

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

Form 10-K

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

For the fiscal year ended October 31, 2011

Commission File Number 0-27022

OPTICAL CABLE CORPORATION

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

Virginia
(State or other jurisdiction of
incorporation or organization)

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

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

24019
(Zip Code)

(540) 265-0690

(Registrant's telephone number, including area code)

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, no par value	Nasdaq Global Market

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

The aggregate market value of the registrant's Common Stock, no par value, held by non-affiliates of the registrant (without admitting any person whose shares are not included in determining such value is an affiliate) as of April 30, 2011, the last business day of the Company's most recent second quarter was \$25,103,918 based upon the closing price of these shares as reported by the Nasdaq Global Market on April 30, 2011.

As of January 20, 2012, the Company had outstanding 6,287,761 common shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Annual Report filed as Exhibit 13.1 to this report on Form 10-K are incorporated by reference in Part II of this Form 10-K Report: "Corporate Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Consolidated Financial Statements," "Notes to Consolidated Financial Statements," and "Report of Independent Registered Public Accounting Firm." In addition, portions of the Company's Proxy Statement for the 2012 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K Report: "Election of Directors," "Beneficial Ownership of Securities," "Compensation of Executive Officers," "Compensation of Directors," "Compliance with Section 16(a) of the Securities Exchange Act of 1934," "Code of Ethics," "Executive Compensation," "Beneficial Ownership of Securities," "Equity Compensation Plans Information," "Certain Relationships and Related Transactions," "Independent Registered Public Accounting Firm," and "Audit Committee Pre-approval of Audit and Permissible Non-audit Services of Independent Registered Public Accounting Firm."

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PART I

Item 1. BUSINESS

Overview

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

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

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

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

Our Asheville team develops copper and fiber passive connectivity hardware components for use in the enterprise market, including a broad range of commercial and residential applications. The products manufactured at our facility near Asheville, North Carolina are marketed and sold under the names Optical Cable Corporation and OCC by our integrated sales team.

Our Dallas team designs, develops and manufactures a broad range of specialty fiber optic connectors and connectivity solutions primarily for use in military and other harsh environment applications. OCC markets and sells the products manufactured at our facility near Dallas, Texas under the names Optical Cable Corporation and OCC by our integrated sales team.

OCC’s product offerings are exceptionally complementary and are used together by customers and end-users as part of integrated cabling and connectivity systems.

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

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

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Products

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

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

Fiber Optic Cable Products

We design, manufacture, market and sell a broad array of top-tier fiber optic cables that provide high bandwidth transmission of data, video and voice communications over short- to moderate-distances.

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

Our product line is diverse and versatile, in keeping with evolving application needs of customers within our markets. Our tight-buffered fiber optic cables address the needs of multiple uses ranging from the enterprise market; in particular, commercial, enterprise network, data center, residential and campus installations to specialty and harsh environment markets including military, industrial, mining and broadcast applications, and to a lesser extent the access market. We believe that we offer the most comprehensive tight-buffered fiber optic cable product offering for the enterprise market.

We produce fiber optic cables for specialized installations, including various hybrid and composite cables and cables with specialty fibers. We can armor fiber optic cables for additional protection in certain installations. We offer cables suitable for underground or overhead installations. For overhead installations, we offer several self-supporting fiber optic cables including aerial messenger cables which feature self-supporting messengered construction. We have fiber optic cables available in various flammability ratings. We offer various hybrid and composite fiber optic cables combining different types of optical fiber and/or copper wires, with copper wires being used as power feeds or to facilitate the transition from copper wire to optical fiber-based systems without further installation of fiber optic cables. Our composite cables include a line of security cables which combine copper power feeds with optical fiber in the cables making them particularly well suited for surveillance cameras and other specialty applications. We also offer specialty fiber optic cables, such as for use in military ground tactical, industrial (including tray cables), mining, deployable broadcast, oil and gas, festoon, pierside and high density datacenter applications. Our product offering further includes fiber optic cables complying with or certified to various standards for specialty applications, such as: U.S. Department of Defense MIL-PRF-85045/8A and U.K. Ministry of Defence Def-Stan 60-1, Part 3 qualifications for military ground tactical fiber optic cable; Det Norske Veritas (DNV) type approval certificate for marine shipboard and offshore platform applications; U.S. Mine Safety and Health Administration (MSHA) approval for use in mines; and American Bureau of Shipping (ABS) type approved cables. We also offer our customers a variety of customized constructions to meet their specific communication needs.

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Further information regarding OCC's fiber optic cable products is available on the Internet at www.occfiber.com.

Copper Datacom Cable Products

We market and sell a wide range of high quality copper datacom cables, including unshielded twisted pair (UTP) and shielded twisted pair (U/FTP constructions), in Category 5e, Category 6 and Category 6A performance ratings, in riser and plenum configurations, and in various colors. The addition of copper datacom cables enables OCC to offer our customers an end-to-end solution for copper network installations.

Further information regarding OCC's copper datacom cable products is available on the Internet at www.occfiber.com.

Fiber Optic and Copper Enterprise Connectivity Products

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

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

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

Copper Connectivity Products. Our copper enterprise connectivity products offer customers a complete line of copper connectivity components necessary for the equipment room, the telecommunications closet, the datacenter and the workstation. Our product offering includes: category compliant plugs and jacks (including products with patented circuit board technology and products in a standard keystone or proprietary bezel configuration), patch cords, faceplates, surface mounted boxes, distribution and multi-media boxes, copper rack mount and wall mount patch panels, cable assemblies, cable organizers, and other wiring products. OCC provides products compliant with Category 6A, 6 and 5e standards, shielded and unshielded products, and products suitable for certain Telco applications. Our product offering also includes patented technologies with unique features.

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

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

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Wireless Systems. OCC's patent-pending Cellular Distribution System® ("CDS") is a signal booster system designed to provide a simple solution for eliminating in-building cellular dead zones. The CDS kit improves localized cellular coverage within a building that experiences low signal strength where service provider coverage is acceptable at a nearby outdoor location. The CDS solution applies structured cabling concepts to support wireless communications within a building, using newly installed coaxial cable to distribute wireless signals. This is accomplished using a unique Distributed Antenna Technology.

Further information regarding OCC's enterprise connectivity products is available on the Internet at www.occfiber.com.

Applied Interconnect Systems Products

We design, manufacture, market and sell specialty fiber optic connectors and connectivity components, certain ruggedized copper datacom connectors, and related systems and solutions for the military and harsh environment applications. For deployable applications, we manufacture a full range of tactical fiber optic connectors that conform to U.S. Department of Defense standards, such as MIL-C-83522, MIL-DTL-83526, NAVSEA 7379171, NAVSEA 7379172 products. For fixed fiber optic or applications requiring optical fiber and copper connections in the same connector, we manufacture the F-Link™ family of connector products. We fabricate a wide variety of simplex, duplex and multi-channel fiber optic assemblies for applications as varied as mining, oil & gas, broadcast, industrial and military. Our product offering includes deployable reel systems and ruggedized RJ-45 connectors.

Further information regarding OCC's applied interconnect systems products is available on the Internet at www.occfiber.com.

Distribution Methods of Products and Services

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

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

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

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

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Compliance with Environmental Laws

We are not aware of any material violations at our facilities of any local, state or federal environmental laws. We have not incurred any material expenditures related to environmental compliance during our 2011 fiscal year. We believe that we have materially complied with all applicable environmental regulations.

Research and Development Activities

Research and development costs totaled \$1.1 million, \$1.0 million and \$1.2 million for the fiscal years ended October 31, 2011, 2010 and 2009, respectively. Our research and development costs related to work performed in connection with our enterprise connectivity product lines. The product development work with respect to our fiber optic cable products and our applied interconnect systems products is generally performed in response to customer product development requests and is characterized as engineering expense allocated to costs of goods sold and selling, general and administrative expenses, rather than characterized as research and development costs.

Customers

We have a global customer base, selling in over 50 countries in fiscal year 2011. The following is a partial list of representative types of end-users of our fiber optic cables and copper and fiber optic connectivity products:

- **Commercial Institutions.** Businesses located in offices, retail space, and medical facilities, to name a few, are installing or improving networks to distribute increasing volumes of data. These businesses often use high performance local area networks (“LANs”) or datacenters.
- **Government Agencies.** Government agencies tend to have large buildings or complexes, many people, and the need to access and process large quantities of data. Like commercial institutions, these routinely include high performance LANs or datacenters. Security also may be desired, making our cabling and connectivity solutions a logical choice.
- **Industrial and Manufacturing Facilities.** Industrial and manufacturing facilities typically have a more severe environment (often with heavy electrical equipment) than other types of businesses. Fiber optic cable and connectivity in these environments offers immunity to electrical noise, ruggedness, high information carrying capacity and greater distance capability. Such facilities also have need for our copper cabling and connectivity products. Our products are installed in automotive assembly plants, steel plants, chemical and drug facilities, petrochemical facilities and petroleum refineries, mines and other similar environments.
- **Cable Assembly Houses.** Cable assembly houses typically manufacture cable assemblies, which are short lengths of cable pre-terminated with connectors. Supporting virtually all segments of the market, these manufacturers consume large quantities of cables and connectivity products. Products sold to customers in this market sometimes may be privately labeled.
- **Military.** Our core fiber optic cable technologies enable us to develop and efficiently produce fiber optic cables for military tactical applications that survive extreme mechanical and environmental conditions. We are certified by both the United States Department of Defense (“U.S. DoD”) and the United Kingdom Ministry of Defence as a qualified supplier of ground tactical fiber optic cable. Both our Roanoke and Dallas manufacturing facilities have also been certified by the U.S. DoD as MIL-STD-790F facilities, one of the most respected certifications in the defense industry. We also hold contracts with the U.S. DoD to supply tactical fiber optic cable assemblies, which we sell as fiber optic cables connectorized with qualified military connectors on military reels ready for deployment.
- **Educational Institutions.** Colleges, universities, high schools and grade schools are installing and improving their networks for higher data transmission speeds, as well as using data communications solutions to support interactive learning systems.

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- Original Equipment Manufacturers. We private label a number of our copper connectivity products for other major manufacturers of copper connectivity, including major competitors. Additionally, we license and cross-license a number of our patents with other major manufacturers of copper connectivity.

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

Employees

As of October 31, 2011, we employed a total of 340 persons (excluding independent sales representatives and firms and employees of Centric Solutions). None of our employees is represented by a labor union. We have experienced no work stoppages and we continue to take steps we believe appropriate to ensure our employee relations are good.

Item 1A. RISK FACTORS

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

Certain risk factors that may adversely affect the Company, the Company’s future results of operations and future financial condition, and future market valuation of the Company are mentioned under “Forward-Looking Information” included in Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Company’s Annual Report for the fiscal year ended October 31, 2011 (filed as Exhibit 13.1 to this report on Form 10-K), and in our Quarterly Reports on Form 10-Q. Such disclosures do not purport to fully comply with the requirements set forth in Item 1A of the Annual Report on Form 10-K.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

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

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

We lease our facility near Dallas, Texas (in Plano, Texas). Our Dallas facility houses administrative offices, our applied interconnect systems manufacturing and testing operations and warehouse space. Our Dallas facility is located in an industrial complex of suites. The space leased, which was increased during fiscal year 2011, is approximately 34,000 square feet.

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

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

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

Item 3. LEGAL PROCEEDINGS

Applied Optical Systems, Inc. (“AOS”), a wholly owned subsidiary of the Company since October 31, 2009, has been the defendant in a patent infringement lawsuit brought by Amphenol Fiber Systems International (“AFSI”) in November of 2006 in the U.S. District Court for the Eastern District of Texas, Marshall Division, styled Fiber Systems International, Inc. v. Applied Optical Systems, Inc., Civil Action No. 2:06-cv-473.

In the lawsuit, AFSI alleged that certain AOS fiber optic connector designs infringed on AFSI’s TFOCA-II ® connector design under U.S. Patent No. 6,305,849. AOS asserted various counterclaims against AFSI for fraud, negligent misrepresentation, unfair competition, inequitable conduct and antitrust violations.

The U.S. District Court ruled in 2009 that two AOS fiber optic connector designs that were at issue in the suit did not infringe on the AFSI patent as a matter of law. A jury then determined that another of the AOS fiber optic connector designs that was the subject of the suit did not infringe on the AFSI patent. In August 2010, the U.S. District Court entered a final judgment in favor of AOS on the patent infringement claims; and in favor of AFSI on AOS’s counterclaims and the validity of AFSI’s patent. After rulings on various post-trial motions, both AFSI and AOS filed notices of appeal.

For further information regarding the settlement of the lawsuit, executed after the Company’s October 31, 2011 fiscal year end, please see Item 9B “Other Information”.

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

Item 4. (REMOVED AND RESERVED)

PART II

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

The information pertaining to shareholders beneficially owning more than five percent of the Company’s common stock and the security ownership of management, which is set forth under the caption “Beneficial Ownership of Securities” in the Proxy Statement for the 2012 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

Issuer Purchases of Equity Securities

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. As of October 31, 2011, the Company had completed its plan and repurchased and retired a total of 325,848 shares of its outstanding common stock.

The Company’s Board of Directors approved a plan effective November 1, 2011, subsequent to the Company’s 2011 fiscal year end, to purchase and retire up to 200,000 shares of the Company’s common stock, or approximately 3% 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.

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The information contained under the caption “Corporate Information” of our Annual Report for the fiscal year ended October 31, 2011, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

Item 6. SELECTED FINANCIAL DATA

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

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

The information contained under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report for the fiscal year ended October 31, 2011, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of October 31, 2011, our financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information contained under the captions “Consolidated Financial Statements,” “Notes to Consolidated Financial Statements,” and “Report of Independent Registered Public Accounting Firm” of our Annual Report for the fiscal year ended October 31, 2011, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

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

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

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

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

As of October 31, 2011, the Company completed an evaluation, under the supervision and with the participation of management, including the chief executive officer and the chief financial officer (principal accounting officer and principal financial officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the chief executive

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officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of October 31, 2011.

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

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

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

Management conducted an evaluation of the design and effectiveness of the Company's system of internal control over financial reporting as of October 31, 2011, based on the framework set forth in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that, as of October 31, 2011, the Company's internal control over financial reporting was effective.

Changes in Internal Control Over Financial Reporting.

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

Item 9B. OTHER INFORMATION

Subsequent to the Company's October 31, 2011 fiscal year end, and while the case was on appeal, OCC and AOS executed a confidential settlement agreement with AFSI and Amphenol Corporation (AFSI's parent company) on November 21, 2011 (see Item 3 "Legal Proceedings" for additional information regarding the *Fiber Systems International, Inc. v. Applied Optical Systems, Inc.* lawsuit). Pursuant to the terms of the confidential settlement agreement, no cash payments were made by any party. Both the Company and AFSI agreed that AOS's connector designs did not infringe on AFSI's patent. As a part of the settlement, both AFSI and AOS have dismissed their appeals.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

For information with respect to the Directors of the registrant, see "Election of Directors," "Directors," and "Executive Officers" in the Proxy Statement for the 2012 Annual Meeting of Shareholders of the Company, which information is incorporated herein by reference.

For information with respect to the executive officers of the registrant, see "Executive Officers" in the Proxy Statement for the 2012 Annual Meeting of Shareholders of the Company, which information is incorporated herein by reference.

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The information with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934, which is set forth under the caption “Compliance with Section 16(a) of the Securities Exchange Act of 1934” in the Proxy Statement for the 2012 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

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

Item 11. EXECUTIVE COMPENSATION

The information set forth under the captions “Executive Compensation,” and “Director Compensation” in the Proxy Statement for the 2012 Annual Meeting of Shareholders of the Company is incorporated herein by reference.

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

Equity Compensation Plan Information

<u>Plan Category</u>	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	(b) Weighted-average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
1996 Stock Incentive Plan	128,265 shares	\$ 7.11	—
2005 Stock Incentive Plan	417,727 shares	\$ —	27,199 shares
2011 Stock Incentive Plan	32,265 shares	\$ —	466,190 shares
2004 Non-employee Directors Stock Plan	— shares	\$ —	110,480 shares
Total for approved plans	578,257 shares	\$ 1.58	603,869 shares
Non-employee Directors equity compensation not pursuant to a plan approved by security holders	3,123 shares	\$ 7.12	— shares
Total for all plans	581,380 shares	\$ 1.61	603,869 shares

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

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

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

The information concerning stock ownership by directors, executive officers and shareholders beneficially owning more than five percent of the Company’s common stock, which is set forth under the caption “Beneficial Ownership of Securities” in the Proxy Statement for the 2012 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

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

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

The information with respect to certain transactions with management of the Company, which is set forth under the caption "Certain Relationships and Related Transactions" in the Proxy Statement for the 2012 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information with respect to certain principal accountant fees and services, which is set forth under the caption "Independent Registered Public Accounting Firm" in the Proxy Statement for the 2012 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

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

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

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

1. Financial statements: The Company's consolidated financial statements and related information are hereby incorporated by reference to pages 21 to 47 of the Company's Annual Report filed as Exhibit 13.1 to this Form 10-K.
2. Financial statement schedules: All schedules are omitted, as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes thereto.
3. Exhibits to this Form 10-K pursuant to Item 601 of Regulation S-K are as follows:

<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-A12G filed with the Commission on November 5, 2001).
3.2	Amended and Restated Bylaws of Optical Cable Corporation (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2011).
4.1	Form of certificate representing Common Stock (incorporated herein by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2004 (file number 0-27022)).
4.2	Rights Agreement dated as of November 2, 2001 (incorporated herein by reference to Exhibit 4 to the Company's Form 8-A12G filed with the Commission on November 5, 2001). Superseded by Stockholder Protection Rights Agreement dated as of October 28, 2011 and included as Exhibit 4.3 hereto.
4.3	Stockholder Protection Rights Agreement dated as of October 28, 2011, between Optical Cable Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent, including as Exhibit A The Forms of Rights Certificate and Election to Exercise (incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-A12G filed with the Commission on November 1, 2011).
4.4	Form of certificate representing preferred share purchase right (incorporated herein by reference to Exhibit 5 to the Company's Form 8-A12G filed with the Commission on November 5, 2001).

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- 4.5 Credit Agreement dated May 30, 2008 by and between Optical Cable Corporation and Superior Modular Products Incorporated as borrowers and Valley Bank as lender in the amount of \$17,000,000 consisting of a Revolver in the amount of \$6,000,000; Term Loan A in the amount of \$2,240,000; Term Loan B in the amount of \$6,500,000; and a Capital Acquisitions Term Loan in the amount of \$2,260,000 (incorporated herein by reference to Exhibit 4.16 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008 filed January 29, 2009).
- 4.6 Credit Line Deed of Trust dated May 30, 2008 between Optical Cable Corporation as Grantor, LeClairRyan as Trustee and Valley Bank as Beneficiary (incorporated herein by reference to Exhibit 4.17 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008 filed January 29, 2009).
- 4.7 Deed of Trust, Security Agreement and Fixtures Filing dated May 30, 2008 by and between Superior Modular Products Incorporated as Grantor, LeClairRyan as Trustee and Valley Bank as Beneficiary (incorporated herein by reference to Exhibit 4.18 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008 filed January 29, 2009).
- 4.8 Security Agreement dated May 30, 2008 between Optical Cable Corporation and Superior Modular Products Incorporated and Valley Bank (incorporated herein by reference to Exhibit 4.19 of the Company's Annual Report on Form 10-K for the period ended October 31, 2008 filed January 29, 2009).
- 4.9 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 filed January 29, 2009).
- 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 filed January 29, 2009).
- 4.11 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).
- 4.12 Second Loan Modification Agreement dated April 30, 2010 by and between Optical Cable Corporation, for itself and as successor by merger to Superior Modular Products Incorporated, and Valley Bank (incorporated herein by reference to Exhibit 4.13 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2010 filed June 14, 2010).
- 4.13 Addendum A to Commercial Note dated April 30, 2010 by and between Optical Cable Corporation and SunTrust Bank (incorporated herein by reference to Exhibit 4.14 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2010 filed June 14, 2010).

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- 4.14 Commercial Note dated April 30, 2010 by and between Optical Cable Corporation and SunTrust Bank in the principal amount of \$6,000,000 (incorporated herein by reference to Exhibit 4.15 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2010 filed June 14, 2010).
- 4.15 Security Agreement dated April 30, 2010 by Optical Cable Corporation in favor of SunTrust Bank (incorporated herein by reference to Exhibit 4.16 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2010 filed June 14, 2010).
- 4.16 Agreement to Commercial Note dated April 30, 2010 by and between Optical Cable Corporation and SunTrust Bank (incorporated herein by reference to Exhibit 4.17 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2010 filed June 14, 2010).
- 4.17 Amendment No. 1 to the Rights Agreement dated as of November 2, 2001 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 21, 2010). Superseded by Stockholder Protection Rights Agreement dated as of October 28, 2011 and included as Exhibit 4.3 hereto.
- 4.18 Third Loan Modification Agreement dated April 22, 2011 by and between Optical Cable Corporation, for itself and as successor by merger to Superior Modular Products Incorporated, and Valley Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 28, 2011).
- 4.19 Binding Letter of Renewal dated July 25, 2011 by and between Optical Cable Corporation and SunTrust Bank (incorporated herein by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated July 26, 2011).
- 4.20 Fourth Loan Modification Agreement dated July 25, 2011 by and between Optical Cable Corporation, for itself and as successor by merger to Superior Modular Products Incorporated, and Valley Bank (incorporated herein by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K dated July 26, 2011).
- 10.1* Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective November 1, 2002 (incorporated by reference to Exhibit 10.1 to our Amended Quarterly Report on Form 10-Q/A for the quarterly period ended January 31, 2003 filed March 18, 2003 (file number 0-27022)). Superseded by amended and restated employment agreement dated as of April 11, 2011 and included as Exhibit 10.26 hereto.
- 10.2* Employment Agreement dated December 10, 2004 by and between Optical Cable Corporation and Tracy G. Smith (incorporated by reference herein to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 24, 2005 (file number 0-27022)). Superseded by amended and restated employment agreement dated as of April 11, 2011 and included as Exhibit 10.25 hereto.
- 10.3* Employment Agreement by and between Optical Cable Corporation as successor in interest to Superior Modular Products Incorporated and William R. Reynolds effective May 30, 2008 (incorporated by reference to Exhibit 10.4 to the

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- Company's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2008 filed September 15, 2008 (file number 0-27022)).
- 10.4* 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. 333-09433 filed August 2, 1996).
- 10.5* 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).
- 10.6* 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 filed January 26, 2005).
- 10.7* 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).
- 10.8* Form of time vesting award agreement under the Optical Cable Corporation 2005 and 2011 Stock Incentive Plans (incorporated herein by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006 filed June 14, 2006).
- 10.9* 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 filed June 14, 2006).
- 10.10* 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). Superseded by amended and restated employment agreement dated as of April 11, 2011 and included as Exhibit 10.26 hereto.
- 10.11* 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). Superseded by amended and restated employment agreement dated as of April 11, 2011 and included as Exhibit 10.25 hereto.
- 10.12* Amendment No. 1 dated December 31, 2008 to Employment Agreement by and between Optical Cable Corporation as successor in interest to Superior Module Products Incorporated and William R. Reynolds effective May 30, 2008 (incorporated herein by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed January 6, 2009).
- 10.13* Form of operational performance (Company financial performance measure) vesting award agreement under the Optical Cable Corporation 2005 and 2011 Stock Incentive Plans (incorporated by reference to Exhibit 10.20 of the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2009 filed June 12, 2009).

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- 10.14 Notice of Exercise of Warrant by the Company to purchase 98,741 shares of common stock of Applied Optical Systems, Inc. dated October 30, 2009 (incorporated herein by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.15 Stock Purchase Agreement dated October 31, 2009 by and among the Company, as buyer and G. Thomas Hazelton, Jr. and Daniel Roehrs as sellers (incorporated herein by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.16* Employment agreement dated October 31, 2009, between Applied Optical Systems, Inc. and G. Thomas Hazelton, Jr. (incorporated herein by reference to Exhibit 10.23 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.17* Employment agreement dated October 31, 2009, between Applied Optical Systems, Inc. and Daniel Roehrs (incorporated herein by reference to Exhibit 10.24 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.18 Buy-Sell Agreement dated October 31, 2009, by and between G. Thomas Hazelton, Jr., as guarantor, and the Company (incorporated herein by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.19 Buy-Sell Agreement dated October 31, 2009, by and between Daniel Roehrs, as guarantor, and the Company (incorporated herein by reference to Exhibit 10.26 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.20 Indemnification Agreement dated October 31, 2009, between the Company and Applied Optical Systems, Inc. (incorporated herein by reference to Exhibit 10.27 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.21 Supplemental Agreement dated October 31, 2009, by and among the Company, as buyer, Applied Optical Systems, Inc., George T. Hazelton Family Trust, G. Thomas Hazelton, Jr., and Daniel Roehrs (incorporated herein by reference to Exhibit 10.28 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.22 Termination Agreement dated October 31, 2009, by and among Applied Optical Systems, Inc., the Company, as lender, and G. Thomas Hazelton, Jr. and Daniel Roehrs (incorporated herein by reference to Exhibit 10.29 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).
- 10.23 Warrant Exercise Agreement between the Company and Applied Optical Systems, Inc. dated October 30, 2009 (incorporated herein by reference to Exhibit 10.30 of the Company's Annual Report on Form 10-K for the period ended October 31, 2009 filed January 29, 2010).

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10.24	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 filed March 17, 2010).
10.25*	Amended and restated Employment Agreement by and between Optical Cable Corporation and Tracy G. Smith effective April 11, 2011 (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed April 15, 2011).
10.26*	Amended and restated Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective April 11, 2011 (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed April 15, 2011).
11.1	Statement regarding computation of per share earnings (incorporated by reference to note 15 of the Notes to Consolidated Financial Statements contained herein).
13.1	Annual Report. FILED HEREWITH.
21.1	List of Subsidiaries. FILED HEREWITH.
23.1	Consent of Independent Registered Public Accounting Firm. FILED HEREWITH.
31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
32.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
32.2	Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
101	The following materials from the Company's Annual Report on Form 10-K for the year ended October 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at October 31, 2011 and October 31, 2010, (ii) Consolidated Statements of Operations for the years ended October 31, 2011, 2010 and 2009, (iii) Consolidated Statements of Stockholders' Equity for the years ended October 31, 2011, 2010 and 2009, (iv) Consolidated Statements of Cash Flows for the years ended October 31, 2011, 2010 and 2009, and (v) Notes to Consolidated Financial Statements. FURNISHED HEREWITH (not filed).

* Management contract or compensatory plan or agreement.

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Date: January 26, 2012

/S/ JOHN B. WILLIAMSON, III

John B. Williamson, III
Director



ANNUAL
REPORT  REPORT

2011



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

ASHEVILLE, NC
Enterprise Connectivity Facility
ISO 9001:2008 registered

DALLAS, TX
Military & Harsh Environment Connectivity Facility
ISO 9001:2008 registered
MIL-STD-790F certified



OPTICAL CABLE CORPORATION

Annual Report

2011

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Optical Cable Corporation

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

	Years ended October 31,				
	2011	2010	2009	2008	2007
Consolidated Statement of Operations Information:					
Net sales	\$ 73,339	\$ 67,506	\$ 58,589	\$ 60,998	\$ 45,503
Cost of goods sold	47,048	43,746	38,748	36,838	28,333
Gross profit	26,291	23,760	19,841	24,160	17,170
Selling, general and administrative expenses	25,169	24,268	22,345	20,642	15,300
Royalty income, net	(783)	(1,233)	(878)	(636)	—
Amortization of intangible assets	431	587	825	469	—
Impairment of goodwill	—	5,580	—	—	—
Impairment of intangible assets (other than goodwill)	—	—	344	—	—
Income (loss) from operations	1,474	(5,442)	(2,795)	3,685	1,870
Other income (expense), net:					
Interest income (expense), net	(620)	(542)	149	(147)	21
Other, net	1	65	16	(24)	27
Income (loss) before income taxes	855	(5,919)	(2,630)	3,514	1,918
Income tax expense (benefit)	398	91	(706)	1,302	665
Net income (loss)	\$ 457	\$ (6,010)	\$ (1,924)	\$ 2,212	\$ 1,253
Net loss attributable to noncontrolling interest (2)	(209)	(277)	—	—	—
Net income (loss) attributable to OCC	\$ 666	\$ (5,733)	\$ (1,924)	\$ 2,212	\$ 1,253
Net income (loss) per share attributable to OCC	\$ 0.11	\$ (0.95)	\$ (0.34)	\$ 0.36	\$ 0.21
PROFORMA net loss attributable to OCC, EXCLUDING impairment of goodwill (1)		\$ (153)			
PROFORMA net loss per share attributable to OCC, EXCLUDING impairment of goodwill:					
Basic and diluted (1)		\$ (0.03)			
Weighted average shares:					
Basic	6,305	6,015	5,656	6,062	6,089
Diluted	6,305	6,015	5,656	6,062	6,096
Consolidated Balance Sheet Information:					
Cash and cash equivalents	\$ 1,092	\$ 2,522	\$ 1,948	\$ 3,910	\$ 3,139
Working capital	23,326	22,905	20,070	23,765	15,937
Total assets	44,945	45,291	50,327	54,837	37,281
Bank debt	8,191	9,069	8,536	10,953	—
Total shareholders' equity attributable to OCC	28,209	27,857	33,257	34,832	31,978

- (1) Proforma net loss attributable to OCC and proforma net loss per share attributable to OCC are calculated by excluding the non-cash, non-recurring net impairment of goodwill charge of \$5.6 million associated with the acquisition of Applied Optical Systems, Inc. ("AOS") that was recorded during fiscal year 2010 from the Company's net loss attributable to OCC as reported for the fiscal year ended October 31, 2010. There is no tax benefit associated with the goodwill impairment charge, as it is considered a non-deductible permanent item for tax purposes. Accordingly, there is no change to the tax expense as reported for fiscal year 2010 in determining the proforma net loss and net loss per share to the Consolidated Financial Statements.
- (2) Accounting Standards Codification 810-10, *Consolidation* ("ASC 810-10"), was adopted by OCC in fiscal year 2010 as it relates to noncontrolling interests. There are no noncontrolling interest amounts presented for fiscal years 2009 and 2008 since the minority interest's share of losses attributable to Centric Solutions LLC was charged against the Company's majority interest in accordance with the previous accounting literature.

Letter from the CEO

Dear Shareholders:

Record Net Sales Achieved—Again!

Optical Cable Corporation (OCC®) achieved record annual net sales once again in fiscal year 2011.

The Company grew annual net sales by 8.6% to \$73.3 million—the highest in OCC’s history—surpassing our previous net sales record achieved just last year.

In addition to record sales, OCC recorded a number of other notable financial achievements in fiscal year 2011, including:

- **Increased gross profit:** OCC grew gross profit 10.7% to \$26.3 million, and slightly increased gross profit margin (gross profit as a percentage of net sales) to 35.8% for fiscal year 2011.
- **Improved profitability:** OCC achieved improved profitability during fiscal year 2011, reporting net income attributable to OCC of \$0.11 per share, compared to a proforma net loss attributable to OCC of \$0.03 per share in fiscal year 2010. ¹
- **Generated strong cash flow:** OCC generated \$2.4 million in net cash provided by operating activities in fiscal 2011—continuing our track-record of generating annual positive cash provided by operating activities every year since 2001 (with the exception of fiscal year 2006 ²).
- **Provided cash dividends to shareholders:** OCC declared quarterly cash dividends totaling \$0.04 per share during fiscal year 2011, returning \$252,000 to shareholders and continuing the regular quarterly dividend first initiated by the OCC Board of Directors in October 2010.
- **Purchased and retired shares:** OCC also returned \$846,000 to shareholders during the fiscal year by purchasing and retiring 183,025 shares of OCC common stock. These share repurchases completed our previously announced plan to purchase and retire a total of 325,848 shares.
- **Reduced bank debt:** OCC reduced its bank indebtedness by \$878,000 during the year, paying down the balance on our revolving line of credit and reducing the principal owed on our long-term real estate debt. OCC had unused and available credit of \$6.0 million at year end—the full amount of our revolving credit facility.

¹ Reported net loss per share attributable to OCC was \$0.95 per share in fiscal year 2010. Proforma net loss per share attributable to OCC of \$0.03 excludes the non-cash, non-recurring goodwill impairment charge of \$5.6 million, net, recorded during fiscal year 2010.

² In fiscal year 2006, net cash used in operating activities by OCC was \$58,000.

Strong Execution of Strategy Continues

OCC's improved financial performance reflects the successful execution of our strategy.

Over the past three years, we have integrated acquisitions and developed innovative new product offerings to provide our diverse customer base with the products, services and solutions they want and need.

Today, OCC provides a broad offering of fiber optic and copper data communication cabling and connectivity products to customers and end-users that offer *unrivaled integrated solutions*TM operating as an OCC system solution, or that can seamlessly integrate with other components.

As a result, we believe OCC is exceptionally well positioned in our targeted markets, placing us in an enviable position relative to our competitors and allowing us to compete more effectively over the long term.

While we have taken great strides forward, the OCC team remains focused on maximizing the growth opportunities provided by the continued successful execution of our strategy, and on improving operating efficiencies and controlling costs.

Continued Commitment to Creating Shareholder Value

We believe the continued successful execution of our strategy will create substantial long-term value for OCC shareholders.

OCC's total shareholder return (share price appreciation plus dividends paid) was 13.8%¹ during fiscal year 2011, outperforming the return of the Russell 2000[®] index, the S&P 500 index, and the Dow Jones Industrial Average during the same period.

OCC also announced earlier this month a 50% increase in our regular quarterly dividend rate to \$0.015 per share, implying an annual dividend rate of \$0.06 per share.

Despite our achievements, we believe that OCC's strategy, market positioning, financial strength, and underlying value still are not fully appreciated by the equity market as reflected in our share price. Today, our shares trade at a significant discount to net book value per share. At the end of fiscal year 2011, OCC's net book value attributable to OCC was \$28.2 million, or \$4.49 per share.

Consistent with our view of OCC's value and following the completion of our previous share repurchase program in October 2011, the OCC Board of Directors authorized a new share repurchase program announced in November 2011. This new repurchase program authorizes the acquisition and retirement of up to 200,000 shares of our common stock (or approximately 3% of outstanding shares), and is anticipated to be completed over a 12- to 24-month period.

¹ OCC shares closed at \$3.18 on November 1, 2010, and at \$3.58 on October 31, 2011. OCC paid dividends of \$0.04 per share during fiscal year 2011.

Looking Forward to 2012

We have strived to position OCC for growth—and we continue to aggressively pursue that objective.

In February 2012, OCC will unveil a new family of high-density, easy access products and solutions. This new family of OCC products will be called Procyon™ and will include both cabling and connectivity products. We are excited about the opportunities this new product offering is expected to create, and look forward to releasing further details at the 2012 BICSI Winter Conference in early February.

As we look forward to fiscal year 2012, we believe we will continue to experience seasonality that results in lower net sales during the first half of our fiscal year than during the second half of our fiscal year. Past experience also has shown that our sales can vary from quarter to quarter as a result of the timing of larger projects and temporary fluctuations in demand, or as a result of changes in demand in individual markets.

Despite any quarterly variability we may experience during fiscal 2012, we are confident that fiscal year 2012 will be a year of continued growth and success for OCC.

We look forward to reporting to you future positive results from the continued execution of our strategy and our ongoing efforts to enhance value for shareholders.

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

/s/ Neil D. Wilkin, Jr.

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

January 26, 2012

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

Forward-Looking Information

This report may contain certain forward-looking information within the meaning of the federal securities laws. The forward-looking information may include, among other information, (i) statements concerning our outlook for the future, (ii) statements of belief, anticipation or expectation, (iii) future plans, strategies or anticipated events, and (iv) similar information and statements concerning matters that are not historical facts. Such forward-looking information is subject to known and unknown variables, uncertainties, contingencies and risks that may cause actual events or results to differ materially from our expectations, and such variables, uncertainties, contingencies and risks may also adversely affect Optical Cable Corporation and its subsidiaries (collectively, the "Company" or "OCC®"), the Company's future results of operations and future financial condition, and/or the future equity value of the Company. Factors that could cause or contribute to such differences from our expectations or 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 for 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 or other spending by the United States government; ability to retain key personnel; inability to recruit needed personnel; poor labor relations; the impact of changes in accounting policies and related costs of compliance, including changes by the Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), the Financial Accounting Standards Board (FASB), and/or the International Accounting Standards Board (IASB); our ability to continue to successfully comply with, and the cost of compliance with, the provisions of Section 404 of the Sarbanes-Oxley Act of 2002 or any revisions to that act which apply to us; the impact of changes and potential changes in federal laws and regulations adversely affecting our business and/or which result in increases in our direct and indirect costs, including our direct and indirect costs of compliance with such laws and regulations; the impact of the Patient Protection and Affordable Care Act of 2010, the Health Care and Education Reconciliation Act of 2010, and any revisions to those acts that apply to us and the related legislation and regulation associated with those acts, which directly or indirectly results in increases to our costs; the impact of changes in state or federal tax laws and regulations increasing our costs; the impact of future consolidation among competitors and/or among customers adversely affecting our position with our customers and/or our market position; actions by customers adversely affecting us in reaction to the expansion of our product offering in any manner, including, but not limited to, by offering products that compete with our customers, and/or by entering into alliances with, making investments in or with, and/or acquiring parties that compete with and/or have conflicts with customers of ours; voluntary or involuntary delisting of the Company's capital stock from any exchange on which it is traded; the deregistration by the Company from SEC reporting requirements, as a result of the small number of holders of the Company's capital stock; adverse reactions by

customers, vendors or other service providers to unsolicited proposals regarding the ownership or management of the Company; the additional costs of considering 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, market our products and/or acquire raw materials; an increase in the number of the Company's capital stock issued and outstanding; 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. Furthermore, we incorporate by reference those factors included in current reports on Form 8-K, and/or in our other filings.

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

Overview of Optical Cable Corporation

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

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

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

Our Asheville team designs and manufactures fiber and copper connectivity products for the commercial market, including a broad range of commercial and residential applications. We refer to these products as our enterprise connectivity product offering.

Our Dallas team designs, develops and manufactures a broad range of specialty fiber optic connectors and connectivity solutions primarily for use in military and other harsh environment applications. We refer to these products as our applied interconnect systems product offering. We market and sell the products manufactured at our Dallas facility by our wholly owned subsidiary Applied Optical Systems, Inc. ("AOS") under the names Optical Cable Corporation and OCC through the efforts of our integrated sales team.

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

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

Summary of Company Performance for Fiscal Year 2011

Our vision and strategy for Optical Cable Corporation has been to build on our strong reputation and market position in the fiber optic cable industry in commercial and specialty markets (our fiber optic cable product offering) by adding a suite of connectivity products enabling us to offer top-tier, end-to-end integrated cabling and connectivity solutions to our customers and end-users in our targeted markets. We have focused our efforts this past year on continuing to integrate our subsidiaries and streamlining the operations of all of our facilities with positive results. We have gained manufacturing efficiencies at our fiber optic cable and applied interconnect systems facilities which have positively impacted our gross profit margins. During fiscal year 2011, we also focused on reassessing our sales force and the sales resources needed to successfully bring our expanded product offerings to market for maximum effectiveness. And, we are just starting to see the positive results, as evidenced by the significant increase in net sales in fiscal year 2011.

In fiscal year 2011, we began to see the positive results of our strategic initiatives and continued integration efforts.

- During fiscal year 2011, OCC recorded the highest annual net sales in the Company’s history, exceeding the previous record for annual net sales set in fiscal year 2010. Consolidated net sales increased 8.6% to \$73.3 million compared to \$67.5 million for fiscal year 2010.
- Gross profit increased 10.7% to \$26.3 million for fiscal year 2011 compared to \$23.8 million for fiscal year 2010. Gross profit margin (gross profit as a percentage of net sales) increased slightly to 35.8% for fiscal year 2011 from 35.2% for fiscal year 2010.
- Net income attributable to OCC increased to \$666,000, or \$0.11 per share, during fiscal year 2011, compared to a net loss attributable to OCC of \$5.7 million, or \$0.95 per share, for fiscal year 2010. Net income attributable to OCC also increased during fiscal year 2011 compared to our proforma net loss attributable to OCC of \$153,000, or \$0.03 per share, for fiscal year 2010 (excluding the non-recurring, non-cash \$5.6 million net goodwill impairment charge for fiscal year 2010). This proforma net loss and net loss per share for fiscal year 2010 is calculated by adding the net impairment charge of \$5.6 million to our pre-tax loss as reported for fiscal year 2010. There is no tax benefit associated with the impairment charge, as it is considered a non-deductible permanent item for tax purposes, so there is no change to the tax expense as reported for fiscal year 2010 in determining the proforma net loss and net loss per share.
- OCC generated annual positive cash flow from operating activities again this year, as we have each year after fiscal year 2000, with the exception of fiscal year 2006 when \$58,000 net cash was used in operating activities by OCC. Net cash provided by operating activities was \$2.4 million in fiscal year 2011.
- We reduced our bank indebtedness during fiscal year 2011 by \$878,000, by paying down our revolving line of credit and reducing the principal owed on our long-term real estate term debt. OCC ended fiscal year 2011 with \$6 million in unused and available credit on our revolving line of credit.
- OCC declared quarterly cash dividends totaling \$0.04 per share during fiscal year 2011, continuing the regular return of capital to shareholders initiated when we declared our first quarterly dividend in October 2010. In January 2012, we announced an increase in our regular quarterly dividend rate to \$0.015 per share per quarter, implying an annual dividend rate of \$0.06 per share.

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- We also returned \$846,000 in capital to shareholders through the repurchases of OCC's common stock during fiscal year 2011. OCC repurchased and retired 183,025 shares of common stock during the year.

Results of Operations

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

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

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

Our gross profit margin percentages are heavily dependent upon product mix on a quarterly basis and may vary based on 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 royalty and related expenses.

Amortization of intangible assets consists of the amortization of developed technology acquired in the acquisition of Superior Modular Products Incorporated, doing business as SMP Data Communications ("SMP Data Communications" or "SMP") 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 the straight line method over the estimated useful lives of the intangible assets.

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

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

	Fiscal Years Ended October 31,		Percent Change	Fiscal Years Ended October 31,		Percent Change
	2011	2010		2010	2009	
Net sales	\$ 73,300,000	\$67,500,000	8.6%	\$67,500,000	\$58,600,000	15.2%
Gross profit	26,300,000	23,800,000	10.7	23,800,000	19,800,000	19.8
SG&A expenses	25,200,000	24,300,000	3.7	24,300,000	22,300,000	8.6
Impairment of goodwill	—	5,600,000	(100.0)	5,600,000	—	100.0
Net income (loss) attributable to OCC	666,000	(5,700,000)	111.6	(5,700,000)	(1,900,000)	197.9

Net Sales

OCC recorded the highest annual net sales in the Company's history during fiscal year 2011. Net sales increased 8.6% to \$73.3 million in fiscal year 2011 compared to \$67.5 million in fiscal year 2010. The increase in net sales when comparing fiscal years 2011 and 2010 is due primarily to the increase in net sales of our applied interconnect systems products and our fiber optic cable products. Applied interconnect systems products were added to the OCC product offering in fiscal year 2010, with the acquisition of AOS effective October 31, 2009. As a result of successful integration processes over the past year, we gained synergies due to our integrated sales force and also gained efficiencies associated with throughput in the AOS production facility, resulting in significant increases in net sales in the second half of fiscal year 2010 and throughout fiscal year 2011.

OCC recorded the second highest annual net sales in the Company's history during fiscal year 2010. Net sales increased 15.2% to \$67.5 million in fiscal year 2010 compared to \$58.6 million in fiscal year 2009. The increase in net sales during fiscal year 2010 when compared to fiscal year 2009 was attributable to the fact that we experienced increases in both our commercial markets and our specialty markets during fiscal year 2010 when compared to fiscal year 2009. The acquisition of AOS by OCC on October 31, 2009 also contributed to the net sales growth totaling \$8.0 million in fiscal year 2010.

Net sales to customers located outside of the United States were 24%, 27% and 27% of total net sales for fiscal years 2011, 2010 and 2009, respectively. Net sales to customers located in the United States increased 12.2% during fiscal year 2011 compared to fiscal year 2010 while net sales to customers located outside of the United States decreased 1.2%. The increase in net sales to customers located in the United States is due to the fact that we experienced increases in net sales of our fiber optic cable products and our existing applied interconnect systems products to U.S. customers during fiscal year 2011.

We typically expect net sales to be relatively lower in the first half of each fiscal year and relatively higher in the second half of each fiscal year. We believe this historical seasonality pattern is generally indicative of an overall trend and reflective of the buying patterns and budgetary cycles of our customers. However, this pattern may be substantially altered during any quarter or year by the timing of larger projects, other economic factors impacting our industry or impacting the industries of our customers and end-users and macro-economic conditions. While we believe seasonality may be a factor that impacts our quarterly net sales results, we are not able to reliably predict net sales based on seasonality because these other factors can also substantially impact our net sales patterns during the year.

We believe our consolidated net sales may be negatively impacted by the continuing global economic recession. However, when comparing net sales for fiscal year 2011 to fiscal year 2010, the sale of our fiber optic cable and applied interconnect systems products have improved. We believe our improvement in net sales may indicate we have achieved market share gains in certain of our markets and may indicate the beginning of some improvements in certain of our markets. However, we cannot be sure at this time if these gains and/or this improvement are an indication of a trend or predict whether or not they will continue.

Gross Profit

Gross profit increased 10.7% to \$26.3 million in fiscal year 2011 from \$23.8 million in fiscal year 2010. Gross profit margin, or gross profit as a percentage of net sales, increased slightly to 35.8% for fiscal year 2011, compared to 35.2% for fiscal year 2010.

Gross profit increased 19.8% to \$23.8 million in fiscal year 2010 from \$19.8 million in fiscal year 2009. Gross profit margin, or gross profit as a percentage of net sales, increased to 35.2% for fiscal year 2010, compared to 33.9% for fiscal year 2009.

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 \$25.2 million in fiscal year 2011 from \$24.3 million in fiscal year 2010. SG&A expenses as a percentage of net sales were 34.3% in fiscal year 2011 compared to 35.9% in fiscal year 2010.

The increase in SG&A expenses during fiscal year 2011 compared to fiscal year 2010 was primarily due to increased compensation costs including increases in commissions, increased shipping costs, and increased selling and marketing related expenses. Compensation costs increased in fiscal year 2011 largely as a result of strategic new hires in our sales and marketing teams. Commissions increased due to the increase in net sales in fiscal year 2011 and changes in the manner in which we incent the sales force, made in an effort to increase net sales. Shipping costs increased due primarily to increases in the cost of our international shipments.

SG&A expenses increased to \$24.3 million in fiscal year 2010 from \$22.3 million in fiscal year 2009. SG&A expenses as a percentage of net sales decreased to 35.9% in fiscal year 2010 compared to 38.1% in fiscal year 2009.

But for the acquisition of AOS on October 31, 2009, we believe our SG&A expenses would have decreased by at least \$984,000 during fiscal year 2010, compared to fiscal year 2009. The acquisition of AOS added at least \$2.9 million to our consolidated SG&A expenses in fiscal year 2010, including \$988,000 of employee related costs and \$666,000 of legal fees (related to litigation in the patent infringement lawsuit to which AOS is a party). Excluding the impact of the acquisition of AOS, affecting consolidated SG&A expenses were: our continued efforts to reduce costs, work force reductions initiated during the third quarter of fiscal year 2009, and savings and costs (net) related to continued integration efforts of the acquisitions of SMP Data Communications and AOS.

Royalty Income, Net

We recognized royalty income, net of royalty and related expenses, totaling \$783,000 during fiscal year 2011, compared to \$1.2 million during fiscal year 2010. The decrease in sales of licensed products by licensees during fiscal year 2011 contributed to the decrease in royalty income, net when compared to fiscal year 2010. 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 included herein), resulting from recording of identifiable intangible assets at fair value when acquired as part of the acquisition of SMP Data Communications on May 30, 2008. Certain patents which generate a portion of our royalty income will begin to expire during our 2012 fiscal year. As a result, we expect to see a trend of declining royalty income and we expect amortization of intangible assets expense to continue to decline.

We recognized royalty income, net of related expenses, totaling \$1.2 million during fiscal year 2010, compared to royalty income, net of related expenses, totaling \$878,000 during fiscal year 2009. The increase was due to the increase in sales of licensed products by licensees during fiscal year 2010 compared to fiscal year 2009.

Amortization of Intangible Assets

We recognized \$431,000 of amortization expense, associated with intangible assets, during fiscal year 2011, compared to amortization expense of \$587,000 during fiscal year 2010. The decrease in amortization expense, when comparing the two fiscal years, is primarily due to the fact that the purchased developed technology asset, acquired in connection with the acquisition of SMP Data Communications, is being amortized using a declining balance method over the useful life of the asset; therefore, the amortization expense decreases as the asset ages.

We recognized \$587,000 of amortization expense, associated with intangible assets, during fiscal year 2010, compared to amortization expense of \$825,000 during fiscal year 2009. The decrease in amortization expense, when comparing the two fiscal years, 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 fiscal year 2009 when it was concluded that these assets were impaired. The decrease was partially offset by the addition in fiscal year 2009 of intangible assets acquired in the acquisition of AOS on October 31, 2009 and the related amortization of those intangible assets beginning in fiscal year 2009.

Impairment of Goodwill

During fiscal year 2010, we performed an annual impairment analysis of goodwill (associated with the acquisition of AOS) as required by U.S. GAAP. We analyzed the carrying value of goodwill as of April 30, 2010 and determined that it was 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 of \$5.6 million during fiscal year 2010—consisting of (i) a \$6.2 million goodwill impairment charge recognized during the second quarter of fiscal year 2010 and (ii) a \$666,000 reversal of the goodwill charge associated with a purchase accounting adjustment recognized during the fourth quarter of fiscal year 2010. The purchase accounting adjustment made during the fourth quarter was primarily the result of the Company's adjustment to the valuation of certain deferred tax assets acquired in the purchase of AOS, and is not a result of a re-evaluation of the goodwill impairment recorded during the second quarter of fiscal year 2010.

No such impairment charge was incurred in fiscal year 2011 or 2009.

Impairment of Intangible Assets (other than goodwill)

During fiscal year 2009, we discontinued marketing our connectivity products under the SMP Data Communications trade name and began to market these products under the names Optical Cable Corporation and OCC®. Additionally, we re-evaluated the value assigned to the customer list asset using more current post-acquisition financial information. As a result, we determined the trade name and customer list assets were impaired and recorded a non-cash, non-recurring impairment charge totaling \$344,000 during fiscal year 2009.

No such impairment charge was incurred in fiscal years 2011 or 2010.

Other Income (Expense), Net

We recognized other expense, net of \$619,000 in fiscal year 2011 compared to \$477,000 in fiscal year 2010. Other expense, net for fiscal year 2011 is comprised of: interest income totaling \$5,000; interest expense totaling \$625,000 related primarily to monies borrowed in connection with the acquisition of SMP Data Communications in fiscal year 2008, borrowings under our revolving credit facility, and other interest incurred in the normal course of business; and other miscellaneous items which may fluctuate from period to period.

We recognized other expense, net of \$477,000 in fiscal year 2010 compared to other income, net of \$165,000 in fiscal year 2009. Other expense, net for fiscal year 2010 is comprised of: interest income totaling \$80,000; interest expense totaling \$622,000 related primarily to monies borrowed in connection with the acquisition of SMP Data Communications in fiscal year 2008, borrowings under our revolving credit facility, and other interest incurred in the normal course of business; and other miscellaneous items which may fluctuate from period to period. Other income, net for fiscal year 2009 is comprised of: interest income totaling \$831,000, of which

\$819,000 was recognized during the fourth quarter of fiscal year 2009 in connection with accounting for the acquisition of AOS on October 31, 2009, and related to our note receivable from AOS; interest expense totaling \$682,000 related to monies borrowed in connection with the acquisition of SMP Data Communications in fiscal year 2008; and other miscellaneous items which fluctuate from period to period.

Income (Loss) Before Income Taxes

We reported income before income taxes of \$856,000 for fiscal year 2011 compared to a loss before income taxes of \$5.9 million for fiscal year 2010. This change was due to the increase in gross profit of \$2.5 million in fiscal year 2011 compared to fiscal year 2010, partially offset by the increase in SG&A expenses of \$901,000, and the non-recurring loss on the impairment of goodwill of \$5.6 million recorded in fiscal year 2010. Excluding the goodwill impairment charge, we would have reported a net loss before income taxes of \$339,000 in fiscal year 2010.

We reported a loss before income taxes of \$5.9 million for fiscal year 2010 compared to a loss before income taxes of \$2.6 million in fiscal year 2009. The increase was primarily due to the impairment of goodwill of \$5.6 million and the increase in SG&A expenses of \$1.9 million in fiscal year 2010 compared to fiscal year 2009. The increase in the loss before income taxes was partially offset by the increase in gross profit of \$3.9 million. But for the goodwill impairment charge of \$5.6 million during fiscal year 2010, we would have reported a loss before income taxes of \$339,000 compared to a loss before income taxes of \$2.6 million for fiscal year 2009.

Income Tax Expense (Benefit)

Income tax expense totaled \$398,000 for fiscal year 2011, compared to \$91,000 for fiscal year 2010. Our effective tax rate was 46.5% in fiscal year 2011, compared to negative 1.5% in fiscal year 2010.

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

During fiscal year 2010, we recorded a non-recurring, non-cash impairment charge in the amount of \$5.6 million to write-off the carrying value of goodwill. Since our tax basis in the goodwill was zero, this resulted in a permanent \$5.6 million difference between book and taxable income and was the primary cause of our significantly lower effective tax rate in that year.

Income tax expense totaled \$91,000 for fiscal year 2010, compared to income tax benefit of \$706,000 for fiscal year 2009. Our effective tax rate was negative 1.5% in fiscal year 2010, compared to 26.8% in fiscal year 2009.

Net Income (Loss)

Net income attributable to OCC for fiscal year 2011 was \$666,000 compared to a net loss attributable to OCC of \$5.7 million for fiscal year 2010. This change was primarily due to the increase in income before income taxes of \$6.8 million for fiscal year 2011 compared to fiscal year 2010.

Net loss attributable to OCC for fiscal year 2010 was \$5.7 million compared to a net loss of \$1.9 million in fiscal year 2009. This increase was due primarily to the increase in the loss before income taxes of \$3.3 million for fiscal year 2010 compared to fiscal year 2009 and the recognition of tax expense of \$91,000 in fiscal year 2010 compared to a tax benefit of \$706,000 in fiscal year 2009.

Financial Condition

Total assets decreased \$346,000, or less than one percent, to \$44.9 million at October 31, 2011, from \$45.3 million at October 31, 2010. This decrease is due primarily to a \$1.4 million decrease in cash, a \$581,000 decrease in property, plant and equipment, and a \$400,000 decrease in intangible assets, partially offset by a \$2.1 million increase in inventories, net. Further detail regarding the decrease in cash is provided in our discussion of "Liquidity and Capital Resources". The decrease in property, plant and equipment is due to the fact that depreciation expense was greater than asset additions for fiscal year 2011. The decrease in intangible assets is due to the continued amortization of the intangible assets acquired in connection with our previous acquisitions. 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 decreased \$488,000, or 2.8%, to \$17.2 million at October 31, 2011, from \$17.7 million at October 31, 2010. This decrease is primarily due to the \$700,000 repayment of our note payable to bank under our revolving credit facility during fiscal year 2011.

Total shareholders' equity attributable to OCC at October 31, 2011 increased \$352,000, or 1.3%, during fiscal year 2011. The increase resulted from net income attributable to OCC of \$666,000 and share-based compensation, net of \$631,000, partially offset by the repurchase and retirement of 183,025 shares of our common stock for \$846,000.

Liquidity and Capital Resources

Our primary capital needs during fiscal year 2011 have been to fund working capital requirements and capital expenditures, to repay the outstanding balance on our revolving credit facility, as well as the repurchase and retirement of our common stock. Our primary source of capital for these purposes has been existing cash and cash provided by operations. As of October 31, 2011, we did not have an outstanding loan balance under our revolving credit facility. As of October 31, 2010, we had an outstanding loan balance under our revolving credit facility totaling \$700,000. As of October 31, 2011 and 2010, we had outstanding loan balances, excluding our revolving credit facility, totaling \$8.2 million and \$8.4 million, respectively.

Our cash totaled \$1.1 million as of October 31, 2011, a decrease of \$1.4 million, compared to \$2.5 million as of October 31, 2010. The decrease in cash for the fiscal year ended October 31, 2011, resulted from net cash used in financing activities of \$2.3 million (primarily related to the repurchase and retirement of our common stock totaling \$846,000, the repayment of our note payable to bank under our revolving credit facility of \$700,000 and cash dividends paid totaling \$252,000), and net cash used in investing activities of \$1.5 million (primarily related to capital expenditures), partially offset by net cash provided by operating activities of \$2.4 million.

On October 31, 2011, we had working capital of \$23.3 million, compared to \$22.9 million as of October 31, 2010. The ratio of current assets to current liabilities as of October 31, 2011, was 3.8 to 1 compared to 4.0 to 1 as of October 31, 2010. The increase in working capital during fiscal year 2011 was primarily due to the \$2.1 million increase in inventories, partially offset by the \$1.4 million decrease in cash.

Net Cash

Net cash provided by operating activities was \$2.4 million in fiscal year 2011 compared to \$1.2 million in fiscal year 2010, and \$2.8 million in fiscal year 2009.

Net cash provided by operating activities during fiscal year 2011 primarily resulted from net income of \$457,000 and certain adjustments to reconcile net income to net cash provided by operating activities, including depreciation and amortization of \$2.7 million and share-based compensation expense of \$893,000. All of the aforementioned factors positively affecting cash provided by operating activities were partially offset by an increase in inventories of \$2.1 million.

Net cash provided by operating activities during fiscal year 2010 primarily resulted from certain adjustments to reconcile net loss to net cash provided by operating activities including the impairment of goodwill of \$5.6 million, depreciation, amortization and accretion of \$3.0 million and share-based compensation expense of \$943,000. Additionally, the decrease in income taxes refundable in the amount of \$1.5 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 inventories of \$2.1 million, the increase in accounts receivable totaling \$1.2 million, and a net loss totaling \$6.0 million.

Net cash provided by operating activities during fiscal year 2009 primarily resulted from certain adjustments to reconcile net loss to net cash provided by operating activities including depreciation and amortization of \$3.1 million and share-based compensation expense of \$920,000. Additionally, the decrease in accounts receivable in the amount of \$1.9 million and a decrease in inventories in the amount of \$1.9 million, in both cases exclusive of assets and liabilities of AOS at the date of acquisition, further contributed to net cash provided by operating activities. All of the aforementioned factors positively affecting cash provided by operating activities were partially offset by the increase in income taxes refundable of \$1.8 million and a decrease in accounts payable and accrued expenses (including accrued compensation and payroll taxes) totaling \$2.0 million, again exclusive of assets and liabilities of AOS at the date of acquisition, and a net loss totaling \$1.9 million.

Net cash used in investing activities totaled \$1.5 million in fiscal year 2011 compared to \$533,000 in fiscal year 2010 and \$1.5 million in fiscal year 2009. Net cash used in investing activities during fiscal years 2011 and 2010 resulted primarily from the purchases of property and equipment and deposits for the purchase of property and equipment. Net cash used in investing activities during fiscal year 2009 resulted primarily from the acquisition of AOS and purchases of property and equipment and deposits for the purchase of property and equipment.

Net cash used in financing activities was \$2.3 million in fiscal year 2011 compared to \$44,000 in fiscal year 2010 and \$3.3 million in fiscal year 2009. Net cash used in financing activities in fiscal year 2011 resulted primarily from the repurchase and retirement of 183,025 shares of our common stock totaling \$846,000 and the repayment of our note payable to bank under our revolving credit facility of \$700,000. Net cash used in financing activities in fiscal year 2010 resulted primarily from proceeds from a note payable to our bank under our line of credit in the amount of \$700,000, partially offset by the repurchase and retirement of 143,000 shares of our common stock for \$425,000. Net cash used in financing activities in fiscal year 2009 resulted primarily from the repayment of long-term debt of \$2.4 million.

Credit Facilities

On May 30, 2008, we established \$17.0 million in credit facilities (collectively, the "Credit Facilities") with Valley Bank to provide for our working capital needs and to finance the acquisition of SMP Data Communications. The Credit Facilities 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 original credit facility related to the Capital Acquisitions Term Loan is no longer available. On April 30, 2010, we entered into a revolving credit facility with SunTrust Bank (further described below) which replaced the Valley Bank Revolving Loan.

On April 22, 2011, OCC and Valley Bank entered into a Third Loan Modification Agreement (the "Agreement") to the Credit Agreement dated May 30, 2008 entered into between the Company, Superior Modular Products Incorporated and Valley Bank. Under the Agreement, the interest rate and the applicable repayment installments of the Virginia Real Estate Loan and the North Carolina Real Estate Loan were revised and the maturity date of the loans was extended. The fixed interest rate of the two term loans was lowered to 5.85% from 6.0%, and the maturity date of the loans was extended from June 1, 2013 to April 30, 2018.

The Virginia Real Estate Loan was fully funded on May 30, 2008. Under the Agreement with Valley Bank, the Virginia Real Estate Loan accrues interest at 5.85% and payments of principal and interest are based on a 25 year amortization from the closing date of the Agreement. The remainder of the payments on the Virginia Real Estate Loan will be made in 83 equal monthly installments of principal and interest in the amount of \$41,686 beginning May 1, 2011. The balance of the Virginia Real Estate Loan will be due April 30, 2018. As of October 31, 2011, we had outstanding borrowings of \$6.1 million under our Virginia Real Estate Loan.

The North Carolina Real Estate Loan was fully funded on May 30, 2008. Under the Agreement with Valley Bank, the North Carolina Real Estate Loan accrues interest at 5.85% and payments of principal and interest are based on a 25 year amortization from the

closing date of the Agreement. The remainder of the payments on the North Carolina Real Estate Loan will be made in 83 equal monthly installments of principal and interest in the amount of \$14,366 beginning May 1, 2011. The balance of the North Carolina Real Estate Loan will be due April 30, 2018. As of October 31, 2011, we had outstanding borrowings of \$2.1 million under our North Carolina Real Estate Loan.

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 provides us with a revolving line of credit for our working capital needs (the "Commercial Loan"). The Commercial Loan was due to mature on May 31, 2012. On July 25, 2011, we entered into a binding letter of renewal with SunTrust Bank of the commercial note extending the Commercial Loan to May 31, 2013. Concurrently with the renewal, we also entered into a Fourth Loan Modification Agreement with Valley Bank to amend the definition of 'SunTrust Debt' to provide for the extension of the revolver's maturity date.

The Commercial Loan provides us the ability to 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. Within the Revolving Loan Limit, we may borrow, repay, and reborrow, at any time until May 31, 2013.

Advances under the Commercial Loan accrue interest 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, with all then outstanding principal, interest, fees and costs due at the Commercial Loan Termination Date of May 31, 2013.

As of October 31, 2011, we had no outstanding borrowings on our Commercial Loan and \$6.0 million in available credit.

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.

Capital Expenditures

We did not have any material commitments for capital expenditures as of October 31, 2011. During our 2011 fiscal year budgeting process, we included an estimate for capital expenditures for the year of \$2.0 million. We actually incurred capital expenditures totaling \$1.5 million, for items including new manufacturing equipment, improvements to existing manufacturing equipment, new information technology equipment and software, upgrades to existing information technology equipment and software, furniture and other capitalizable expenditures for property, plant and equipment for fiscal year 2011.

During our 2012 fiscal year budgeting process, we included an estimate for capital expenditures of \$2.5 million for the year. These expenditures will be funded out of our working capital or borrowings under our credit facilities. This amount includes estimates for capital expenditures for similar types of items as those purchased in fiscal year 2011. Capital expenditures are reviewed and approved based on a variety of factors including, but not limited to, current cash flow considerations, the expected return on investment, project

priorities, impact on current or future product offerings, availability of personnel necessary to implement and begin using acquired equipment, and economic conditions in general. Historically, we have spent less than our budgeted capital expenditures in any given year.

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

Future Cash Flow Considerations

We believe that our cash flow from operations, our cash on hand and our existing 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.

As a result, we typically expect net sales to be relatively lower in the first half of each fiscal year and relatively higher in the second half of each fiscal year. We believe this historical seasonality pattern is generally indicative of an overall trend and reflective of the buying patterns and budgetary cycles of our customers. However, this pattern may be substantially altered during any quarter or year by the timing of larger projects, other economic factors impacting our industry or impacting the industries of our customer and end-users and macro-economic conditions. While we believe seasonality may be a factor that impacts our quarterly net sales results, we are not able to reliably predict net sales based on seasonality because these other factors can also substantially impact our net sales patterns during the year.

Critical Accounting Policies and Estimates

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

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

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

Revenue Recognition

Management views revenue recognition as a critical accounting estimate since we must estimate an allowance for sales returns for the reporting period. This allowance reduces net sales for the period and is based on our analysis and judgment of historical trends, identified returns and the potential for additional returns. The estimates for sales returns did not materially differ from actual results for the year ended October 31, 2011.

Trade Accounts Receivable and the Allowance for Doubtful Accounts

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

Inventories

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

Long-lived Assets

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

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

The Company amortizes intangible assets (other than goodwill) over their respective finite lives up to their estimated residual values.

Commitments and Contingencies

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

Quantitative and Qualitative Disclosures About Market Risk

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of October 31, 2011 our financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk.

New Accounting Standards

In 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 consolidated statements of operations for the years ended October 31, 2011 and 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 consolidated balance sheets as of October 31, 2011 and 2010, our consolidated statements of shareholders’ equity for the years ended October 31, 2011 and 2010 and in certain notes to the consolidated financial statements. This statement now requires that the noncontrolling interest continue to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance. In contrast, prior to the adoption of ASC 810-10, the minority interest’s share of losses attributable to Centric Solutions, LLC was required to be charged against our majority interest thereby resulting in a zero minority interest balance prior to November 1, 2009. As a result, there are no noncontrolling interest amounts to retrospectively reclassify to equity on the consolidated balance sheets or net loss attributable to noncontrolling interest on the consolidated statements of operations for any periods presented prior to November 1, 2009 upon our adoption of ASC 810-10.

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (“ASU 2011-04”). The amendments are intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 is to be applied prospectively upon adoption and is effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 is not expected to have any impact on our results of operations, financial position or liquidity or our related financial statement disclosures.

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

Disagreements with Accountants

We did not have any disagreements with our accountants on any accounting matter or financial disclosure made during our fiscal year ended October 31, 2011.

Consolidated Balance Sheets

October 31, 2011 and 2010

	October 31,	
	2011	2010
Assets		
Current assets:		
Cash	\$ 1,091,513	\$ 2,522,058
Trade accounts receivable, net of allowance for doubtful accounts of \$145,616 in 2011 and \$120,450 in 2010	10,797,820	10,659,623
Other receivables	510,714	606,435
Income taxes refundable	434,124	373,090
Inventories	16,497,185	14,422,787
Prepaid expenses and other assets	374,028	332,475
Deferred income taxes - current	1,817,807	1,750,542
Total current assets	31,523,191	30,667,010
Property and equipment, net	12,544,465	13,125,114
Intangible assets, net	295,843	695,580
Deferred income taxes - noncurrent	426,770	626,132
Other assets, net	154,945	176,930
Total assets	\$ 44,945,214	\$ 45,290,766
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt	\$ 190,593	\$ 177,350
Accounts payable and accrued expenses	5,426,467	5,339,941
Accrued compensation and payroll taxes	2,579,865	2,181,235
Income taxes payable	—	63,590
Total current liabilities	8,196,925	7,762,116
Note payable to bank	—	700,000
Long-term debt, excluding current installments	8,000,311	8,191,785
Other noncurrent liabilities	1,025,003	1,056,803
Total liabilities	17,222,239	17,710,704
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 6,287,761 shares in 2011 and 6,280,173 shares in 2010	6,771,565	5,987,777
Retained earnings	21,437,609	21,869,667
Total shareholders' equity attributable to Optical Cable Corporation	28,209,174	27,857,444
Noncontrolling interest	(486,199)	(277,382)
Total shareholders' equity	27,722,975	27,580,062
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 44,945,214	\$ 45,290,766

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations
Years ended October 31, 2011, 2010 and 2009

	Years ended October 31,		
	2011	2010	2009
Net sales	\$ 73,339,591	\$ 67,506,174	\$ 58,588,560
Cost of goods sold	47,048,370	43,746,220	38,747,590
Gross profit	26,291,221	23,759,954	19,840,970
Selling, general and administrative expenses	25,168,893	24,267,614	22,345,311
Royalty income, net	(783,230)	(1,233,607)	(877,809)
Amortization of intangible assets	430,807	587,233	825,399
Impairment of goodwill	—	5,580,250	—
Impairment of intangible assets (other than goodwill)	—	—	343,590
Income (loss) from operations	1,474,751	(5,441,536)	(2,795,521)
Other income (expense), net:			
Interest income	4,659	79,543	831,084
Interest expense	(624,829)	(621,750)	(681,851)
Other, net	1,170	64,726	16,130
Other income (expense), net	(619,000)	(477,481)	165,363
Income (loss) before income taxes	855,751	(5,919,017)	(2,630,158)
Income tax expense (benefit)	398,252	91,290	(705,659)
Net income (loss)	\$ 457,499	\$ (6,010,307)	\$ (1,924,499)
Net loss attributable to noncontrolling interest	(208,817)	(277,382)	—
Net income (loss) attributable to Optical Cable Corporation	\$ 666,316	\$ (5,732,925)	\$ (1,924,499)
Net income (loss) per share attributable to Optical Cable Corporation: Basic and diluted	\$ 0.11	\$ (0.95)	\$ (0.34)
Cash dividends declared per common share	\$ 0.04	\$ 0.01	\$ —

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years ended October 31, 2011, 2010 and 2009

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total Shareholders' Equity Attributable to OCC</u>	<u>Noncontrolling Interest</u>	<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balances at October 31, 2008	6,208,861	\$ 4,362,267	\$ 30,469,937	\$ 34,832,204	\$ —	\$ 34,832,204
Share-based compensation, net	449,687	803,749	—	803,749	—	803,749
Repurchase and retirement of common stock (at cost)	(149,727)	—	(454,699)	(454,699)	—	(454,699)
Net loss	—	—	(1,924,499)	(1,924,499)	—	(1,924,499)
Balances at October 31, 2009	6,508,821	5,166,016	28,090,739	33,256,755	—	33,256,755
Share-based compensation, net	(85,825)	821,761	—	821,761	—	821,761
Repurchase and retirement of common stock (at cost)	(142,823)	—	(425,345)	(425,345)	—	(425,345)
Common stock dividends declared, \$0.01 per share	—	—	(62,802)	(62,802)	—	(62,802)
Net loss	—	—	(5,732,925)	(5,732,925)	(277,382)	(6,010,307)
Balances at October 31, 2010	6,280,173	5,987,777	21,869,667	27,857,444	(277,382)	27,580,062
Share-based compensation, net	190,613	630,973	—	630,973	—	630,973
Repurchase and retirement of common stock (at cost)	(183,025)	—	(846,287)	(846,287)	—	(846,287)
Common stock dividends declared, \$0.01 per share	—	—	(252,087)	(252,087)	—	(252,087)
Excess tax benefits from share-based compensation	—	152,815	—	152,815	—	152,815
Net income	—	—	666,316	666,316	(208,817)	457,499
Balances at October 31, 2011	<u>6,287,761</u>	<u>\$6,771,565</u>	<u>\$ 21,437,609</u>	<u>\$ 28,209,174</u>	<u>\$(486,199)</u>	<u>\$27,722,975</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Years ended October 31, 2011, 2010 and 2009

	Years ended October 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net income (loss)	\$ 457,499	\$ (6,010,307)	\$ (1,924,499)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, amortization and accretion	2,688,150	2,955,834	3,081,120
Bad debt expense (recovery)	40,231	29,798	(62,547)
Deferred income tax expense (benefit)	132,097	(724,195)	566,103
Impairment of goodwill	—	5,580,250	—
Impairment of intangible assets (other than goodwill)	—	—	343,590
Share-based compensation expense	893,354	942,711	920,223
Excess tax benefits from share-based compensation	(152,815)	—	—
(Gain) loss on sale of property and equipment	3,176	(3,180)	—
(Increase) decrease in:			
Trade accounts receivable	(178,428)	(1,156,552)	1,913,497
Other receivables	95,721	(173,216)	436,657
Income taxes refundable	(61,034)	1,468,918	(1,778,906)
Inventories	(2,074,398)	(2,116,501)	1,934,637
Prepaid expenses and other assets	(32,983)	144,826	73,709
Accrued interest receivable on note receivable	—	—	(818,711)
Other assets, net	6,562	17,783	22,600
Increase (decrease) in:			
Accounts payable and accrued expenses	2,230	(808,045)	(402,992)
Accrued compensation and payroll taxes	398,630	832,954	(1,585,203)
Income taxes payable	89,225	63,590	—
Other noncurrent liabilities	44,167	105,644	47,283
Net cash provided by operating activities	<u>2,351,384</u>	<u>1,150,312</u>	<u>2,766,561</u>
Cash flows from investing activities:			
Purchase of and deposits for the purchase of property and equipment	(1,492,140)	(511,645)	(674,853)
Investment in intangible assets	(31,070)	(29,437)	—
Proceeds from sale of property and equipment	35,086	8,351	—
Advances on note receivable	—	—	(142,364)
Business acquisitions, net of cash acquired	—	—	(643,371)
Net cash used in investing activities	<u>(1,488,124)</u>	<u>(532,731)</u>	<u>(1,460,588)</u>
Cash flows from financing activities:			
Reversal of checks in excess of funds on deposit	—	—	(279,520)
Payroll taxes withheld and remitted on share-based payments	(262,381)	(120,950)	(116,474)
Proceeds from note payable to bank	—	700,000	—
Principal payments on long-term debt and note payable to bank	(878,231)	(166,900)	(2,417,066)
Payments for financing costs	(97,405)	(30,662)	—
Principal payments on related party loans	(110,363)	—	—
Repurchase of common stock	(846,287)	(425,345)	(454,699)
Excess tax benefits from share-based compensation	152,815	—	—
Common stock dividends paid	(251,953)	—	—
Net cash used in financing activities	<u>(2,293,805)</u>	<u>(43,857)</u>	<u>(3,267,759)</u>
Net increase (decrease) in cash and cash equivalents	(1,430,545)	573,724	(1,961,786)
Cash and cash equivalents at beginning of year	<u>2,522,058</u>	<u>1,948,334</u>	<u>3,910,120</u>
Cash and cash equivalents at end of year	<u>\$ 1,091,513</u>	<u>\$ 2,522,058</u>	<u>\$ 1,948,334</u>
Supplemental disclosure of cash flow information:			
Cash payments for interest	<u>\$ 573,475</u>	<u>\$ 605,468</u>	<u>\$ 669,378</u>
Income taxes paid (refunded), net	<u>\$ 191,009</u>	<u>\$ (774,830)</u>	<u>\$ 480,285</u>
Noncash investing and financing activities:			
Capital expenditures accrued in accounts payable at year end	<u>\$ 109,896</u>	<u>\$ 25,734</u>	<u>\$ 57,496</u>
Noncash consideration in acquisition of subsidiary	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,980,229</u>
Noncash capitalization of note receivable and accrued interest in connection with acquisition of subsidiary	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,297,355</u>
Common stock dividends declared and included in accounts payable and accrued expenses at year end	<u>\$ 62,936</u>	<u>\$ 62,802</u>	<u>\$ —</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements
Years ended October 31, 2011, 2010 and 2009

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

(a) Description of Business

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

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

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

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

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

(b) Principles of Consolidation

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

(c) Cash and Cash Equivalents

All of the Company’s cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC). As of October 31, 2011, all of the Company’s bank deposits were insured. As of October 31, 2010, the Company had bank deposits in excess of the insured limit totaling \$1,590,073.

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. As of October 31, 2011 and 2010, the Company had no cash equivalents.

(d) Trade Accounts Receivable and Allowance for Doubtful Accounts

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

(e) Inventories

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

(f) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for using both straight-line and declining balance methods over the estimated useful lives of the assets. Estimated useful lives are thirty to thirty-nine years for buildings and three to seven years for building improvements, machinery and equipment and furniture and fixtures. Also see note 5.

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

(g) Patents and Trademarks

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

(h) Revenue Recognition

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

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

(i) Shipping and Handling Costs

Shipping and handling costs include the costs incurred to physically move finished goods from the Company's warehouse to the customers' designated location. All amounts billed to a customer in a sales transaction related to shipping and handling are classified as sales revenue. Shipping and handling costs of approximately \$2.2 million, \$1.8 million and \$2.0 million are included in selling, general and administrative expenses for the fiscal years ended October 31, 2011, 2010 and 2009, respectively.

(j) Research and Development

Research and development costs are expensed as incurred. Research and development costs totaled approximately \$1.1 million, \$1.0 million and \$1.2 million for the fiscal years ended October 31, 2011, 2010 and 2009, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

(k) Income Taxes

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

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits as a component of income tax expense.

(l) Goodwill

Goodwill is an asset representing the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the purchase method. When applicable, the Company tests for the impairment of goodwill at the reporting unit level on an annual basis and between annual tests in certain circumstances. Subsequent to fiscal year 2010, there is no goodwill recorded on the books and records of the Company. During fiscal year 2010, the Company used the two-step impairment test to first identify whether a potential impairment of goodwill was deemed to exist and then to estimate the amount of any impairment to be recorded. The Company selected April 30th as the measurement date for its annual impairment testing. Also see notes 2 and 6.

(m) Long-Lived Assets (other than goodwill)

Long-lived assets, such as property and equipment and purchased intangible assets (other than goodwill), are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. When applicable, assets to be disposed of are reported separately in the consolidated balance sheet at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

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

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

(o) Net Income (Loss) Per Share

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

(p) Commitments and Contingencies

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

(q) Use of Estimates

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

(2) Business Combination

Acquisition of Applied Optical Systems, Inc.

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. 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 date of the acquisition. The purchase price of \$2.6 million, consisting of both cash and non-cash consideration, was allocated to the assets acquired and the liabilities assumed based on the fair values at the date of acquisition. This allocation resulted in the recognition of \$6.5 million in intangible assets, \$6.3 million of which 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 results of operations are included in the Company’s consolidated results of operations beginning November 1, 2009.

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

	As recorded 10/31/09	Purchase accounting adjustments in FY 2010	As revised 10/31/10
Trade accounts receivable, net	\$ 1,159,329	\$ —	\$ 1,159,329
Property and equipment	357,000	84,600	441,600
Inventories	1,218,663	—	1,218,663
Goodwill	6,288,803	(708,553)	5,580,250
Intangible assets	190,248	(18,248)	172,000
Deferred income taxes, net	1,038,335	642,201	1,680,536
Other assets, including cash of \$20,048	40,459	—	40,459
Total assets	<u>\$ 10,292,837</u>	<u>\$ —</u>	<u>\$ 10,292,837</u>
Accounts payable and accrued expenses	2,116,537	—	2,116,537
Accrued interest payable to Optical Cable Corporation	761,009	—	761,009
Note payable to Optical Cable Corporation	4,536,346	—	4,536,346
Other liabilities	235,297	—	235,297
Total liabilities	<u>\$ 7,649,189</u>	<u>\$ —</u>	<u>\$ 7,649,189</u>
Total net assets	<u>\$ 2,643,648</u>	<u>\$ —</u>	<u>\$ 2,643,648</u>

On April 22, 2005, the Company agreed to extend a loan to AOS. Through October 31, 2009, the Company had advanced a total of \$4,536,346 (including certain accrued interest and accounts receivable from product sales) to AOS. Additionally, the Company had accrued interest receivable of \$761,009 related to the advances, as of October 31, 2009. The Company discontinued recognizing interest income beginning in the third quarter of fiscal year 2006 related to the loan based on uncertainty as to when the interest would be collected. As a result of the acquisition of AOS on October 31, 2009, accumulated interest income in the amount of \$818,711 (\$57,702 of which was included in the note receivable from AOS as of October 31, 2009) was recognized.

The Company sold fiber optic cables to AOS totaling \$1,385,704, \$774,765 and \$324,999 during fiscal years 2009, 2008 and 2007, respectively. Beginning with the acquisition of AOS, all significant remaining amounts due to or from AOS have been eliminated in consolidation.

During fiscal year 2010, the Company recorded a non-recurring, non-cash net impairment charge in the amount of \$5,580,250 to write-off the carrying value of goodwill during the Company's fiscal year 2010. This \$5,580,250 net impairment charge during fiscal year 2010 consisted of: (i) a goodwill impairment charge of \$6,246,304 that was recorded by the Company during the second quarter of fiscal year 2010, and (ii) a \$666,054 reversal of the goodwill impairment charge associated with a purchase accounting adjustment in connection with the AOS acquisition that was recorded by the Company during the fourth quarter of fiscal year 2010. The purchase accounting adjustment made during the fourth quarter was primarily the result of the Company's adjustment to the valuation of certain deferred tax assets acquired in the purchase of AOS, and is not a result of a re-evaluation of the goodwill impairment recorded during the second quarter of fiscal year 2010. Included in identifiable intangible assets were intellectual properties and the AOS customer list which are being amortized over 60 months on a straight-line basis. Also see note 6.

Proforma Impact of Acquisition on Fiscal Year 2009 (Unaudited)

Presented below is the pro forma impact on the unaudited results of operations for the fiscal year ended October 31, 2009 as though the acquisition of AOS were completed as of November 1, 2008. The pro forma adjustments include the amortization of the fair market value adjustments to property and equipment, amortizing intangibles; and an estimate of incremental interest costs related to the transaction, all reduced by the estimated income tax benefits. In addition, certain intercompany items of income and expense have been eliminated in the pro forma results of operations.

	<u>Fiscal year ended</u> <u>October 31, 2009</u> (unaudited)
Net sales	\$ 63,828,047
Net loss	(3,096,813)
Net loss per share (basic and diluted)	\$ (0.55)

(3) Allowance for Doubtful Accounts for Trade Accounts Receivable

A summary of changes in the allowance for doubtful accounts for trade accounts receivable for the years ended October 31, 2011, 2010 and 2009 follows:

	Years ended October 31.		
	2011	2010	2009
Balance at beginning of year	\$ 120,450	\$ 108,913	\$ 150,941
Allowance of acquired subsidiary	—	—	14,620
Bad debt expense (recovery)	40,231	29,798	(62,547)
Losses charged to allowance	(15,065)	(18,261)	(27,424)
Recoveries added to allowance	—	—	33,323
Balance at end of year	<u>\$ 145,616</u>	<u>\$ 120,450</u>	<u>\$ 108,913</u>

(4) Inventories

Inventories as of October 31, 2011 and 2010 consist of the following:

	October 31.	
	2011	2010
Finished goods	\$ 5,572,296	\$ 4,912,902
Work in process	3,301,168	3,502,842
Raw materials	7,364,043	5,775,919
Production supplies	259,678	231,124
Total	<u>\$ 16,497,185</u>	<u>\$ 14,422,787</u>

(5) Property and Equipment, Net

Property and equipment, net as of October 31, 2011 and 2010 consists of the following:

	October 31.	
	2011	2010
Land	\$ 3,144,068	\$ 3,144,068
Building and improvements	7,761,553	7,601,627
Machinery and equipment	19,242,068	18,924,498
Furniture and fixtures	932,859	963,532
Construction in progress	320,847	115,813
Total property and equipment, at cost	31,401,395	30,749,538
Less accumulated amortization and depreciation	<u>(18,856,930)</u>	<u>(17,624,424)</u>
Property and equipment, net	<u>\$ 12,544,465</u>	<u>\$ 13,125,114</u>

(6) Goodwill and Other Intangible Assets

Goodwill Impairment Charge

In connection with the acquisition of AOS on October 31, 2009, as described in note 2, the Company recorded goodwill in the amount of \$5,580,250 which was capitalized as part of the purchase price allocation process. The Company performed its annual impairment analysis as of April 30, 2010. The impairment analysis compared the Company's current market capitalization to its book value (including goodwill) in determining there was a potential impairment of goodwill. The implied fair value of reporting unit goodwill was estimated using primarily the trading price of the Company's common stock (Level 2 inputs) and compared to the carrying amount of goodwill, and in the Company's judgment, based on this analysis, it was 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 net impairment charge in the amount of \$5,580,250 to write-off the carrying value of goodwill during the Company's fiscal year 2010. This \$5,580,250 net impairment charge during fiscal year 2010 consisted of: (i) a goodwill impairment charge of \$6,246,304 that was recorded by the Company during the second quarter of fiscal year 2010, and (ii) a \$666,054 reversal of the goodwill impairment charge associated with a purchase accounting adjustment in connection with the AOS acquisition that was recorded by the Company during the fourth quarter of fiscal year 2010. The purchase accounting adjustment made during the fourth quarter was primarily the result of the Company's adjustment to the valuation of certain deferred tax assets acquired in the purchase of AOS, and is not a result of a re-evaluation of the goodwill impairment recorded during the second quarter of fiscal year 2010.

The changes in the carrying value of goodwill for the year ended October 31, 2010 are as follows:

Balance as of October 31, 2009	\$ 6,288,803
Purchase accounting adjustments	(708,553)
Impairment loss	<u>(5,580,250)</u>
Balance as of October 31, 2010	<u>\$ —</u>

Acquired Intangible Assets

Following is a summary of acquired intangible assets as of October 31, 2011 and 2010, which were acquired in connection with the acquisitions of SMP Data Communications and AOS, excluding assets written-off as impaired:

	<u>October 31, 2011</u>		
	<u>Gross carrying amount</u>	<u>Weighted-average amortization period in years</u>	<u>Accumulated amortization</u>
Amortizing intangible assets:			
Developed technology	\$ 2,373,447	1.9	\$(2,195,924)
Customer list	96,355	3.0	(38,542)
Total	<u>\$2,469,802</u>		<u>\$ (2,234,466)</u>
	<u>October 31, 2010</u>		
	<u>Gross carrying amount</u>	<u>Weighted-average amortization period in years</u>	<u>Accumulated amortization</u>
Amortizing intangible assets:			
Developed technology	\$ 2,373,447	2.7	\$ (1,784,388)
Customer list	96,355	4.0	(19,271)
Total	<u>\$2,469,802</u>		<u>\$ (1,803,659)</u>

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

Aggregate amortization expense for amortizing intangible assets was \$430,807, \$587,233, and \$825,399 for the years ended October 31, 2011, 2010 and 2009, respectively. Estimated amortization expense for the next three years (the acquired intangible assets will be fully amortized in fiscal year 2014) is: \$135,502 in fiscal year 2012, \$67,434 in fiscal year 2013 and \$34,400 in fiscal year 2014. Amortization of intangible assets is calculated using an accelerated method or a straight-line method over the estimated useful lives of the intangible assets.

(7) Product Warranties

The Company generally warrants its products against certain manufacturing and other defects in material and workmanship. These product warranties are provided for specific periods of time and are applicable assuming the product has not been subjected to misuse, improper installation, negligence or shipping damage. As of October 31, 2011 and 2010, the Company's accrual for estimated product warranty claims totaled \$175,000 and \$170,000, respectively, and is included in accounts payable and accrued expenses. Warranty claims expense includes the costs to investigate claims and potential claims, and the costs to replace and/or repair product pursuant to claims, which in certain cases can include claims not deemed valid by the Company. The accrued product warranty costs are based primarily on historical experience of actual warranty claims and costs as well as current information with respect to potential warranty claims and costs. Warranty claims expense for the years ended October 31, 2011, 2010 and 2009 totaled \$222,150, \$273,682 and \$405,733, respectively.

The following table summarizes the changes in the Company's accrual for product warranties during the fiscal years ended October 31, 2011 and 2010:

	<u>Years ended October 31,</u>	
	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 170,000	\$ 160,000
Liabilities accrued for warranties issued during the year	257,550	264,375
Warranty claims paid during the period	(217,150)	(263,682)
Changes in liability for pre-existing warranties during the year	<u>(35,400)</u>	<u>9,307</u>
Balance at end of year	<u>\$ 175,000</u>	<u>\$ 170,000</u>

(8) 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 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. On April 30, 2010, the Company entered into a revolving credit facility with SunTrust Bank (further described below) which replaced the Valley Bank Revolving Loan.

On April 22, 2011, the Company and Valley Bank entered into a Third Loan Modification Agreement (the "Agreement") to the Credit Agreement dated May 30, 2008 entered into between the Company, Superior Modular Products Incorporated and Valley Bank. Under the Agreement, the interest rate and the applicable repayment installments of the Virginia Real Estate Loan and the North Carolina Real Estate Loan were revised and the maturity date of the loans was extended. The fixed interest rate of the two term loans was lowered to 5.85% from 6.0%, and the maturity date of the loans was extended from June 1, 2013 to April 30, 2018.

Long-term debt as of October 31, 2011 and 2010 consists of the following:

	<u>October 31,</u>	
	<u>2011</u>	<u>2010</u>
Virginia Real Estate Loan (\$6.5 million original principal) payable in monthly installments of \$41,686, including interest (at 5.85%), with final payment of \$5,035,789 due April 30, 2018	\$ 6,091,633	\$ 6,224,185
North Carolina Real Estate Loan (\$2.24 million original principal) payable in monthly installments of \$14,366, including interest (at 5.85%), with final payment of \$1,735,410 due April 30, 2018	<u>2,099,271</u>	<u>2,144,950</u>
Total long-term debt	8,190,904	8,369,135
Less current installments	<u>190,593</u>	<u>177,350</u>
Long-term debt, excluding current installments	<u>\$ 8,000,311</u>	<u>\$ 8,191,785</u>

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 provides the Company with a revolving line of credit for the

working capital needs of the Company (the “Commercial Loan”). The Commercial Loan was originally due to mature on May 31, 2012. On July 25, 2011, the Company entered into a binding letter of renewal with SunTrust Bank of the commercial note extending the maturity date of the Commercial Loan to May 31, 2013. Concurrently with the renewal, the Company also entered into a Fourth Loan Modification Agreement with Valley Bank to amend the definition of ‘SunTrust Debt’ to provide for the extension of the revolver’s maturity date.

The Commercial Loan provides the Company the ability to 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. Within the Revolving Loan Limit, the Company may borrow, repay, and reborrow, at any time from time to time until May 31, 2013.

Advances under the Commercial Loan accrue interest 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, with all then outstanding principal, interest, fees and costs due at the Commercial Loan Termination Date of May 31, 2013.

In connection with the Company obtaining the Commercial Loan with SunTrust Bank 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.

As of October 31, 2011, the Company had no outstanding borrowings on its Commercial Loan and \$6.0 million in available credit. As of October 31, 2010, the Company had \$700,000 of outstanding borrowings on its Commercial Loan.

The aggregate maturities of long-term debt for each of the five years subsequent to October 31, 2011 are: \$190,593 in fiscal year 2012, \$203,578 in fiscal year 2013, \$215,986 in fiscal year 2014, \$229,151 in fiscal year 2015 and \$241,894 in fiscal year 2016.

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.

(9) Leases

The Company has an operating lease agreement for approximately 21,000 square feet of office and manufacturing space in Plano, Texas. The lease became effective September 15, 2009 and had an original term of five years. Effective May 19, 2011, the Company extended the term of the lease through November 30, 2016 and agreed to lease 12,970 square feet of additional space adjacent to the existing leased property. The lease term for the additional space became effective September 1, 2011 and has the same termination date, November 30, 2016, as the original leased property. The minimum rent payments, including rent holidays, are recognized on a straight-line basis over the term of the lease.

Centric Solutions has an operating lease agreement for approximately 23,000 square feet of office and manufacturing space in Coppell, Texas with a term of approximately seven years. The minimum rent payments, including rent holidays, are recognized on a straight-line basis over the term of the lease.

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

The Company's future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of October 31, 2011 consist of the following:

Fiscal year	<u>Operating Lease</u>	<u>Capital Leases</u>
2012	306,564	8,817
2013	335,293	—
2014	339,576	—
2015	342,696	—
2016	258,168	—
Thereafter	16,413	—
Total	<u>\$ 1,598,710</u>	<u>8,817</u>
Less amounts representing interest costs		(408)
Present value of net minimum capital lease payments		8,409
Less current installments		(8,409)
Present value of net minimum capital lease payments, excluding current installments		<u>\$ —</u>

(10) Related Party Transactions

Included in other noncurrent liabilities as of October 31, 2011 are related party loans totaling \$86,177 payable to one of the AOS founders and a trust for which the founder is the co-trustee. Included in other noncurrent liabilities as of October 31, 2010 are related party loans totaling \$196,540 payable to two of the AOS founders and a trust for which one of the founders is the co-trustee. During fiscal year 2011, the related party loan to one of the AOS founders was repaid in full and the loan to a second founder was partially repaid.

Interest on the two remaining related party loans accrues at 6% per annum for one of the loans and at a rate equal to the prime rate plus 4% per annum for the other loan. As of October 31, 2011, no arrangements had been made for the repayment of the balance of these loans as there are financial measures which must be met before payment is required to be made, and it is not anticipated that these financial measures will be met within the next twelve months.

Interest expense associated with the related party loans for the years ended October 31, 2011 and 2010 totaled \$26,841 and \$12,374, respectively. Accrued interest payable associated with the related party loans as of October 31, 2011 and 2010 was \$40,323 and \$51,391, respectively.

(11) Employee Benefits

Health Insurance Coverage

The Company contracts for health insurance coverage for employees and their dependents through third-party administrators. During the years ended October 31, 2011, 2010 and 2009, total expense of \$3,073,366, \$2,604,225 and \$2,439,000, respectively, was incurred under the Company's insured health care program.

401(k) Plan

The Company maintains 401(k) retirement savings plans for the benefit of its eligible employees. Substantially all of the Company's employees who meet certain service and age requirements are eligible to participate in the plans. The Company's plan documents provide that the Company's matching contributions are determined as a percentage of employee contributions or are discretionary. The Company made or accrued matching contributions to the plans of \$83,245, \$76,583 and \$84,093 for the years ended October 31, 2011, 2010 and 2009, respectively.

Stock Incentives for Key Employees and Non-Employee Directors

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

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

In March 2005, the Company adopted and the Company's shareholders approved the Optical Cable Corporation 2005 Stock Incentive Plan (the "2005 Plan"). The 2005 Plan was intended to be the successor of the 1996 Plan. The Company authorized and reserved 1,000,000 shares of common stock for issuance pursuant to the 2005 Plan. As of October 31, 2011, there were approximately 27,000 remaining shares available for grant under the 2005 Plan.

In March 2011, the Company adopted and the Company's shareholders approved the Optical Cable Corporation 2011 Stock Incentive Plan (the "2011 Plan"). The 2011 Plan is intended to be the successor of the 2005 Plan. The Company has authorized and reserved 500,000 shares of common stock for issuance pursuant to the 2011 Plan. As of October 31, 2011, there were approximately 466,000 remaining shares available for grant under the 2011 Plan.

In March 2004, the Company adopted and the Company's shareholders approved the 2004 Non-employee Directors Stock Plan (the "Non-employee Directors Stock Plan"). In March 2005, the Company adopted and the Company's shareholders approved amendments to the Non-employee Directors Stock Plan. The Non-employee Directors Stock Plan authorizes the Board of Directors to pay all or a part of director fees, in the form of stock grants, to Board members who are not full-time employees of the Company. The Company has reserved 250,000 shares of common stock for issuance pursuant to awards under the Non-employee Directors Stock Plan. As of October 31, 2011, there were approximately 110,000 remaining shares available for grant under the Non-employee Directors Stock Plan.

Share-based compensation expense for employees and non-employee members of the Company's Board of Directors recognized in the consolidated statements of operations for the years ended October 31, 2011, 2010 and 2009 was \$893,354, \$942,711 and \$920,223, respectively.

(a) Stock Option Awards

Prior to July 2002, employees and outside contractors were issued options to purchase common stock. The exercise price equaled the market price of the Company's common stock on the date of grant. Options issued under the 1996 Plan generally vested incrementally over one to five years, and remain exercisable for ten years from the date of grant. All options outstanding are fully vested and exercisable as of October 31, 2011.

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

The fair value of options granted prior to November 1, 2005 was estimated using the Black-Scholes option pricing model.

Stock option activity for the years ended October 31, 2011, 2010 and 2009 is as follows:

	<u>Number of options</u>	<u>Weighted- average exercise price</u>	<u>Weighted-average remaining contractual term (in years)</u>
Stock options outstanding at October 31, 2008	178,205	\$ 7.59	
Forfeited	<u>(11,628)</u>	7.20	
Stock options outstanding at October 31, 2009	166,577	7.62	
Forfeited	<u>—</u>	—	
Stock options outstanding at October 31, 2010	166,577	7.62	
Forfeited	<u>(35,189)</u>	9.54	
Stock options outstanding at October 31, 2011	<u>131,388</u>	\$ 7.11	0.34

As of October 31, 2011, there was no aggregate intrinsic value of options outstanding and options exercisable. Aggregate intrinsic value represents the positive difference between the Company's closing stock price on the last trading day of the fiscal period, which was \$3.58 as of October 31, 2011, and the exercise price multiplied by the number of options outstanding.

(b) Restricted Stock Awards

The Company has granted, and anticipates granting, from time to time, restricted stock awards to employees subject to approval by the Compensation Committee of the Board of Directors. A portion of the restricted stock awards granted under the 2005 Plan and the 2011 Plan vests based on the passage of time and the remainder vests over time if certain operational performance-based criteria are met. Failure to meet the criteria required for vesting will result in a portion or all of the shares being forfeited.

The Company recognizes expense on the service-based shares each quarter based on the actual number of shares vested during the quarter multiplied by the grant date fair value. The Company recognizes expense on the operational performance-based shares each quarter using an estimate of the shares expected to vest multiplied by the closing price of the Company's common stock on the date of grant.

The Company recorded total compensation expense related to its restricted stock awards granted to employees totaling \$746,431, \$870,473 and \$835,580 during the fiscal years ended October 31, 2011, 2010 and 2009, respectively.

A summary of the status of the Company's nonvested shares granted to employees under the 1996 Plan, the 2005 Plan or the 2011 Plan as of October 31, 2011, and changes during the year ended October 31, 2011, is as follows:

<u>Nonvested shares</u>	<u>Shares</u>	<u>Weighted- average grant date fair value</u>
Balance at October 31, 2010	458,036	\$ 3.14
Granted	256,116	4.84
Vested	(217,513)	3.34
Forfeited	(46,647)	3.39
Balance at October 31, 2011	<u>449,992</u>	<u>\$ 3.99</u>

As of October 31, 2011, the maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based and operational performance-based shares that the Company will have to recognize over a 3.2 year weighted-average period is approximately \$1.5 million.

During the years ended October 31, 2011, 2010 and 2009, restricted stock awards under the Non-employee Directors Stock Plan totaling 30,356, 22,860 and 35,268 shares, respectively, were approved by the Board of Directors of the Company. The shares vested immediately upon grant, but could not be sold, transferred, pledged, or otherwise encumbered or disposed of until six months after the date of the grant. The Company recorded compensation expense equal to the number of shares multiplied by the closing price of the Company's common stock on the date of grant. The Company recorded compensation expense totaling \$146,923, \$72,238 and \$84,643 during the years ended October 31, 2011, 2010 and 2009, respectively.

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

The Company provides credit, in the normal course of business, to various commercial enterprises, governmental entities and not-for-profit organizations. Concentration of credit risk with respect to trade receivables is limited due to the Company's large number of customers. The Company also manages exposure to credit risk through credit approvals, credit limits and monitoring procedures. Management believes that credit risks as of October 31, 2011 and 2010 have been adequately provided for in the consolidated financial statements.

For the years ended October 31, 2011 and 2010, no single customer or distributor accounted for more than 10% of consolidated net sales. As of October 31, 2011 and 2010, no single customer or distributor had an outstanding balance payable to the Company in excess of 5% of total consolidated shareholders' equity.

For the year ended October 31, 2009, 11.7%, or approximately \$6,830,000 of consolidated net sales were attributable to one major domestic distributor. No other single customer or distributor accounted for more than 10% of consolidated net sales for the year ended October 31, 2009.

For the years ended October 31, 2011, 2010 and 2009, approximately 76%, 73% and 73%, respectively, of net sales were from customers located in the United States, while approximately 24%, 27%, and 27%, respectively, were from customers located outside of the United States.

Net sales attributable to the United States and all other countries in total for the years ended October 31, 2011, 2010 and 2009 were as follows:

	<u>Years ended October 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
United States	\$55,575,212	\$49,533,950	\$42,866,013
Outside the United States	<u>17,764,379</u>	<u>17,972,224</u>	<u>15,722,547</u>
Total net sales	<u>\$73,339,591</u>	<u>\$67,506,174</u>	<u>\$58,588,560</u>

No individual country outside the United States accounted for more than 10% of total net sales in fiscal years 2011, 2010 or 2009.

The Company has a single reportable segment for purposes of segment reporting, exclusive of Centric Solutions. For the years ended October 31, 2011, 2010 and 2009, Centric Solutions generated revenues, net of intercompany sales, totaling \$839,412, \$508,624 and \$74,744, respectively. For the years ended October 31, 2011, 2010 and 2009, Centric Solutions incurred operating losses of approximately \$873,000, \$1.2 million and \$1.6 million, respectively. Total assets of Centric Solutions of approximately \$364,000 and \$419,000 (net of intercompany amounts) are included in the total consolidated assets of the Company as of October 31, 2011 and 2010, respectively.

(13) Income Taxes

Income tax expense (benefit) for the years ended October 31, 2011, 2010 and 2009 consists of:

<u>Fiscal year ended October 31, 2011</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
U.S. Federal	\$ 137,721	\$ 143,800	\$ 281,521
State	<u>128,434</u>	<u>(11,703)</u>	<u>116,731</u>
Totals	<u>\$ 266,155</u>	<u>\$ 132,097</u>	<u>\$ 398,252</u>
<u>Fiscal year ended October 31, 2010</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
U.S. Federal	\$ 652,511	\$ (628,132)	\$ 24,379
State	<u>162,974</u>	<u>(96,063)</u>	<u>66,911</u>
Totals	<u>\$ 815,485</u>	<u>\$(724,195)</u>	<u>\$ 91,290</u>
<u>Fiscal year ended October 31, 2009</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
U.S. Federal	\$(1,275,461)	\$ 522,570	\$(752,891)
State	<u>3,699</u>	<u>43,533</u>	<u>47,232</u>
Totals	<u>\$(1,271,762)</u>	<u>\$ 566,103</u>	<u>\$(705,659)</u>

Reported income tax expense (benefit) for the years ended October 31, 2011, 2010 and 2009 differs from the “expected” tax expense (benefit), computed by applying the U.S. Federal statutory income tax rate of 34% to income (loss) before income taxes as follows:

	Years ended October 31,		
	2011	2010	2009
“Expected” tax expense (benefit)	\$290,955	\$(2,012,466)	\$ (894,254)
Increase (reduction) in income tax expense (benefit) resulting from:			
Impact of nondeductible write-off of goodwill	—	1,897,285	—
Benefits from Sec. 199 manufacturing deduction	(13,702)	(34,870)	—
Impact of restricted share grants	—	136,225	105,714
State income taxes, net of federal benefit	77,042	44,061	31,173
Other differences, net	43,957	61,055	51,708
Reported income tax expense (benefit)	<u>\$ 398,252</u>	<u>\$ 91,290</u>	<u>\$ (705,659)</u>

The tax effects of temporary differences that give rise to significant portions of the Company’s deferred tax assets and deferred tax liabilities as of October 31, 2011 and 2010 are presented below:

	October 31,	
	2011	2010
Deferred tax assets:		
Accounts receivable, due to allowances for doubtful accounts and sales returns	\$ 137,385	\$ 161,176
Inventories, due to allowance for damaged and slow-moving inventories and additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986	790,363	780,656
Liabilities recorded for accrued expenses, deductible for tax purposes when paid	521,930	557,849
Share-based compensation expense	89,499	71,767
Investment in Centric Solutions	166,154	150,832
Net operating loss carryforwards	1,140,133	1,328,324
Other	85,291	71,496
Total gross deferred tax assets	<u>2,930,755</u>	<u>3,122,100</u>
Deferred tax liabilities:		
Plant and equipment, due to differences in depreciation and capital gain recognition	(675,223)	(735,243)
Other receivables, due to accrual for financial reporting purposes	(10,955)	(10,183)
Total gross deferred tax liabilities	<u>(686,178)</u>	<u>(745,426)</u>
Net deferred tax asset	<u>\$ 2,244,577</u>	<u>\$ 2,376,674</u>

As a result of the acquisition of AOS, the Company recorded \$1,038,335 in deferred tax assets as of October 31, 2009, including net operating loss (“NOL”) carryforwards of \$851,551 estimated to be available after considering Internal Revenue Code Section 382 limitations. During the fiscal year ended October 31, 2010, certain purchase accounting adjustments, totaling \$642,201, were made to increase deferred tax assets recorded as a result of the acquisition and to increase the NOL carryforwards resulting from the acquisition by \$666,054 to \$1,517,605. These NOL carryforwards may be used to reduce future taxable income and begin to expire in fiscal year ending October 31, 2024.

Based on the Company's historical and projected pretax earnings and other relevant factors, management believes that it is more likely than not that the Company's deferred tax assets at October 31, 2011 will be realized.

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

A reconciliation of the unrecognized tax benefits for fiscal years 2011 and 2010 follows:

	October 31,	
	2011	2010
Unrecognized tax benefits balance at beginning of year	\$ 179,571	\$ 150,052
Gross increases for tax positions of prior years	29,757	29,519
Reductions to unrecognized tax benefits resulting from the lapse of applicable statute of limitations	(4,157)	—
Unrecognized tax benefits balance at end of year	<u>\$ 205,171</u>	<u>\$ 179,571</u>

During fiscal year 2011, the Company accrued interest and penalties of \$14,392 and \$6,761, respectively, related to unrecognized tax benefits. During fiscal year 2010, the Company accrued interest and penalties of \$21,240 and \$7,047, respectively, related to unrecognized tax benefits. As of October 31, 2011 and 2010, the Company had approximately \$100,653 and \$79,500, respectively, of accrued interest and penalties related to uncertain tax positions. The total amount of unrecognized tax benefits that would affect the Company's effective tax rate if recognized is \$119,883 and \$108,070 as of October 31, 2011 and 2010, respectively. The Company does not expect its unrecognized tax benefits to change significantly in the next 12 months.

The Company files income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. The statute of limitations remains open for U.S. and certain state income tax examinations for years ended October 31, 2008 through October 31, 2010.

(14) Fair Value Measurements

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash, trade accounts receivable, other receivables, accounts payable and accrued expenses, including accrued compensation and payroll taxes and the current installments of long-term debt approximate fair value because of the short maturity of these instruments. The carrying value of the Company's 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 October 31, 2011 and 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.

Fair Value Hierarchy

The Company uses 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.
- 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.

(15) Net Income (Loss) Per Share

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

<u>Fiscal year ended October 31, 2011</u>	<u>Net income attributable to OCC (numerator)</u>	<u>Shares (denominator)</u>	<u>Per share amount</u>
Basic net income per share	\$ 666,316	6,304,776	\$ 0.11
Effect of dilutive stock options	—	—	
Diluted net income per share	\$ 666,316	6,304,776	\$ 0.11
<u>Fiscal year ended October 31, 2010</u>	<u>Net loss attributable to OCC (numerator)</u>	<u>Shares (denominator)</u>	<u>Per share amount</u>
Basic net loss per share	\$ (5,732,925)	6,014,733	\$ (0.95)
Effect of dilutive stock options	—	—	
Diluted net loss per share	\$ (5,732,925)	6,014,733	\$ (0.95)
<u>Fiscal year ended October 31, 2009</u>	<u>Net loss (numerator)</u>	<u>Shares (denominator)</u>	<u>Per share amount</u>
Basic net loss per share	\$ (1,924,499)	5,656,404	\$ (0.34)
Effect of dilutive stock options	—	—	
Diluted net loss per share	\$ (1,924,499)	5,656,404	\$ (0.34)

Stock options that could potentially dilute net income per share in the future that were not included in the computation of diluted net income per share (because to do so would have been antidilutive for the periods presented) totaled 131,388, 166,577 and 166,577 for the years ended October 31, 2011, 2010 and 2009, respectively.

Unvested shares as of October 31, 2011, totaling 449,992 were included in the computation of basic and diluted net income per share for the year ended October 31, 2011 (because to exclude such shares would have been antidilutive, or in other words, excluding such shares would have increased the net income per share).

Unvested shares as of October 31, 2010 and 2009, totaling 458,036 and 689,456, respectively, were not included in the computation of basic and diluted net loss per share for the years ended October 31, 2010 and 2009, respectively (because to include such shares would have been antidilutive, or in other words, to do so would have reduced the net loss per share for those periods).

(16) Shareholders' Equity

On March 26, 2007, the Company's Board of Directors approved a plan to purchase and retire up to 300,100 shares of the Company's common stock, or approximately 5% of the shares then outstanding. As of October 31, 2009, the Company had completed its plan and repurchased and retired a total of 300,100 of its outstanding common stock. The repurchase of shares and the costs associated with the repurchase, including brokerage and legal fees, totaled \$454,699 for fiscal year 2009.

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. As of October 31, 2011, the Company had completed its plan and repurchased and retired a total of 325,848 shares of its outstanding common stock. The repurchase of these shares and the costs associated with the repurchase, including brokerage and legal fees, totaled \$846,287 and \$425,345 for fiscal years 2011 and 2010, respectively.

The Company's Board of Directors approved a plan effective November 1, 2011, subsequent to the Company's 2011 fiscal year end, to purchase and retire up to 200,000 shares of the Company's common stock, or approximately 3% of the shares then outstanding. The Company anticipates that the purchases will be made over a 12- to 24-month period unless the entire number of shares expected to be purchased under the plan is sooner acquired. As of October 31, 2011, 6,287,761 shares of the Company's common stock were outstanding.

On November 2, 2001, the Board of Directors of the Company adopted a Shareholder Rights Plan (the "Expiring Rights Plan") and declared a dividend of one preferred share purchase right on each share of Common Stock. The share purchase rights and the related Expiring Rights Plan expired on November 2, 2011, subsequent to the Company's 2011 fiscal year end.

On October 28, 2011, the Board of Directors of the Company adopted a new Stockholder Protection Rights Agreement (the "Rights Agreement") to replace the Expiring Rights Plan and declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of Common Stock, no par value, of the Company ("Common Shares"), held of record at the close of business on November 2, 2011, or issued thereafter and prior to the Separation Time as defined in the Rights Agreement. Under the terms of the Rights Agreement, if a person or group who is deemed an Acquiring Person as defined in the Rights Agreement acquires 15% (or other applicable percentage, as provided in the Rights Agreement) or more of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of shares of common stock having a market value of twice such price. In addition, if the Company is acquired in a merger or other business transaction after a person or group who is deemed an Acquiring Person has acquired such percentage of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value of twice such price.

Upon the occurrence of certain events, each Right will entitle its holder to purchase from the Company one one-thousandth of a Series A Participating Preferred Share ("Preferred Share"), no par value, at an exercise price of \$25, subject to adjustment. Each Preferred Share will entitle its holder to 1,000 votes and will have an aggregate dividend rate of 1,000 times the amount, if any, paid to holders of common stock. The Rights will expire on November 2, 2021, unless the Rights are earlier redeemed or exchanged by the Company for \$0.0001 per Right. The adoption of the Rights Agreement has no impact on the financial position or results of operations of the Company.

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

The Company initiated a quarterly cash dividend of \$0.01 per share on its common stock in October 2010.

(17) Contingencies

Applied Optical Systems, Inc. (“AOS”), a wholly owned subsidiary of the Company since October 31, 2009, has been the defendant in a patent infringement lawsuit brought by Amphenol Fiber Systems International (“AFSI”) in November of 2006 in the U.S. District Court for the Eastern District of Texas, Marshall Division, styled *Fiber Systems International, Inc. v. Applied Optical Systems, Inc.*, Civil Action No. 2:06-cv-473.

In the lawsuit, AFSI alleged that certain AOS fiber optic connector designs infringed on AFSI’s TFOCA-II ® connector design under U.S. Patent No. 6,305,849. AOS asserted various counterclaims against AFSI for fraud, negligent misrepresentation, unfair competition, inequitable conduct and antitrust violations.

The U.S. District Court ruled in 2009 that two AOS fiber optic connector designs that were at issue in the suit did not infringe on the AFSI patent as a matter of law. A jury then determined that another of the AOS fiber optic connector designs that was the subject of the suit did not infringe on the AFSI patent. In August 2010, the U.S. District Court entered a final judgment in favor of AOS on the patent infringement claims; and in favor of AFSI on AOS’s counterclaims and the validity of AFSI’s patent. After rulings on various post-trial motions, both AFSI and AOS filed notices of appeal.

While the case was on appeal, OCC and AOS executed a confidential settlement agreement with AFSI and Amphenol Corporation (AFSI’s parent company) on November 21, 2011. Pursuant to the terms of the confidential settlement agreement, no cash payments were made by any party. Both the Company and AFSI agreed that AOS’s connector designs did not infringe on AFSI’s patent. As a part of the settlement, both AFSI and AOS have dismissed their appeals.

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

(18) New Accounting Standards

In 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 consolidated statements of operations for the years ended October 31, 2011 and 2010, the amount of consolidated net loss attributable to the noncontrolling interest associated with Centric Solutions. Similar disclosure has also been reflected on the face of the consolidated balance sheets as of October 31, 2011 and 2010, the consolidated statements of shareholders’ equity for the years ended October 31, 2011 and 2010 and in certain notes to the consolidated financial statements. This statement now requires that the noncontrolling interest continue to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance. In contrast, prior to the adoption of ASC 810-10, the minority interest’s share of losses attributable to Centric Solutions LLC was

required to be charged against the Company's majority interest thereby resulting in a zero minority interest balance prior to November 1, 2009. As a result, there are no noncontrolling interest amounts to retrospectively reclassify to equity on the consolidated balance sheets or net loss attributable to noncontrolling interest on the consolidated statements of operations for any periods presented prior to November 1, 2009 upon the Company's adoption of ASC 810-10.

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"). The amendments are intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 is to be applied prospectively upon adoption and is effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 is not expected to have any impact on the Company's results of operations, financial position or liquidity or its related financial statement disclosures.

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

(19) Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended October 31, 2011 and 2010:

<u>Fiscal year ended October 31, 2011</u>	<u>Quarter ended</u>			
	<u>January 31</u>	<u>April 30</u>	<u>July 31</u>	<u>October 31</u>
Net sales	\$ 17,712,784	\$ 17,184,460	\$ 18,775,145	\$ 19,667,202
Gross profit	6,424,840	5,943,140	6,509,124	7,414,117
Income (loss) before income taxes	378,469	(179,844)	252,110	405,016
Net income (loss) attributable to Optical Cable Corporation	402,311	(89,843)	117,809	236,039
Basic and diluted net income (loss) per share attributable to Optical Cable Corporation	0.06	(0.02)	0.02	0.04
Cash dividends declared per common share	0.01	0.01	0.01	0.01

<u>Fiscal year ended October 31, 2010</u>	<u>Quarter ended</u>			
	<u>January 31</u>	<u>April 30</u>	<u>July 31</u>	<u>October 31</u>
Net sales	\$ 15,007,235	\$ 15,255,913	\$ 18,779,340	\$ 18,463,686
Gross profit	5,501,101	4,285,531	6,806,742	7,166,580
Income (loss) before income taxes	(600,610)	(7,940,724)	816,322	1,805,995
Net income (loss) attributable to Optical Cable Corporation	(315,854)	(7,466,129)	575,369	1,473,689
Basic and diluted net income (loss) per share attributable to Optical Cable Corporation	(0.05)	(1.27)	0.09	0.23
Cash dividends declared per common share	—	—	—	0.01

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Optical Cable Corporation:

We have audited the accompanying consolidated balance sheets of Optical Cable Corporation and subsidiaries as of October 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended October 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Optical Cable Corporation and subsidiaries as of October 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended October 31, 2011, in conformity with U.S. generally accepted accounting principles.

As described in note 18 to the consolidated financial statements, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* (included in FASB Accounting Standards Codification Subtopic 810-10, *Consolidation—Overall*), as of November 1, 2009.

/s/ KPMG LLP

Roanoke, Virginia
January 26, 2012

Corporate Information

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Independent Registered Public Accounting Firm

KPMG LLP
10 South Jefferson Street
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Roanoke, VA 24011

Transfer Agent

American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, NY 11219

Form 10-K Report

Shareholders may obtain, without charge, a copy of Optical Cable Corporation's Form 10-K, including exhibits, as filed with the Securities and Exchange Commission. Write to Optical Cable Corporation, P.O. Box 11967, Roanoke, VA 24022-1967, attention Ms. Tracy G. Smith, Corporate Secretary. Additionally, our SEC filings are available to the public on the SEC Internet site (<http://www.sec.gov>).

Annual Meeting

The 2012 annual meeting of shareholders will be held at 10:00 a.m. on Tuesday, March 27, 2012, at the Green Ridge Recreation Center, 7415 Wood Haven Road, Roanoke, Virginia.

Corporate Information

(Continued)

Common Stock and Dividend Data

Our common stock is traded on the Nasdaq Global Market under the symbol OCC. According to the records of our transfer agent, the Company had approximately 500 shareholders of record as of December 31, 2011. Additionally, there are approximately 1,900 beneficial owners as of December 31, 2011. On January 20, 2012, our common stock closed at a price of \$3.76 per share.

The following table sets forth for the fiscal periods indicated the high and low bid prices of our common stock, as reported on the Nasdaq Global Market, during the two most recent fiscal years:

<u>Fiscal year ended October 31, 2011</u>	<u>Range of Bid Prices</u>	
	<u>High</u>	<u>Low</u>
First Quarter	\$ 6.11	\$ 2.67
Second Quarter	\$ 7.41	\$ 4.17
Third Quarter	\$ 5.29	\$ 3.42
Fourth Quarter	\$ 4.19	\$ 3.06

<u>Fiscal year ended October 31, 2010</u>	<u>Range of Bid Prices</u>	
	<u>High</u>	<u>Low</u>
First Quarter	\$ 4.01	\$ 2.50
Second Quarter	\$ 3.59	\$ 2.94
Third Quarter	\$ 3.40	\$ 2.80
Fourth Quarter	\$ 3.55	\$ 2.16

Dividend Declaration

In October 2010, the Board of Directors authorized the initiation of a quarterly cash dividend and declared a cash dividend on our common stock of \$0.01 per share. In fiscal 2011, we declared dividends of \$0.01 per share on a quarterly basis. We intend to continue to declare quarterly cash dividends for the foreseeable future; however, the payment of future dividends and the amount of future dividends is at the discretion of our Board of Directors and may be dependent on future earnings, cash flow, financial condition and/or other relevant factors.

Corporate Information

(Continued)

Executive Officers of Optical Cable Corporation

Neil D. Wilkin, Jr.

Chairman of the Board, President and
Chief Executive Officer

Tracy G. Smith

Senior Vice President, Chief Financial Officer
and Corporate Secretary

Board of Directors of Optical Cable Corporation

Randall H. Frazier

President and Founder
R. Frazier, Incorporated

John M. Holland

President and Founder
Holland Technical Services

Craig H. Weber

President and Chief Operating Officer
Document Capture Technologies, Inc.

Neil D. Wilkin, Jr.

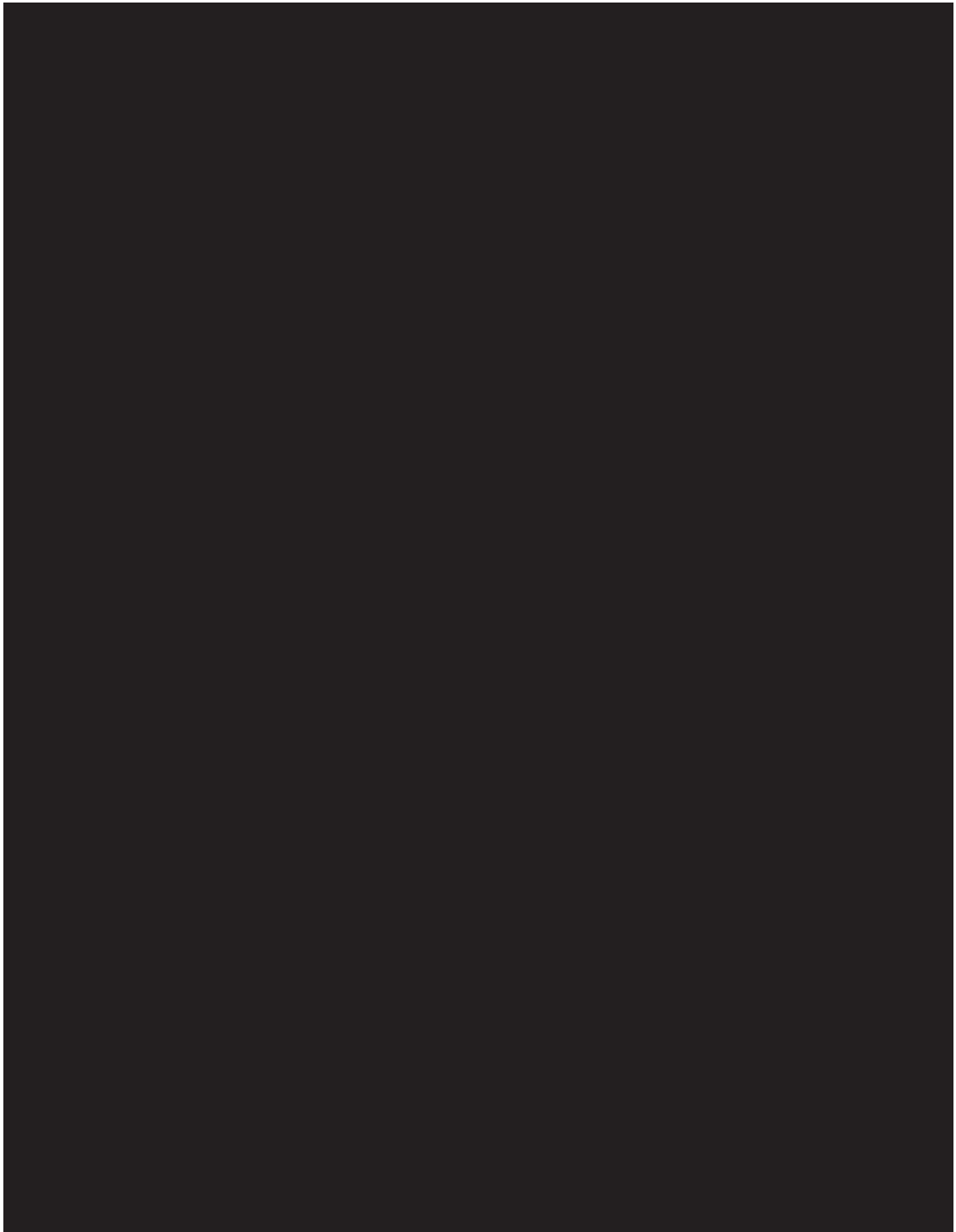
Chairman of the Board, President
and Chief Executive Officer
Optical Cable Corporation

John B. Williamson, III

Chairman of the Board, President
and Chief Executive Officer
RGC Resources, Inc.

Optical Cable Corporation

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OPTICAL CABLE CORPORATION

5290 Concourse Drive
Roanoke, Virginia, USA 24019
P: 540-265-0690 | F: 540-265-0724
www.occfiber.com

LIST OF SUBSIDIARIES

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

Centric Solutions LLC, organized in the State of Delaware.

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Optical Cable Corporation:

We consent to the incorporation by reference in Registration Statement No. 333-09433 on Form S-8, Registration Statement No. 333-103108 on Form S-3, Registration Statement No. 333-115575 on Form S-8, Registration Statement No. 333-128163 on Form S-8, and Registration Statement No. 333-174917 on Form S-8 of Optical Cable Corporation of our report dated January 26, 2012, with respect to the consolidated balance sheets of Optical Cable Corporation and subsidiaries (the Company) as of October 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended October 31, 2011, which report is incorporated by reference in the October 31, 2011 Annual Report on Form 10-K of Optical Cable Corporation. Our report refers to the Company's adoption of the provisions of Financial Accounting Standards Board (FASB) Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* (included in FASB Accounting Standards Codification Subtopic 810-10, *Consolidation—Overall*), as of November 1, 2009.

/s/ KPMG LLP

Roanoke, Virginia
January 26, 2012

CERTIFICATION

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

1. I have reviewed this report on Form 10-K of Optical Cable Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 26, 2012

/s/ Neil D. Wilkin, Jr.

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

CERTIFICATION

I, Tracy G. Smith, certify that:

1. I have reviewed this report on Form 10-K of Optical Cable Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 26, 2012

/s/ Tracy G. Smith

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

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Optical Cable Corporation (the "Company") on Form 10-K for the year ended October 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of October 31, 2011, and for the period then ended.

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.

Chairman of the Board of Directors,
President and Chief Executive Officer

January 26, 2012

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Optical Cable Corporation (the "Company") on Form 10-K for the year ended October 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of October 31, 2011, and for the period then ended.

/s/ Tracy G. Smith

Tracy G. Smith
Senior Vice President and
Chief Financial Officer

January 26, 2012

