by applicable law, the Owner further waives any right to require that any action be brought against the Borrower or any other party, the right to require that resort be had to any security or to any balance of any deposit account or credit on the books of SunTrust in favor of the Borrower or any other party, the right to redeem the Collateral and to object to SunTrust's proposal to retain the Collateral in satisfaction of any of Obligations and any right to obtain injunctive or other relief relative to SunTrust's sale or other disposition of the Collateral and to recover losses caused by SunTrust's failure to approve or correct any list of Collateral provided to SunTrust for any purpose by any person or entity. Owner waives all rights, claims and defenses based on principles of suretyship.

**No Obligation to Extend Credit.** This Security Agreement shall not be construed to impose any obligation on SunTrust to extend or continue to extend any credit at any time.

**Indemnity.** The Owner agrees to indemnify and hold harmless SunTrust, its subsidiaries, affiliates, successors, and assigns and their respective agents, directors, employees, and officers from and against any and all complaints, claims, defenses, demands, actions, bills, causes of action (including, without limitation, costs and reasonable attorneys' fees), and losses of every nature and kind whatsoever, which may be raised or sustained by any directors, officers, employees, shareholders, creditors, regulators, successors in interest, or receivers of the Borrower or any third party as a result of or arising out of, directly or indirectly, SunTrust extending credit as evidenced by the Obligations to the Borrower, and taking the Collateral as security for the Obligations, and the Owner agrees to be liable for any and all judgments which may be recovered in any such action, claim, proceeding, suit, or bill, including any compromise or settlement thereof, and defray any and all expenses, including, without limitation, costs and reasonable attorneys' fees, that may be incurred in or by reason of such actions, claims, proceedings, suits, or bills. This obligation to indemnify shall survive the payment of the Obligations and the satisfaction of this Security Agreement.

**Financing Statements and Additional Documentation.** SunTrust is authorized to file such financing statements and amendments as SunTrust deems necessary to perfect, continue or assure its security interest in the Collateral and the Owner hereby ratifies any financing statement filed previously by SunTrust. The Owner will deliver such instruments of future assignment or assurance, and such other agreements, as SunTrust may from time to time request to carry out the intent of this Security Agreement, and will join with SunTrust in executing any documents in form satisfactory to SunTrust, and hereby authorizes SunTrust to sign for Owner, or to file without signature, any financing statements, amendments and other documents and instruments from time to time as SunTrust may deem advisable, and pay any cost of filing the same, including all recordation, transfer, indebtedness and other taxes and fees, deemed advisable by SunTrust.

**Successor in Interest: SunTrust as Collateral Agent.** This Security Agreement shall be binding upon the Owner, its successors and assigns, and the benefits hereof shall inure to SunTrust, its successors and assigns. Notwithstanding the foregoing, Owner shall not assign Owner's rights or obligations under this Security Agreement without SunTrust's prior written consent. SunTrust Bank shall serve as collateral agent on behalf of itself and present and future affiliates.

**Miscellaneous.** (a) Each and every power given herein is coupled with an interest and is irrevocable by death or otherwise. (b) The captions of the paragraphs of this Security Agreement are for convenience only and shall not be deemed to constitute a part hereof or used in construing the intent of the parties. (c) If any part of any provision of this Security Agreement shall be invalid or unenforceable under applicable law, such part shall be ineffective to the extent of such invalidity only, without in any way affecting the remaining parts of such provision or the remaining provisions of this Security Agreement. (d) This Security Agreement shall not be modified or amended except in a writing signed by Owner and SunTrust. (e) All representations, warranties, covenants and agreements contained herein or made in writing by Owner in connection herewith shall survive the execution and delivery of this Security Agreement and any and all notes, other agreements, documents and writings relating to or arising out of any of the foregoing or any of the Obligations. (f) All rights and remedies of SunTrust expressed herein are in addition to all other rights and remedies possessed by SunTrust under applicable law or other agreements, including rights and remedies under any other agreement or instrument relating to any of the Obligations or any security therefor. (g) No waiver by SunTrust of any of its rights or remedies or of any default shall operate as a waiver of any other right or remedy or of any other default or of the same right or remedy or of the same default on a future occasion. No delay or omission on the part of SunTrust in exercising any right or remedy shall operate as a waiver thereof, and no single or partial exercise by SunTrust of any right or remedy shall preclude any other or further exercise thereof or the exercise of any other right or remedy. No action of SunTrust permitted hereunder or under any agreement or instrument relating to any of the Obligations or any security therefor shall impair or affect the rights of SunTrust in and to the Collateral. (h) All terms as defined herein shall include both the plural and singular, where applicable. (i) All notices or communications given to Owner or SunTrust pursuant to the terms of this Security Agreement shall be in writing and given to Owner and SunTrust at the address set forth below. Unless otherwise specifically provided herein to the contrary, such written notices and communications shall be delivered by hand or overnight courier service, or mailed by first class mail, postage prepaid, addressed to the parties hereto at the addresses referred to herein or to such other addresses as either party may designate to the other party by a written notice given in accordance with the provisions of this Security Agreement. Any written notice delivered by hand or by overnight courier service shall be deemed given or received upon receipt. Any written notice delivered by U.S. Mail shall be deemed given or received on the third (3rd) business day after being deposited in the U.S. Mail. (j) SunTrust shall not be responsible or liable for its failure to give notice to Owner of any default in the payment of any amounts that might become due and owing with respect to the Collateral nor shall SunTrust be responsible or liable for SunTrust's failure to collect any amounts payable with respect to the Collateral. (k) SunTrust shall be under no obligation to monitor the market value of any Collateral, to advise the Owner of such market value, or to take any action whatsoever to preserve the value of any Collateral by selling, exchanging or otherwise disposing of such Collateral in order to avoid any loss to the Owner resulting from a decline in the market value of such Collateral. (l) SunTrust shall be under no obligation to pay any amounts owing with respect to any Collateral. (m) This Agreement is in addition to and not in replacement of any other agreement between Owner and SunTrust. (n) The term Owner shall include all persons signing below as Owner and the obligation of such Owners hereunder shall be their joint and several obligations.

**Notice: This Section Does Not Apply To Transactions Governed by the Laws of North Carolina or West Virginia.**

**WAIVER OF JURY TRIAL. OWNER AND SUNTRUST HEREBY KNOWINGLY, VOLUNTARILY, INTENTIONALLY, AND IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE RIGHT EITHER OF THEM MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION, WHETHER IN CONTRACT OR TORT, AT LAW OR IN EQUITY, BASED HEREON OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS SECURITY AGREEMENT AND ANY OTHER DOCUMENT OR INSTRUMENT CONTEMPLATED TO BE EXECUTED IN CONJUNCTION WITH THIS SECURITY AGREEMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY HERETO. THIS PROVISION IS A MATERIAL INDUCEMENT FOR SUNTRUST ENTERING INTO OR ACCEPTING THIS SECURITY AGREEMENT. FURTHER, OWNER HEREBY CERTIFIES THAT NO REPRESENTATIVE OR AGENT OF SUNTRUST, NOR SUNTRUST'S COUNSEL, HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUNTRUST WOULD NOT, IN THE EVENT OF SUCH LITIGATION, SEEK TO ENFORCE THIS WAIVER OF RIGHT TO JURY TRIAL PROVISION.**

The undersigned have executed this Security Agreement as of the date first written above.

Signature(s) of Individual Owner(s)

Signature(s) of Non-Individual Owner(s)

\_\_\_\_\_  
(Seal)

Optical Cable Corporation  
Owner

\_\_\_\_\_  
(Seal)

By /s/ Tracy G. Smith

\_\_\_\_\_  
(Seal)

Tracy G. Smith, CFO, Senior Vice President & Secretary  
Name and Title ( Printed or Typed)

\_\_\_\_\_  
(Seal)

Owner

By \_\_\_\_\_

\_\_\_\_\_  
Name and Title ( Printed or Typed)

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**Addresses**

Owner Address for Purpose of Notice

5290 Concourse Drive  
Roanoke, Virginia 24019

SunTrust Address for Purpose of Notice

10 Franklin Road  
Richmond, Virginia 24011

**Schedule A**

(a) Liens arising in connection with any court proceedings in the aggregate amount of no more than \$200,000 at any one time; (b) carriers' warehousemen's, suppliers' or other similar possessory liens arising in the ordinary course of business and securing liabilities in an outstanding aggregate amount not in excess of \$200,000 at any time, so long as such liens attach only to Inventory; (c) pledges or deposits of money securing bids, tenders, contracts (other than contracts for the payment of money) or leases to which Owner is a party as lessee made in the ordinary course of business; (d) deposits securing, or in lieu of, surety, appeal or customs bonds in proceedings to which Owner is a party; (e) purchase money liens incurred in the ordinary course of business for purchase of equipment, and (f) liens and security interests in favor of Valley Bank, IOS Capital and IKON Financial Services (together with any renewals, replacements or extensions thereof) and liens and security interests in connection with leases including, without limitation, leasing of equipment and capital leases.



This Agreement dated April 30, 2010, between Optical Cable Corporation (“**Borrower**”) and SunTrust Bank (“**SunTrust**”) constitutes the “Agreement” referenced under “Additional Terms and Conditions” in the Commercial Note dated April 30, 2010, in the Loan Amount equal to \$6,000,000.00. The terms and conditions of this Agreement and the terms and conditions of the Note constitute the entire agreement between Borrower and SunTrust. All defined terms used herein that are not defined herein shall have the meanings ascribed to such terms in the above referenced Commercial Note.

Borrower and SunTrust hereby agree to the following terms and conditions:

**I. AFFIRMATIVE COVENANTS**

**A. Financial Information.** Borrower shall deliver the following financial information to SunTrust as indicated below:

Borrower’s Annual Financial Statements that have been audited by a certified public accountant acceptable to SunTrust. Such Financial Statements shall be prepared on a GAAP (generally accepted accounting principles) basis and shall be delivered to SunTrust within ninety (90) days after Borrower’s fiscal year-end, commencing with the fiscal year ending October 31, 2010.

Borrower’s internally prepared Financial Statements and Compliance Certificate. Such internally prepared Financial Statements shall be delivered to SunTrust within forty-five (45) days after the end of each of Borrower’s fiscal quarters, commencing with the fiscal quarter ending July 31, 2010.

“Financial Statements” shall include at a minimum, a balance sheet, income statement, statement of retained earnings, statement of cash flows, footnotes, appropriate supporting schedules and other information requested by SunTrust.

Borrower shall deliver within ten (10) days of such request, any additional financial information with respect to Borrower as SunTrust may reasonably request.

Notwithstanding the foregoing, to the extent any financial statements are available as publicly filed documents on [www.sec.gov](http://www.sec.gov) within the time frames set forth above, such financial statements shall be deemed to have been furnished to SunTrust.

**B. Borrowing Base Structure and Certificate.** Borrower may borrow an aggregate principal amount, up to the Loan Amount, equal to the sum of the following (the “Borrowing Base”):

- (i) Eighty-five percent (85%) of domestic Accounts Receivable aged ninety (90) days or less; plus
- (ii) Thirty-five percent (35%) of the lesser of \$1,000,000 or Borrower’s foreign receivables; plus
- (iii) Twenty-five percent (25%) of the value of raw materials Inventory.

Borrower shall submit to SunTrust each month on or before the 15<sup>th</sup> of the month a Certificate in a form acceptable to SunTrust setting forth the total amounts of items (i) through (iii) comprising the Borrowing Base as of the end of the prior month. As an Addendum to the Certificate, Borrower shall include an Aging of Accounts Receivable in form and substance satisfactory to SunTrust. Based on such Certificate, SunTrust shall adjust the Borrowing Base as of the 15<sup>th</sup> of the month. If the Borrowing Base exceeds the then outstanding aggregate principal amount of the Note (the “Excess Amount”), the Borrower shall repay or prepay the Excess Amount within three (3) days after demand from SunTrust. For purposes of calculating the Borrowing Base, Inventory and Accounts Receivable shall include, without limitation, inventory and accounts receivable of Applied Optical Systems, Inc., Centric Solutions LLC and any other subsidiary or other entity the accounts of which in accordance with GAAP would be consolidated with those of Borrower in its consolidated financial statements (collectively, “Consolidated Subsidiaries”).

Notwithstanding anything to the contrary in the Commercial Note or the Security Agreement dated April 30, 2010, SunTrust consents to any merger or other consolidation of any wholly-owned or majority owned subsidiary of Borrower into Borrower, provided that Borrower is the surviving entity. Additionally, Borrower agrees to cooperate with SunTrust should SunTrust, at any time during the term of the Commercial Note, deem it necessary, in SunTrust’s sole determination, to perfect its lien in the Collateral against the Consolidated Subsidiaries.

- C. **Unused Availability Fee.** Borrower shall pay a fee equal to 0.20%, due quarterly in arrears, based on the average unused availability of the Loan for the preceding quarter. The fee will accrue on an actual/360 day basis (calculated on the actual number of days elapsed over a year of 360 days).
- D. **Notification.** Borrower shall immediately notify SunTrust of (i) the occurrence of any event of default (or any circumstances which, with notice or the passage of time or both, would constitute an event of default) under the Note, (ii) the commencement of any action, suit, or proceeding or any other matter that could reasonably be expected to have a material adverse effect on the financial condition, operations, assets or prospects of Borrower, (iii) any event or development that could reasonably be expected to have a material adverse effect on the assets, operations or financial condition of Borrower and (iv) any change in the executive officers of Borrower.
- E. **Deposit Accounts.** Borrower shall maintain its primary operating account and its treasury management with SunTrust.
- F. **Loan Documentation and Additional Requirements.** All required documentation, including but not limited to borrowing resolutions and commercial note, shall be delivered to SunTrust in form and substance satisfactory to SunTrust.
- G. **Financial Covenants.** Have and maintain as of the end of each quarter (pursuant to consolidated financial statements to be delivered as required above in Paragraph (A) tested on a rolling four quarter basis commencing with the quarter ending July 31, 2010:
  - i. A ratio of Debt to Tangible Net Worth no greater than 1.00 to 1.00. For purposes of this Agreement, "Debt" shall mean consolidated total liabilities and "Tangible Net Worth" shall mean consolidated total assets less consolidated (a) goodwill, (b) other intangible assets, and (c) total liabilities, as defined in accordance with GAAP consistently applied; and
  - ii. A consolidated debt service coverage ratio of not less than 1.5 to 1.00, for purposes hereof "debt service coverage ratio" means Adjusted EBITDA divided by current maturities of long term debt plus consolidated interest expense, defined in accordance with GAAP consistently applied ("Debt Service Coverage Ratio"). "Adjusted EBITDA" means earnings before interest expense, taxes, depreciation and amortization and the following non-cash expenses: (i) any impairment of intangible assets including, without limitation, goodwill and (ii) stock compensation expense, all as presented in the consolidated financial statements. Regarding consolidated interest expense, (x) the amortization of deferred financing costs is included as interest expense in the consolidated statement of operations and is also included as depreciation and amortization in the consolidated statement of cash flows, (y) in the calculation of the numerator, amortization of deferred financing costs should be deducted from the interest expense to avoid duplication, and (z) in the calculation of the denominator, amortization of deferred financing costs should be deducted from interest expense since it is the amortization of a cash payment that occurred in the year the financing was completed and does not represent a periodic interest payment.

For purposes of calculating Tangible Net Worth and the debt service coverage ratio, the assets and liabilities of Consolidated Subsidiaries shall be included in accordance with GAAP. Borrower represents and warrants that the above financial covenants are the same financial covenants with which Borrower is required to comply under its loan agreement with Valley Bank. Borrower agrees that it shall not alter or modify its financial covenants with Valley Bank without the prior written consent of SunTrust.

## II. NEGATIVE COVENANTS

- A. **Liens.** Borrower shall not, and shall not permit any Subsidiary (if any) to, create, incur, assume or permit any lien, security interest or other type of encumbrance (a "Lien") on the Collateral, except Liens granted to SunTrust, statutory Liens that do not secure indebtedness, other Liens that have been consented to by SunTrust in writing and Liens set forth on Schedule A.
- B. **Event of Default under other Borrower Indebtedness.** Borrower shall not, and shall not permit any Subsidiary (if any) to incur an event of default under any other indebtedness for money borrowed, reimbursement obligations under letters of credit, capital lease obligations or hedging obligations likely to have a material adverse effect on the financial condition of Borrower taken as a whole in the sole determination of SunTrust (collectively, "Indebtedness") or any guarantees or endorsements of any Indebtedness, and any such event of default shall constitute an Event of Default under the Note.

## III. CONDITION PRECEDENT TO THE MAKING OF EACH ADVANCE

- A. The making of each advance under the Note is subject to accuracy of representations and warranties and the further condition that no Event of Default or event which with the passing of time or the giving of notice or both would constitute an Event of Default shall exist at such time.

IN WITNESS WHEREOF, Borrower and SunTrust have caused this Agreement to be executed as of the date first above written.

Non-Individual Borrower(s):

Optical Cable Corporation

Borrower

By: /s/ Tracy G. Smith

Tracy G. Smith, CFO, Senior Vice President and Secretary

Name and title

SunTrust Bank

By: /s/ J. Graham Leonard, II

Senior Vice President

Name and title

**Schedule A**

(a) Liens arising in connection with any court proceedings in the aggregate amount of no more than \$200,000 at any one time; (b) carriers' warehousemen's, suppliers' or other similar possessory liens arising in the ordinary course of business and securing liabilities in an outstanding aggregate amount not in excess of \$200,000 at any time, so long as such liens attach only to Inventory; (c) pledges or deposits of money securing bids, tenders, contracts (other than contracts for the payment of money) or leases to which Borrower is a party as lessee made in the ordinary course of business; (d) deposits securing, or in lieu of, surety, appeal or customs bonds in proceedings to which Borrower is a party; (e) purchase money liens incurred in the ordinary course of business for purchase of equipment, and (f) Liens in favor of Valley Bank, IOS Capital and IKON Financial Services (together with any renewals, replacements or extensions thereof) and Liens in connection with leases including, without limitation, leasing of equipment and capital leases.

## CERTIFICATION

I, Neil D. Wilkin, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 controls over financial reporting, or caused such internal controls 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: June 14, 2010

/s/ Neil D. Wilkin, Jr.

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

## CERTIFICATION

I, Tracy G. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 controls over financial reporting, or caused such internal controls 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: June 14, 2010

/s/ Tracy G. Smith

Tracy G. Smith

Senior Vice President and Chief Financial Officer

**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 Quarterly Report of Optical Cable Corporation (the "Company") on Form 10-Q for the quarter ended April 30, 2010 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 April 30, 2010, and for the period then ended.

Date: June 14, 2010

/s/ Neil D. Wilkin, Jr.

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

**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 Quarterly Report of Optical Cable Corporation (the "Company") on Form 10-Q for the quarter ended April 30, 2010 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 April 30, 2010, and for the period then ended.

Date: June 14, 2010

/s/ Tracy G. Smith

Tracy G. Smith

Senior Vice President and Chief Financial Officer