

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

FORM 10-Q

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

For the quarterly period ended April 30, 2019

OR

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

For the transition period from _____ to _____

Commission file number 0-27022

OPTICAL CABLE CORPORATION

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of incorporation
or organization)

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

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

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

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

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of exchange on which registered</u>
Common Stock, no par value	OCC	Nasdaq Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company Emerging Growth Company

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

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

As of June 6, 2019, 7,460,535 shares of the registrant's Common Stock, no par value, were outstanding.

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Item 1. Financial Statements

OPTICAL CABLE CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

	April 30, 2019	October 31, 2018
Assets		
Current assets:		
Cash	\$ 310,667	\$ 177,413
Trade accounts receivable, net of allowance for doubtful accounts of \$82,124 at April 30, 2019 and \$64,242 at October 31, 2018	11,717,202	12,832,890
Other receivables	49,949	61,951
Inventories	20,243,223	17,474,755
Prepaid expenses and other assets	433,096	500,021
Total current assets	32,754,137	31,047,030
Property and equipment, net	10,779,540	11,204,639
Income taxes refundable - noncurrent	49,281	49,281
Intangible assets, net	664,576	635,035
Other assets, net	93,445	162,475
Total assets	\$ 44,340,979	\$ 43,098,460
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt	\$ 265,541	\$ 260,954
Accounts payable and accrued expenses	8,230,813	3,256,153
Accrued compensation and payroll taxes	1,671,375	3,489,070
Income taxes payable	24,604	21,666
Total current liabilities	10,192,333	7,027,843
Note payable to bank - noncurrent	5,150,000	3,000,000
Long-term debt, excluding current installments	6,024,533	6,158,630
Other noncurrent liabilities	69,373	101,150
Total liabilities	21,436,239	16,287,623
Shareholders' equity:		
Preferred stock, no par value, authorized 1,000,000 shares; none issued and outstanding	—	—
Common stock, no par value, authorized 50,000,000 shares; issued and outstanding 7,460,535 shares at April 30, 2019 and 7,694,387 shares at October 31, 2018	13,776,982	13,816,140
Retained earnings	9,127,758	12,994,697
Total shareholders' equity	22,904,740	26,810,837
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 44,340,979	\$ 43,098,460

See accompanying condensed notes to condensed consolidated financial statements.

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OPTICAL CABLE CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2019	2018	2019	2018
Net sales	\$ 18,957,175	\$ 26,887,689	\$ 35,707,843	\$ 44,438,729
Cost of goods sold	13,648,041	17,931,414	26,836,150	30,253,634
Gross profit	5,309,134	8,956,275	8,871,693	14,185,095
Selling, general and administrative expenses	5,776,814	7,400,779	12,550,459	12,958,472
Royalty income, net	(1,706)	(11,704)	(1,488)	(17,119)
Amortization of intangible assets	9,482	9,053	18,897	16,292
Income (loss) from operations	(475,456)	1,558,147	(3,696,175)	1,227,450
Other expense, net:				
Interest expense	(129,291)	(152,467)	(246,171)	(281,293)
Other, net	(7,438)	890	(7,280)	10,793
Other expense, net	(136,729)	(151,577)	(253,451)	(270,500)
Income (loss) before income taxes	(612,185)	1,406,570	(3,949,626)	956,950
Income tax expense (benefit)	5,240	15,705	(22,181)	(23,780)
Net income (loss)	\$ (617,425)	\$ 1,390,865	\$ (3,927,445)	\$ 980,730
Net income (loss) per share: Basic and diluted	\$ (0.08)	\$ 0.18	\$ (0.53)	\$ 0.13

See accompanying condensed notes to condensed consolidated financial statements.

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

	Six Months Ended April 30, 2019			
	Common Stock		Retained Earnings	Total Shareholders' Equity
	Shares	Amount		
Balances at October 31, 2018	7,694,387	\$ 13,816,140	\$ 12,994,697	\$ 26,810,837
Adoption of accounting standard ASC 606	—	—	61,763	61,763
Share-based compensation, net	(233,594)	(39,158)	—	(39,158)
Repurchase and retirement of common stock (at cost)	(258)	—	(1,257)	(1,257)
Net loss	—	—	(3,927,445)	(3,927,445)
Balances at April 30, 2019	<u>7,460,535</u>	<u>\$ 13,776,982</u>	<u>\$ 9,127,758</u>	<u>\$ 22,904,740</u>

	Six Months Ended April 30, 2018			
	Common Stock		Retained Earnings	Total Shareholders' Equity
	Shares	Amount		
Balances at October 31, 2017	7,315,605	\$ 11,762,021	\$ 11,927,501	\$ 23,689,522
Share-based compensation, net	380,482	537,784	—	537,784
Repurchase and retirement of common stock (at cost)	(19)	—	(47)	(47)
Net income	—	—	980,730	980,730
Balances at April 30, 2018	<u>7,696,068</u>	<u>\$ 12,299,805</u>	<u>\$ 12,908,184</u>	<u>\$ 25,207,989</u>

See accompanying condensed notes to condensed consolidated financial statements.

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

Six Months Ended

	April 30,	
	2019	2018
Cash flows from operating activities:		
Net income (loss)	\$ (3,927,445)	\$ 980,730
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	874,272	858,662
Bad debt expense	42,693	4,856
Share-based compensation expense	898,704	702,859
Loss on sale of property and equipment	1,435	6,597
(Increase) decrease in:		
Trade accounts receivable	1,072,995	(11,747,218)
Other receivables	12,002	50,181
Inventories	(2,768,468)	(1,982,126)
Prepaid expenses and other assets	128,688	(105,049)
Income taxes refundable - noncurrent	—	(66,127)
Increase (decrease) in:		
Accounts payable and accrued expenses	5,060,548	7,054,110
Accrued compensation and payroll taxes	(1,817,695)	1,154,677
Income taxes payable	2,938	45,404
Other noncurrent liabilities	(31,777)	(4,649)
Net cash used in operating activities	(451,110)	(3,047,093)
Cash flows from investing activities:		
Purchase of and deposits for the purchase of property and equipment	(448,569)	(215,946)
Investment in intangible assets	(48,438)	(11,458)
Net cash used in investing activities	(497,007)	(227,404)
Cash flows from financing activities:		
Payroll taxes withheld and remitted on share-based payments	(937,862)	(165,075)
Proceeds from notes payable to bank	2,350,000	4,050,000
Principal payments on long-term debt and notes payable to bank	(329,510)	(1,193,169)
Payments for financing costs	—	(30,000)
Repurchase of common stock	(1,257)	(47)
Net cash provided by financing activities	1,081,371	2,661,709
Net increase (decrease) in cash	133,254	(612,788)
Cash at beginning of period	177,413	891,169
Cash at end of period	\$ 310,667	\$ 278,381

See accompanying condensed notes to condensed consolidated financial statements.

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OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Consolidated Financial Statements
Six Months Ended April 30, 2019
(Unaudited)

(1) General

The accompanying unaudited condensed consolidated financial statements of Optical Cable Corporation and its subsidiaries (collectively, the “Company” or “OCC[®]”) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments considered necessary for a fair presentation have been included. Operating results for the six months ended April 30, 2019 are not necessarily indicative of the results for the fiscal year ending October 31, 2019 because the following items, among other things, may impact those results: changes in market conditions, seasonality, changes in technology, competitive conditions, timing of certain projects and purchases by key customers, significant variations in sales resulting from high volatility and timing of large sales orders among a limited number of customers in certain markets, ability of management to execute its business plans; as well as other variables, uncertainties, contingencies and risks set forth as risks in the Company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2018 (including those set forth in the “Forward-Looking Information” section), or as otherwise set forth in other filings by the Company as variables, contingencies and/or risks possibly affecting future results. The unaudited condensed consolidated financial statements and condensed notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company’s annual consolidated financial statements and notes. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2018.

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). ASU 2014-09, and collectively with its subsequent amendments (“Topic 606”), is a comprehensive new revenue recognition model that expands disclosure requirements and requires an entity to recognize revenue when promised goods or services are transferred to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The Company adopted Topic 606 effective November 1, 2018 using the modified retrospective transition method applied to contracts that were not completed as of November 1, 2018. Results for reporting periods beginning after November 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the accounting standards in effect for those periods. The results of adopting Topic 606 did not have a material impact on the Company’s results of

operations, financial position or liquidity. Upon adoption, the Company recorded a cumulative adjustment to the opening balance of retained earnings which resulted in an increase of \$61,763 due to the recognition of an asset for the right to recover the costs of products estimated to be returned as of November 1, 2018. See also note 10 for additional information and expanded disclosures under the new standard.

In August 2016, the FASB issued Accounting Standards Update 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). ASU 2016-15 provides guidance related to the classification of certain cash receipts and cash payments on the statement of cash flows. The pronouncement provides clarification guidance on eight specific cash flow presentation issues that have developed due to diversity in practice. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted ASU 2016-15 effective November 1, 2018. The adoption did not have a material impact on the Company's results of operations, financial position or liquidity or its related financial statement disclosures.

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OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Consolidated Financial Statements
Six Months Ended April 30, 2019
(Unaudited)

In October 2016, the FASB issued Accounting Standards Update 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (“ASU 2016-16”). ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset (with the exception of inventory) when the transfer occurs. Under current GAAP, entities are prohibited from recognizing current and deferred income taxes for an intra-entity transfer until the asset is sold to a third party. Examples of assets that would be affected by the new guidance are intellectual property and property, plant and equipment. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted ASU 2016-16 effective November 1, 2018. The adoption did not have any impact on the Company's results of operations, financial position or liquidity or its related financial statement disclosures.

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

As of April 30, 2019, there were approximately 439,000 remaining shares available for grant under the Optical Cable Corporation 2017 Stock Incentive Plan (“2017 Plan”).

Share-based compensation expense for employees, a consultant and non-employee Directors recognized in the condensed consolidated statements of operations for the three months and six months ended April 30, 2019 was \$36,450 and \$898,704 respectively, and for the three months and six months ended April 30, 2018 was \$589,505 and \$702,859 respectively. Share-based compensation expense is entirely related to expense recognized in connection with the vesting of restricted stock awards or other stock awards.

Restricted and Other Stock Awards

The Company has granted, and anticipates granting from time to time, restricted stock awards subject to approval by the Compensation Committee of the Board of Directors. Since fiscal year 2004, the Company has exclusively used restricted stock awards for all share-based compensation of employees and consultants, and restricted stock awards or stock awards to non-employee members of the Board of Directors.

During the three months ended April 30, 2019, OCC granted restricted stock awards totaling 30,360 shares to non-employee Directors under the 2017 Plan. The shares are subject to a one year vesting period and are part of the non-employee Directors’ annual compensation for service on the Board of Directors. The Company recorded expense totaling \$28,577 and \$53,644, respectively, during the three months and six months ended April 30, 2019 and recorded expense totaling \$23,523 and \$46,274, respectively, during the three and six months ended April 30, 2018 related to the grants to non-employee Directors.

Restricted stock award activity during the six months ended April 30, 2019 consisted of restricted stock grants totaling 30,360 shares, restricted shares forfeited totaling 4,745 and restricted shares withheld for taxes in connection with the vesting of restricted shares totaling 259,209. Employees and non-employee Directors have the option to surrender shares to pay for withholding tax obligations resulting from any vesting restricted shares, or to pay cash to the Company or taxing authorities in the amount of the withholding taxes owed on the value of any vesting restricted shares in order to avoid surrendering shares.

As of April 30, 2019, the estimated 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 recognize over a 1.6 year weighted-average period is approximately \$439,000.

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OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Consolidated Financial Statements
Six Months Ended April 30, 2019
(Unaudited)

(3) Allowance for Doubtful Accounts for Trade Accounts Receivable

A summary of changes in the allowance for doubtful accounts for trade accounts receivable for the six months ended April 30, 2019 and 2018 follows:

Six Months Ended

	April 30,	
	2019	2018
Balance at beginning of period	\$ 64,242	\$ 87,446
Bad debt expense	42,693	4,856
Losses charged to allowance	(24,811)	(3,126)
Balance at end of period	<u>\$ 82,124</u>	<u>\$ 89,176</u>

(4) Inventories

Inventories as of April 30, 2019 and October 31, 2018 consist of the following:

	April 30,	October 31,
	2019	2018
Finished goods	\$ 6,238,608	\$ 5,454,629
Work in process	4,156,203	3,877,670
Raw materials	9,538,869	7,871,145
Production supplies	309,543	271,311
Total	<u>\$ 20,243,223</u>	<u>\$ 17,474,755</u>

(5) Product Warranties

As of April 30, 2019 and October 31, 2018, the Company's accrual for estimated product warranty claims totaled \$160,000 and \$180,000, respectively, and is included in accounts payable and accrued expenses. Warranty claims expense for the three months and six months ended April 30, 2019 totaled \$48,716 and \$156,554, respectively. Warranty claims expense for the three months and six months ended April 30, 2018 totaled \$92,185 and \$134,181, respectively.

The following table summarizes the changes in the Company's accrual for product warranties during the six months ended April 30, 2019 and 2018:

	Six Months Ended	
	April 30,	
	2019	2018
Balance at beginning of period	\$ 180,000	\$ 180,000
Liabilities accrued for warranties issued during the period	153,981	179,494
Warranty claims and costs paid during the period	(176,554)	(119,181)
Changes in liability for pre-existing warranties during the period	2,573	(45,313)
Balance at end of period	<u>\$ 160,000</u>	<u>\$ 195,000</u>

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OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Consolidated Financial Statements
Six Months Ended April 30, 2019
(Unaudited)

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

The Company has credit facilities consisting of a real estate term loan, as amended and restated (the "Virginia Real Estate Loan"), a supplemental real estate term loan, as amended and restated (the "North Carolina Real Estate Loan") and a Revolving Credit Note and related agreements (collectively, the "Revolver").

Both the Virginia Real Estate Loan and the North Carolina Real Estate Loan are with Pinnacle Bank ("Pinnacle"), have a fixed interest rate of 3.95% and are secured by a first priority lien on all of the Company's personal property and assets, all money, goods, machinery, equipment, fixtures, inventory, accounts, chattel paper, letter of credit rights, deposit accounts, commercial tort claims, documents, instruments, investment property and general intangibles now owned or hereafter acquired by the Company and wherever located, as well as a first lien deed of trust on the Company's real property.

Long-term debt as of April 30, 2019 and October 31, 2018 consists of the following:

	April 30,	October 31,
	2019	2018
Virginia Real Estate Loan (\$6.5 million original principal) payable in monthly installments of \$31,812, including interest (at 3.95%), with final payment of \$3,644,211 due May 1, 2024	\$ 4,677,934	\$ 4,774,252
North Carolina Real Estate Loan (\$2.24 million original principal) payable in monthly installments of \$10,963, including interest (at 3.95%), with final payment of \$1,255,850 due May 1, 2024	1,612,140	1,645,332
Total long-term debt	6,290,074	6,419,584
Less current installments	265,541	260,954
Long-term debt, excluding current installments	<u>\$ 6,024,533</u>	<u>\$ 6,158,630</u>

The Revolver with Pinnacle provides the Company with a \$7.0 million revolving line of credit for the working capital needs of the Company. Under the Revolver, Pinnacle provides the Company with one or more revolving loans in a collective maximum principal amount of \$7.0 million. The Company may borrow, repay, and reborrow at any time or from time to time while the Revolver is in effect.

The applicable margin in the Revolver has a floor on the interest rate such that the rate will never be less than 2.50% per annum. The Revolver accrues interest at LIBOR plus 2.50% (resulting in a 5.0% rate at April 30, 2019). The Revolver is payable in monthly payments of interest only with principal and any outstanding interest due and payable at maturity.

On April 30, 2019, the Company entered into a Sixth Loan Modification Agreement with Pinnacle to modify the Credit Agreement dated April 26, 2016 entered into between the Company and Pinnacle and the term loans dated April 26, 2016. The Sixth Loan Modification Agreement extends the maturity date of the Revolver to June 30, 2020. Except as modified by the temporary waiver (as discussed below), all other terms of the Revolver remain unaltered and in effect.

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

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OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Consolidated Financial Statements
Six Months Ended April 30, 2019
(Unaudited)

The terms of OCC's credit facilities with Pinnacle requires the Company to comply, on a quarterly basis, with specific financial covenants including a total liabilities to tangible net worth ratio. The Company is required to maintain a total liabilities to tangible net worth ratio of not more than 0.95 to 1.0. The ratio is calculated by dividing total liabilities, as defined in the loan agreements, by tangible net worth, as defined in the loan agreements. As of April 30, 2019, the Company had a total liabilities to tangible net worth ratio of 0.96 to 1.0 and, therefore, was not in compliance with the total liabilities to tangible net worth ratio covenant under its credit facilities.

Subsequent to the Company's quarter end, Pinnacle provided a waiver of non-compliance of the total liabilities to tangible net worth ratio covenant for the quarter ended April 30, 2019.

As of April 30, 2019, the Company had \$5.2 million of outstanding borrowings on its Revolver and \$1.8 million in available credit. As of October 31, 2018, the Company had outstanding borrowings of \$3.0 million on its Revolver and \$4.0 million in available credit.

(7) Fair Value Measurements

The carrying amounts reported in the condensed consolidated balance sheets as of April 30, 2019 and October 31, 2018 for cash, trade accounts receivable, other receivables and accounts payable and accrued expenses, including accrued compensation and payroll taxes, approximate fair value because of the short maturity of these instruments. The carrying values of the Company's note payable to bank and long-term debt approximate fair value based on similar long-term debt issues available to the Company as of April 30, 2019 and October 31, 2018. 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.

(8) Net Income (Loss) Per Share

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

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

	Three months ended		Six months ended	
	April 30,		April 30,	
	2019	2018	2019	2018
Net income (loss) (numerator)	\$ (617,425)	\$ 1,390,865	\$ (3,927,445)	\$ 980,730
Shares (denominator)	7,317,516	7,675,129	7,449,864	7,489,843
Basic and diluted net income (loss) per share	<u>\$ (0.08)</u>	<u>\$ 0.18</u>	<u>\$ (0.53)</u>	<u>\$ 0.13</u>

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OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Consolidated Financial Statements
Six Months Ended April 30, 2019
(Unaudited)

Weighted average unvested shares for the three months and six months ended April 30, 2019 totaling 125,893 and 121,039, respectively, while issued and outstanding, were not included in the computation of basic and diluted net loss per share for the three months and six months ended April 30, 2019 (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).

(9) Segment Information and Business and Credit Concentrations

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 normally limited due to the Company's large number of customers. The Company also manages exposure to credit risk through credit approvals, credit limits and monitoring procedures. Management believes that credit risks as of April 30, 2019 have been adequately provided for in the condensed consolidated financial statements.

For the three months ended April 30, 2019, 15.0% and 19.4% of consolidated net sales were attributable to two customers. For the six months ended April 30, 2019, 14.2% and 18.1% of consolidated net sales were attributable to the same two customers. For the three months and six months ended April 30, 2018, 47.7% and 37.3%, respectively, of consolidated net sales were attributable to one customer.

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

(10) Revenue Recognition

Revenues consist of product sales that are recognized at a specific point in time under the core principle of recognizing revenue when control transfers to the customer. The Company considers customer purchase orders, governed by master sales agreements or the Company's standard terms and conditions, to be the contract with the customer. For each contract, the promise to transfer the control of the products, each of which is individually distinct, is considered to be the identified performance obligation. The Company evaluates each customer's credit risk when determining whether to accept a contract.

In determining transaction prices, the Company evaluates whether fixed order prices are subject to adjustment to determine the net consideration to which the Company expects to be entitled. Contracts do not include financing components, as payment terms are generally due 30 to 90 days after shipment. Taxes assessed by governmental authorities and collected from the customer including, but not limited to, sales and use taxes and value-added taxes, are not included in the transaction price and are not included in net sales.

The Company recognizes revenue at the point in time when products are shipped or delivered from its manufacturing facility to its customer, in accordance with the agreed upon shipping terms. Since the Company typically invoices the customer at the same time that performance obligations are satisfied, no contract assets are recognized. The Company's contract liability represents advance consideration received from customers prior to transfer of the product. This liability was \$175,946 as of April 30, 2019 and \$123,979 as of November 1, 2018.

Sales to certain customers are made pursuant to agreements that provide price adjustments and limited return rights with respect to the Company's products. The Company maintains a reserve for estimated future price adjustment claims, rebates and returns as a refund liability. The Company's refund liability was \$128,957 as of April 30, 2019 and \$298,577 as of November 1, 2018.

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OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Consolidated Financial Statements
Six Months Ended April 30, 2019
(Unaudited)

The Company offers standard product warranty coverage which provides assurance that its products will conform to contractually agreed-upon specifications for a limited period from the date of shipment. Separately-priced warranty coverage is not offered. The warranty claim is generally limited to a credit equal to the purchase price or a promise to repair or replace the product for a specified period of time at no additional charge.

The Company accounts for shipping and handling activities related to contracts with customers as a cost to fulfill its promise to transfer control of the related product. Shipping and handling costs are included in selling, general and administrative expenses in the accompanying Condensed Consolidated Statements of Operations.

The Company incurs sales commissions to acquire customer contracts that are directly attributable to the contracts. The commissions are expensed as selling expenses during the period that the related products are transferred to customers.

Disaggregation of Revenue

The following table presents net sales attributable to the United States and all other countries in total for the three months and six months ended April 30, 2019 and 2018:

	Three months ended April 30,		Six months ended April 30,	
	2019	2018	2019	2018
United States	\$ 15,464,981	\$ 23,877,885	\$ 29,039,382	\$ 37,733,193
Outside the United States	3,492,194	3,009,804	6,668,461	6,705,536
Total net sales	<u>\$ 18,957,175</u>	<u>\$ 26,887,689</u>	<u>\$ 35,707,843</u>	<u>\$ 44,438,729</u>

(11) Contingencies

From time to time, the Company is 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 the Company's financial position, results of operations or liquidity.

(12) New Accounting Standards Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*. The FASB has subsequently issued amendments to the initial guidance under ASU 2017-13, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01 (collectively, "Topic 842"). Topic 842 requires the recognition of a separate lease liability representing the required lease payments over the lease term and a separate lease asset representing the right to use the underlying asset during the same lease term. Additionally, Topic 842 provides clarification regarding the identification of certain components of contracts that would represent a lease as well as requires additional disclosures in the notes to the financial statements. Topic 842 is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period with early adoption permitted. The Company expects the adoption of this guidance may result in an increase to its long-term assets and liabilities on its consolidated balance sheet depending on the resulting impact of any decision by the Company to renew, extend or replace its two existing real estate leases, as the current leases expire; however, the Company does not expect the adoption to have a material impact on its results of operations, financial position and liquidity and its related financial statement disclosures.

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OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Consolidated Financial Statements
Six Months Ended April 30, 2019
(Unaudited)

In June 2018, the FASB issued Accounting Standards Update 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* ("ASU 2018-07"). ASU 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under *Revenue from Contracts with Customers* (Topic 606). ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period, with early adoption permitted. The adoption of ASU 2018-07 is not expected to have a material impact on the Company's results of operations, financial position or liquidity or its related financial statement disclosures.

In June 2018, the FASB issued Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). ASU 2018-08 applies to entities that receive or make contributions, which primarily are not-for-profit entities but also affects business entities that make contributions. In the context of business entities that make contributions, the FASB clarified that a contribution is conditional if the arrangement includes both a barrier for the recipient to be entitled to the assets transferred and a right of return for the assets transferred (or a right of release of the business entity's obligation to transfer assets). The recognition of contribution expense is deferred for conditional arrangements and is immediate for unconditional arrangements. ASU 2018-08 requires modified prospective transition to arrangements that have not been completed as of the effective date or that are entered into after the effective date, but full retrospective application to each period presented is permitted. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period, with early adoption permitted. The adoption of ASU 2018-08 is not expected to have a material impact on the Company's results of operations, financial position or liquidity or its related financial statement disclosures.

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

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

Forward-Looking Information

This Form 10-Q may contain certain forward-looking information within the meaning of the federal securities laws. The forward-looking information may include, among other information, (i) statements concerning our outlook for the future, (ii) statements of belief, anticipation or expectation, (iii) future plans, strategies or anticipated events, and (iv) similar information and statements concerning matters that are not historical facts. Such forward-looking information is subject to known and unknown variables, uncertainties, contingencies and risks that may cause actual events or results to differ materially from our expectations. Such known and unknown variables, uncertainties, contingencies and risks (collectively, "factors") may also adversely affect Optical Cable Corporation and its subsidiaries (collectively, the "Company" or "OCC[®]"), the Company's future results of operations and future financial condition, and/or the future equity value of the Company. Factors that could cause or contribute to such differences from our expectations or that could adversely affect the Company include, but are not limited to: the level of sales to key customers, including distributors; timing of certain projects and purchases by key customers; the economic conditions affecting network service providers; corporate and/or government spending on information technology; actions by competitors; fluctuations in the price of raw materials (including optical fiber, copper, gold and other precious metals, plastics and other materials); fluctuations in transportation costs; our dependence on customized equipment for the manufacture of certain of our products in certain production facilities; our ability to protect our proprietary manufacturing technology; market conditions influencing prices or pricing in one or more of the markets in which we participate, including the impact of increased competition; our dependence on a limited number of suppliers for certain product components; the loss of or conflict with one or more key suppliers or customers; an adverse outcome in any litigation, claims and other actions, and potential litigation, claims and other actions against us; an adverse outcome in any regulatory reviews and audits and potential regulatory reviews and audits; adverse changes in state tax laws and/or positions taken by state taxing authorities affecting us; technological changes and introductions of new competing products; changes in end-user preferences for competing technologies relative to our product offering; economic conditions that affect the telecommunications sector, the data communications sector,

certain technology sectors and/or certain industry market sectors (for example, mining, oil & gas, military, and wireless carrier industry market sectors); economic conditions that affect U.S.-based manufacturers; economic conditions or changes in relative currency strengths (for example, the strengthening of the U.S. dollar relative to certain foreign currencies) and import and/or export tariffs imposed by the U.S. and other countries that affect certain geographic markets, industry market sectors, and/or the economy as a whole; changes in demand for our products from certain competitors for which we provide private label connectivity products; changes in the mix of products sold during any given period (due to, among other things, seasonality or strength or weaknesses in particular markets in which we participate) which may impact gross profits and gross profit margins or net sales; variations in orders and production volumes of hybrid cables (fiber and copper) with high copper content, which tend to have lower gross profit margins; significant variations in sales resulting from high volatility, timing of large sales orders, and high sales concentration among a limited number of customers in certain markets, particularly the wireless carrier market; terrorist attacks or acts of war, and any current or potential future military conflicts; changes in the level of military spending or other spending by the United States government, including, but not limited to reductions in government spending due to automatic budget cuts or sequestration; ability to recruit and retain key personnel; poor labor relations; the impact of cybersecurity risks and incidents, and the related actual or potential costs and consequences, in compliance with the federal securities laws; the impact of data privacy laws and the General Data Protection Regulation and the related actual or potential costs and consequences; 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; rising healthcare costs; the impact of the Patient Protection and Affordable Care Act of 2010, the Health Care and Education Reconciliation Act of 2010, and any revisions to those acts that apply to us and the related legislation and regulation associated with those acts, which directly or indirectly result in increases to our costs; the impact of changes in state or federal tax laws and regulations increasing our costs and/or impacting the net return to investors owning our shares; our ability to maintain and/or secure debt financing and/or equity financing to adequately finance our ongoing operations; the impact of future consolidation among competitors and/or among customers adversely affecting our position with our customers and/or our market position; actions by customers adversely affecting us in reaction to the expansion of our product offering in any manner, including, but not limited to, by offering products that compete with our customers, and/or by entering into alliances with, making investments in or with, and/or acquiring parties that compete with and/or have conflicts with our customers; voluntary or involuntary delisting of the Company’s common stock from any exchange on which it is traded; the deregistration by the Company from SEC reporting requirements as a result of the small number of holders of the Company’s common stock; adverse reactions by customers, vendors or other service providers to unsolicited proposals regarding the ownership or management of the Company; the additional costs of considering, responding to and possibly defending our position on unsolicited proposals regarding the ownership or management of the Company; impact of weather or natural disasters in the areas of the world in which we operate, market our products and/or acquire raw materials; an increase in the number of shares of the Company’s common stock issued and outstanding; economic downturns generally and/or in one or more of the markets in which we operate; changes in market demand, exchange rates, productivity, market dynamics, market confidence, macroeconomic and/or other economic conditions in the areas of the world in which we operate and market our products; and our success in managing the risks involved in the foregoing.

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

Dollar amounts presented in the following discussion have been rounded to the nearest hundred thousand, except in the case of amounts less than one million and except in the case of the table set forth in the “Results of Operations” section, the amounts which in both cases 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 and various harsh environment and specialty markets (collectively, the non-carrier markets), and also the wireless carrier market, offering integrated suites of high quality products which operate as a system solution or seamlessly integrate with other providers’ offerings. Our product offerings include designs for uses ranging from enterprise network, datacenter, residential, campus and Passive Optical LAN (“POL”) installations to customized products for specialty applications and harsh environments, including military, industrial, mining, petrochemical and broadcast applications, and for the wireless carrier market. Our products include fiber optic and copper cabling, fiber optic and copper connectors, specialty fiber optic and copper connectors, fiber optic and copper patch cords, pre-terminated fiber optic and copper cable assemblies, racks, cabinets, datacom enclosures, patch panels, face plates, multi-media boxes, fiber optic reels and accessories and other cable and connectivity management accessories, and are designed to meet the most demanding needs of end-users, delivering a high degree of reliability and outstanding performance characteristics.

OCC[®] is internationally recognized for pioneering the design and production of fiber optic cables for the most demanding military field applications, as well as of fiber optic cables suitable for both indoor and outdoor use, and creating a broad product offering built on the evolution of these fundamental technologies. OCC is also internationally recognized for pioneering the development of innovative copper connectivity technology and designs used to meet industry copper connectivity data communications standards.

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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 9001:2015 registered and MIL-STD-790G certified, primarily manufacture our enterprise connectivity products at our Asheville facility which is ISO 9001:2015 registered, and primarily manufacture our harsh environment and specialty connectivity products at our Dallas facility which is ISO 9001:2015 registered and MIL-STD-790G certified.

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

offering. OCC designs, develops and manufactures a broad range of specialty fiber optic connectors and connectivity solutions principally for use in military, harsh environment and other specialty applications. We refer to these products as our harsh environment and specialty connectivity product offering.

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

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

OCC's wholly owned subsidiary Centric Solutions LLC ("Centric Solutions") provides cabling and connectivity solutions for the datacenter market. Centric Solutions' business is located at OCC's facility near Dallas, Texas.

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

Summary of Company Performance for Second Quarter of Fiscal Year 2019

- During the second quarter of fiscal year 2019, OCC focused on cost control, including correcting unintended throughput constraints and inefficiencies that we experienced in our Roanoke facility during the first quarter of fiscal year 2019 and which negatively impacted our results during the first quarter. These throughput constraints resulted from the expansion, training, and restructuring of our manufacturing workforce and from process changes—initiatives intended to ultimately increase throughput and efficiency in order to meet increased product demand over the short- and long-term.
- Consolidated net sales for the second quarter of fiscal year 2019 were \$19.0 million, a decrease of 29.5% compared to consolidated net sales of \$26.9 million for the same period last year. Sequentially, net sales increased 13.2% in the second quarter of fiscal year 2019, compared to net sales of \$16.8 million for the first quarter of fiscal year 2019.
- Gross profit was \$5.3 million in the second quarter of fiscal year 2019, a decrease of 40.7% compared to \$9.0 million for the second quarter of fiscal year 2018. Sequentially, gross profit increased 49.0% in the second quarter of fiscal year 2019, compared to gross profit of \$3.6 million for the first quarter of fiscal year 2019.

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- Gross profit margin (gross profit as a percentage of net sales) was 28.0% during the second quarter of fiscal year 2019, compared to 33.3% for the second quarter of fiscal year 2018 and compared to 21.3% for the first quarter of fiscal year 2019.
- SG&A expenses were \$5.8 million during the second quarter of fiscal year 2019, a decrease of \$1.6 million or 21.9% compared to SG&A expenses of \$7.4 million during the second quarter of fiscal year 2018. Sequentially, SG&A expenses decreased \$997,000 or 14.7% during the second quarter of fiscal year 2019 compared to SG&A expenses of \$6.8 million during the first quarter of fiscal year 2019.
- Net loss was \$617,000, or \$0.08 per share, during the second quarter of fiscal year 2019, compared to net income of \$1.4 million, or \$0.18 per share, for the comparable period last year and compared to a net loss of \$3.3 million, or \$0.44 per share, during the first quarter of fiscal year 2019.

Results of Operations

We sell our products internationally and domestically to our customers, which include major distributors, various regional and smaller distributors, original equipment manufacturers and value-added resellers. All of our sales to customers outside of the United States are denominated in U.S. dollars. We can experience fluctuations in the percentage of net sales to customers outside of the United States and in the United States from period to period based on the timing of large orders, coupled with the impact of increases and decreases in sales to customers in various regions of the world. Sales outside of the U.S. can also be impacted by fluctuations in the exchange rate of the U.S. dollar compared to other currencies.

Net sales consist of gross sales of products by the Company and its subsidiaries on a consolidated basis less discounts, refunds and returns. Revenue is recognized at the time product is transferred to the customer (including distributors) at an amount that reflects the consideration expected to be received in exchange for the products. Our customers generally do not have the right of return unless a product is defective or damaged and is within the parameters of the product warranty in effect for the sale.

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

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

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

Royalty income (expense), 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 the costs, including legal fees, associated with internally developed patents that have been granted. Amortization of intangible assets is calculated using the straight-line method over the estimated useful lives of the intangible assets.

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

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

	Three Months Ended		Percent Change	Six Months Ended		Percent Change
	April 30,			April 30,		
	2019	2018		2019	2018	
Net sales	\$ 18,957,000	\$ 26,888,000	(29.5%)	\$ 35,708,000	\$ 44,439,000	(19.6%)
Gross profit	5,309,000	8,956,000	(40.7%)	8,872,000	14,185,000	(37.5%)
SG&A expenses	5,777,000	7,401,000	(21.9%)	12,550,000	12,958,000	(3.1%)
Net income (loss)	(617,000)	1,391,000	(144.4%)	(3,927,000)	981,000	(500.5%)

Three Months Ended April 30, 2019 and 2018

Net Sales

Consolidated net sales for the second quarter of fiscal year 2019 decreased 29.5% to \$19.0 million compared to net sales of \$26.9 million for the same period last year. The decrease in net sales when comparing the two periods is primarily due to the recognition of net sales totaling, in the aggregate, approximately \$12.8 million as the result of a number of large orders from one customer in the second quarter of fiscal year 2018 that did not recur at the same levels in the second quarter of fiscal year 2019. Net sales to this customer totaled, in the aggregate, \$3.7 million in the second quarter of fiscal year 2019, for a total decrease in sales to this customer of \$9.1 million. We experienced a decrease in net sales in our enterprise and wireless carrier markets in the second quarter of fiscal year 2019 compared to the same period last year, partially offset by increases in other specialty markets.

Sequentially, net sales increased 13.2% in the second quarter of fiscal year 2019, compared to net sales of \$16.8 million for the first quarter of fiscal year 2019, with increases in both our enterprise markets and specialty markets, including the wireless carrier market. The improvement in sequential net sales is primarily the result of efforts made to address the negative impacts, identified during the first quarter of fiscal year 2019, of throughput constraints and inefficiencies in our Roanoke facility that resulted from the expansion, training and restructuring of our manufacturing workforce and from process changes—initiatives intended to ultimately increase throughput and efficiency in order to meet increased product demand over the short- and long-term.

Net sales to customers in the United States decreased 35.2% in the second quarter of fiscal year 2019, compared to the same period last year, due to a decrease in net sales to one domestic customer in the second quarter of fiscal year 2019 compared to the second quarter of fiscal year 2018. Net sales to customers outside of the United States increased 16.0% compared to the same period last year.

Gross Profit

Our gross profit was \$5.3 million in the second quarter of fiscal year 2019, a decrease of 40.7% compared to gross profit of \$9.0 million in the second quarter of fiscal year 2018. Gross profit margin, or gross profit as a percentage of net sales, was 28.0% in the second quarter of fiscal year 2019 compared to 33.3% in the second quarter of fiscal year 2018.

Sequentially, gross profit increased 49.0% in the second quarter of fiscal year 2019 compared to the first quarter of fiscal year 2019. During the second quarter of fiscal year 2019, OCC focused on cost control, including correcting unintended throughput constraints and inefficiencies that we experienced in our Roanoke facility during the first quarter of fiscal year 2019 and which negatively impacted our results during the first quarter. These throughput constraints resulted from the expansion, training, and restructuring of our manufacturing workforce and from process change—initiatives intended to ultimately increase throughput and efficiency in order to meet increased product demand over the short- and long-term.

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Our gross profit margin percentages are heavily dependent upon product mix on a quarterly basis, and this continued to be a factor putting downward pressure on our gross profit margin during the second quarter of fiscal year 2019. Additionally, gross profit margin in the second quarter of fiscal year 2019 was negatively impacted by increased labor-related costs totaling approximately \$319,000 and other costs which negatively impacted gross profit in the second quarter of fiscal year 2019. We continue to make every effort to eliminate the initial negative impact of our initiatives intended to ultimately increase throughput and efficiency. As a result, we believe we will continue to see improvements in our gross profit margin during the third quarter of fiscal year 2019.

Selling, General, and Administrative Expenses

SG&A expenses decreased 21.9% to \$5.8 million during the second quarter of fiscal year 2019, compared to \$7.4 million for the same period last year. SG&A expenses as a percentage of net sales were 30.5% in the second quarter of fiscal year 2019, compared to 27.5% in the second quarter of fiscal year 2018.

The decrease in SG&A expenses during the second quarter of fiscal year 2019 compared to the same period last year was primarily the result of decreases in employee related costs totaling \$1.4 million. The decrease in employee related costs was primarily the result of decreases in employee incentives totaling \$797,000 and decreases in share-based compensation expense totaling \$560,000 due to the financial results in the second quarter of fiscal year 2019 when compared to the second quarter of fiscal year 2018.

Sequentially, SG&A expenses decreased \$997,000 or 14.7% during the second quarter of fiscal year 2019 compared to SG&A expenses of \$6.8 million during the first quarter of fiscal year 2019.

Royalty Income (Expense), Net

We recognized royalty income, net of royalty and related expenses, totaling \$2,000 during the second quarter of fiscal year 2019 compared to \$12,000 during the second quarter of fiscal year 2018.

Amortization of Intangible Assets

We recognized \$9,000 of amortization expense, associated with intangible assets, during the second quarters of both fiscal years 2019 and 2018.

Other Expense, Net

We recognized other expense, net in the second quarter of fiscal year 2019 of \$137,000 compared to \$152,000 in the second quarter of fiscal year 2018. Other expense, net is comprised primarily of interest expense together with other miscellaneous items.

Income (Loss) Before Income Taxes

We reported a loss before income taxes of \$612,000 for the second quarter of fiscal year 2019, compared to income before income taxes of \$1.4 million for the second quarter of fiscal year 2018. The change was primarily due to the decrease in gross profit of \$3.6 million, partially offset by the decrease in SG&A expenses of \$1.6 million, compared to the same period in 2018.

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Income Tax Expense

Income tax expense totaled \$5,000 in the second quarter of fiscal year 2019, compared to \$16,000 for the same period in fiscal year 2018. Our effective tax rate for the second quarter of fiscal year 2019 was less than negative one percent compared to 1.1% for the second quarter of fiscal year 2018.

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

During fiscal year 2015, we established a valuation allowance against all of our net deferred tax assets. As a result of establishing a full valuation allowance against our net deferred tax assets, if we generate sufficient taxable income in subsequent periods to realize a portion or all of our net deferred tax assets, our effective income tax rate could be unusually low due to the tax benefit attributable to the necessary decrease in our valuation allowance. Further, if we generate losses before taxes in subsequent periods, our effective income tax rate could also be unusually low as any increase in our net deferred tax asset from such a net operating loss for tax purposes would be offset by a corresponding increase to our valuation allowance against our net deferred tax assets.

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

Net Income (Loss)

Net loss for the second quarter of fiscal year 2019 was \$617,000 compared to net income of \$1.4 million for the second quarter of fiscal year 2018. This change was due primarily to the increase in loss before income taxes of \$2.0 million.

Net loss during the first quarter of fiscal year 2019 was \$3.3 million, or \$0.44 per share.

Six Months Ended April 30, 2019 and 2018

Net Sales

Consolidated net sales for the first half of fiscal year 2019 decreased 19.6% to \$35.7 million compared to net sales of \$44.4 million for the same period last year. The decrease in net sales when comparing the two periods is primarily due to the fact that we recognized net sales totaling, in the aggregate, approximately \$16.6 million as the result of a number of large orders for one customer in the first half of fiscal year 2018 that did not recur at the same levels in the first half of fiscal year 2019. Net sales to this customer totaled, in the aggregate, \$6.5 million in the first half of fiscal year 2019, for a total decrease in sales to this customer of \$10.1 million. We experienced a decrease in net sales in our enterprise and wireless carrier markets in the first half of fiscal year 2019 compared to the same period last year, partially offset by increases in other specialty markets.

Net sales to customers in the United States decreased 23.0% in the first half of fiscal year 2019 compared to the same period last year, due to a decrease in net sales to one domestic customer in the first half of fiscal year 2019 compared to the first half of fiscal year 2018. Net sales to customers outside of the United States decreased less than one percent.

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Gross Profit

Our gross profit was \$8.9 million in the first half of fiscal year 2019, a decrease of 37.5% compared to gross profit of \$14.2 million in the first half of fiscal year 2018. Gross profit margin, or gross profit as a percentage of net sales, was 24.8% in the first half of fiscal year 2019 compared to 31.9% in the first half of fiscal year 2018.

Our gross profit margin percentages are heavily dependent upon product mix on a quarterly basis, and this was a factor putting downward pressure on our gross profit margin during the first half of fiscal year 2019. Additionally, gross profit margin in the first half of fiscal year 2019 was negatively impacted by the throughput constraints and inefficiencies that we experienced at our Roanoke facility that resulted from the expansion, training, and restructuring of our manufacturing workforce and from process changes—initiatives intended to ultimately increase throughput and efficiency in order to meet increased product demand over the short- and long-term. Through the first half of the fiscal year, these efforts led to increased labor related costs totaling approximately \$1.2 million which, along with other costs, negatively impacted gross profit in the first half of fiscal year 2019. We made substantial improvements during the second quarter of fiscal year 2019, and we continue to make every effort to eliminate the initial negative impact of these initiatives. As a result, we believe we will continue to see improvements in our gross profit margin during the third quarter of fiscal year 2019.

Selling, General, and Administrative Expenses

SG&A expenses decreased 3.1% to \$12.6 million for the first half of fiscal year 2019 from \$13.0 million for the same period last year. SG&A expenses as a percentage of net sales were 35.1% in the first half of fiscal year 2019 compared to 29.2% in the first half of fiscal year 2018.

The decrease in SG&A expenses during the first half of fiscal year 2019 compared to the first half of fiscal year 2018 was primarily the result of decreases in employee related costs totaling \$238,000. Included in employee related costs are employee incentives and commissions which decreased due to the financial results during the first half of fiscal year 2019, partially offset by increases in compensation costs, due primarily to new hires, net of terminations, in the Roanoke facility.

Royalty Income (Expense), Net

We recognized royalty income, net of royalty and related expenses, totaling \$1,000 during the first half of fiscal year 2019, compared to \$17,000 during the same period last year.

Amortization of Intangible Assets

We recognized \$19,000 of amortization expense, associated with intangible assets, for the first half of fiscal year 2019, compared to \$16,000 during the first half of fiscal year 2018.

Other Expense, Net

We recognized other expense, net in the first half of fiscal year 2019 of \$253,000 compared to \$271,000 in the first half of fiscal year 2018. Other expense, net is comprised primarily of interest expense together with other miscellaneous items.

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Income (Loss) Before Income Taxes

We reported a loss before income taxes of \$3.9 million for the first half of fiscal year 2019 compared to income before income taxes of \$957,000 for the first half of fiscal year 2018. This change was primarily due to the decrease in gross profit of \$5.3 million, partially offset by the decrease in SG&A expenses of \$408,000 in the first half of fiscal year 2019, compared to the same period in 2018.

Income Tax Benefit

Income tax benefit totaled \$22,000 in the first half of fiscal year 2019 compared to \$24,000 for the same period in fiscal year 2018. Our effective tax rate for the first half of fiscal year 2019 was less than one percent compared to negative 2.5% for the first half of fiscal year 2018.

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

During fiscal year 2015, we established a valuation allowance against all of our net deferred tax assets. As a result of establishing a full valuation allowance against our net deferred tax assets, if we generate sufficient taxable income in subsequent periods to realize a portion or all of our net deferred tax assets, our effective income tax rate could be unusually low due to the tax benefit attributable to the necessary decrease in our valuation allowance. Further, if we generate losses before taxes in subsequent periods, our effective income tax rate could also be unusually low as any increase in our net deferred tax asset from such a net operating loss for tax purposes would be offset by a corresponding increase to our valuation allowance against our net deferred tax assets.

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

Net Income (Loss)

Net loss for the first half of fiscal year 2019 was \$3.9 million compared to net income of \$981,000 for the first half of fiscal year 2018. This change was due primarily to the increase in loss before income taxes of \$4.9 million in the first half of fiscal year 2019, compared to the same period in fiscal year 2018.

Financial Condition

Total assets increased \$1.2 million, or 2.9%, to \$44.3 million at April 30, 2019, from \$43.1 million at October 31, 2018. This increase was primarily due to a \$2.8 million increase in inventories, partially offset by a decrease in trade accounts receivable, net totaling \$1.1 million. Inventories increased largely as the result of the replenishment of stock inventory to more optimal levels and the timing of certain raw material purchases. The decrease in trade accounts receivable, net largely resulted from the decrease in net sales in the second quarter of fiscal year 2019 when compared to the fourth quarter of fiscal year 2018.

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Total liabilities increased \$5.1 million, or 31.6%, to \$21.4 million at April 30, 2019, from \$16.3 million at October 31, 2018. The increase in total liabilities was primarily due to an increase in accounts payable and accrued expenses totaling \$5.0 million, primarily resulting from purchases of raw materials and the timing of certain vendor payments, and an increase in note payable to bank under our revolving credit facility due to net borrowings of \$2.2 million, partially offset by a decrease in accrued compensation and payroll taxes totaling \$1.8 million.

Total shareholders' equity at April 30, 2019 decreased \$3.9 million in the first half of fiscal year 2019. The decrease resulted primarily from a net loss of \$3.9 million.

Liquidity and Capital Resources

Our primary capital needs have been to fund working capital requirements and to make principal payments on long-term debt and our note payable to bank. Our primary source of capital for these purposes has been existing cash, borrowings under our revolving credit facility and cash provided by operations.

Our cash totaled \$311,000 as of April 30, 2019, an increase of \$133,000, compared to \$177,000 as of October 31, 2018. The increase in cash for the six months ended April 30, 2019 primarily resulted from net cash provided by financing activities of \$1.1 million, partially offset by capital expenditures totaling \$449,000 and cash used in operating activities of \$451,000.

On April 30, 2019, we had working capital of \$22.6 million compared to \$24.0 million on October 31, 2018. The ratio of current assets to current liabilities as of April 30, 2019 was 3.2 to 1 compared to 4.4 to 1 as of October 31, 2018. The decrease in working capital and in the current ratio was primarily due to the \$1.1 million decrease in trade accounts receivable, net and the net increase in accounts payable and accrued expenses, including accrued compensation and payroll taxes, of \$3.2 million, partially offset by the \$2.8 million increase in inventories.

As of April 30, 2019 and October 31, 2018, we had outstanding loan balances under our revolving credit facilities totaling \$5.2 million and \$3.0 million, respectively. As of April 30, 2019 and October 31, 2018, we had outstanding loan balances, excluding our revolving credit facility, totaling \$6.3 million and \$6.4 million, respectively.

Net Cash

Net cash used in operating activities was \$451,000 in the first half of fiscal year 2019, compared to \$3.0 million in the first half of fiscal year 2018. Net cash used in operating activities during the first half of fiscal year 2019 primarily resulted from an increase in inventories totaling \$2.8 million and a decrease in accrued compensation and payroll taxes totaling \$1.8 million, partially offset by a decrease in the cash flow impact of decreases in trade accounts receivable, net totaling \$1.1 million and certain adjustments to reconcile a net loss of \$3.9 million to net cash used in operating activities including depreciation and amortization of \$874,000 and share-based compensation expense of \$899,000. Additionally, the cash flow impact of increases in accounts payable and accrued expense totaling \$5.1 million further contributed to offset net cash used in operating activities.

Net cash used in operating activities during the first half of fiscal year 2018 primarily resulted from an increase in the cash flow impact of increases in trade accounts receivable, net totaling \$11.7 million and an increase in inventories totaling \$2.0 million, partially offset by certain adjustments to reconcile net income of \$981,000 to net cash used in operating activities including depreciation and amortization of \$859,000 and share-based compensation expense of \$703,000. Additionally, the cash flow impact of increases in accounts payable and accrued expenses, including accrued compensation and payroll taxes, of \$8.2 million further contributed to offset net cash used in operating activities.

Net cash used in investing activities totaled \$497,000 in the first half of fiscal year 2019, compared to \$227,000 in the first half of fiscal year 2018. Net cash used in investing activities during the first half of fiscal years 2019 and 2018 resulted primarily from purchases of property and equipment and deposits for the purchase of property and equipment.

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Net cash provided by financing activities totaled \$1.1 million in the first half of fiscal year 2019, compared to \$2.7 million in the first half of fiscal year 2018. Net cash provided by financing activities in the first half of fiscal year 2019 resulted primarily from proceeds from a note payable to our bank under our line of credit, net of repayments, totaling \$2.2 million, partially offset by payroll taxes withheld and remitted totaling \$938,000 related to the vesting of operational performance-based restricted stock, and principal payments on long-term debt totaling \$130,000. Net cash provided by financing activities in the first half of fiscal year 2018 resulted primarily from proceeds from notes payable to our bank under our lines of credit, net of repayments, totaling \$3.0 million.

We have a plan (the "Repurchase Plan"), approved by our Board of Directors on July 14, 2015, to purchase and retire up to 400,000 shares of our common stock, or approximately 6.0% of the shares then outstanding. When the Repurchase Plan was approved, we had anticipated that the purchases would be made over a 24- to 36-month period, but there was no definite time period for repurchase or plan expiration. As of April 30, 2019, we had 398,400 shares remaining to purchase under this Repurchase Plan, and we have made no specific determination whether and over what period these shares may be purchased.

We have repurchased outstanding common stock outside of the Repurchase Plan through an odd lot repurchase offer. During the first half of fiscal year 2019, we repurchased and retired 258 shares for \$1,257, outside of the Repurchase Plan.

Credit Facilities

We have credit facilities consisting of a real estate term loan, as amended and restated (the “Virginia Real Estate Loan”), a supplemental real estate term loan, as amended and restated (the “North Carolina Real Estate Loan”), and a Revolving Credit Note and related agreements (collectively, the “Revolver”).

Both the Virginia Real Estate Loan and the North Carolina Real Estate Loan are with Pinnacle Bank (“Pinnacle”), have a fixed interest rate of 3.95% and are secured by a first priority lien on all of our personal property and assets, all money, goods, machinery, equipment, fixtures, inventory, accounts, chattel paper, letter of credit rights, deposit accounts, commercial tort claims, documents, instruments, investment property and general intangibles now owned or hereafter acquired by us and wherever located, as well as a first lien deed of trust on our real property.

Our Revolver with Pinnacle provides the Company with a \$7.0 million revolving line of credit for our working capital needs. Under the Revolver, Pinnacle provides us with one or more revolving loans in a collective maximum principal amount of \$7.0 million. We may borrow, repay, and reborrow at any time or from time to time while the Revolver is in effect.

The applicable margin in the Revolver has a floor on the interest rate such that the rate will never be less than 2.50% per annum. The Revolver accrues interest at LIBOR plus 2.50% (resulting in a 5.0% rate at April 30, 2019). The Revolver is payable in monthly payments of interest only with principal and any outstanding interest due and payable at maturity.

On April 30, 2019, we entered into a Sixth Loan Modification Agreement with Pinnacle to modify the Credit Agreement dated April 26, 2016 entered into between the Company and Pinnacle and the term loans dated April 26, 2016. The Sixth Loan Modification Agreement extends the maturity date of the Revolver to June 30, 2020. Except as modified by the temporary waiver (as discussed below), all other terms of the Revolver remain unaltered and in effect.

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

The terms of our credit facilities with Pinnacle requires us to comply, on a quarterly basis, with specific financial covenants including a total liabilities to tangible net worth ratio. We are required to maintain a total liabilities to tangible net worth ratio of not more than 0.95 to 1.0. The ratio is calculated by dividing total liabilities, as defined in the loan agreements, by tangible net worth, as defined in the loan agreements. As of April 30, 2019, we had a total liabilities to tangible net worth ratio of 0.96 to 1.0 and, therefore, we were not in compliance with the total liabilities to tangible net worth ratio covenant under our credit facilities.

Subsequent to our quarter end, Pinnacle provided a waiver of non-compliance of the total liabilities to tangible net worth ratio covenant for the quarter ended April 30, 2019.

As of April 30, 2019, we had \$5.2 million of outstanding borrowings on our Revolver and \$1.8 million in available credit.

Capital Expenditures

We did not have any material commitments for capital expenditures as of April 30, 2019. During our 2019 fiscal year budgeting process, we included an estimate for capital expenditures of \$2.5 million for the year. We anticipate these expenditures will be funded out of our working capital or borrowings, including under our credit facility. Capital expenditures are reviewed and approved based on a variety of factors including, but not limited to, current cash flow considerations, the expected return on investment, project priorities, impact on current or future product offerings, availability of personnel necessary to implement and begin using acquired equipment, and economic conditions in general. Historically, we have spent less than our budgeted capital expenditures in most fiscal years.

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

Future Cash Flow Considerations

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

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

Seasonality

We typically expect net sales to be relatively lower in the first half of each fiscal year and relatively higher in the second half of each fiscal year, which we believe may be partially due to the construction cycles, buying patterns and budgetary considerations of our customers. Although our net sales in 2018 did not follow this trend, our trend for the last three fiscal years has been that an average of approximately 51%, 48% and 47% of our net sales occurred during the first half of fiscal years 2018, 2017 and 2016, respectively, and an average of approximately 49%, 52% and 53% of our net sales occurred during the second half of fiscal years 2018, 2017 and 2016, respectively.

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As was the case in fiscal year 2018, this trend may be substantially altered during any quarter or year by the timing of larger projects, timing of orders from larger customers, other economic factors impacting our industry or impacting the industries of our customers and end-users, and macroeconomic conditions. While we believe seasonality may be a factor that impacts our quarterly net sales results, we are not able to reliably predict net sales based on seasonality because these other factors can also substantially impact our net sales patterns during the year. We also believe net sales may not follow this trend in periods when overall economic conditions in the industry and/or in the world are atypical.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based on the condensed consolidated financial statements and accompanying condensed notes that have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and the instructions to Form 10-Q and Regulation S-X. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 to the consolidated financial statements filed with our Annual Report on Form 10-K for fiscal year 2018 provides a summary of our significant accounting policies. Those significant accounting policies detailed in our fiscal year 2018 Form 10-K did not change during the period from November 1, 2018 through April 30, 2019 other than to reflect changes required by the adoption of ASC 606 related to revenue recognition. See also note 10.

New Accounting Standards

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*. The FASB has subsequently issued amendments to the initial guidance under ASU 2017-13, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01 (collectively, “Topic 842”). Topic 842 requires the recognition of a separate lease liability representing the required lease payments over the lease term and a separate lease asset representing the right to use the underlying asset during the same lease term. Additionally, Topic 842 provides clarification regarding the identification of certain components of contracts that would represent a lease as well as requires additional disclosures in the notes to the financial statements. Topic 842 is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period with early adoption permitted. We expect the adoption of this guidance may result in an increase to our long-term assets and liabilities on our consolidated balance sheet depending on the resulting impact of any decision by the Company to renew, extend or replace our two existing real estate leases, as the current leases expire; however, we do not expect the adoption to have a material impact on our results of operations, financial position and liquidity and our related financial statement disclosures.

In June 2018, the FASB issued Accounting Standards Update 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* (“ASU 2018-07”). ASU 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under *Revenue from Contracts with Customers* (Topic 606). ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period, with early adoption permitted. The adoption of ASU 2018-07 is not expected to have a material impact on our results of operations, financial position or liquidity or our related financial statement disclosures.

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In June 2018, the FASB issued Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (“ASU 2018-08”). ASU 2018-08 applies to entities that receive or make contributions, which primarily are not-for-profit entities but also affects business entities that make contributions. In the context of business entities that make contributions, the FASB clarified that a contribution is conditional if the arrangement includes both a barrier for the recipient to be entitled to the assets transferred and a right of return for the assets transferred (or a right of release of the business entity’s obligation to transfer assets). The recognition of contribution expense is deferred for conditional arrangements and is immediate for unconditional arrangements. ASU 2018-08 requires modified prospective transition to arrangements that have not been completed as of the effective date or that are entered into after the effective date, but full retrospective application to each period presented is permitted. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period, with early adoption permitted. The adoption of ASU 2018-08 is not expected to have a material impact on our results of operations, financial position or liquidity or our related financial statement disclosures.

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

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Item 4. Controls and Procedures

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

Our management evaluated, with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), the effectiveness of the Company’s disclosure controls and procedures as of April 30, 2019. Based on this evaluation process, the Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective as of April 30, 2019, and that there were no changes in the Company’s internal control over financial reporting that occurred during the last fiscal quarter ended April 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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Item 6. Exhibits

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

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SIGNATURES

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

OPTICAL CABLE CORPORATION
(Registrant)

Date: June 11, 2019

/s/ Neil D. Wilkin, Jr.

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

Date: June 11, 2019

/s/ Tracy G. Smith

Tracy G. Smith
Senior Vice President and Chief Financial
Officer

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Exhibit Index

Exhibit No.	Description
3.1	Articles of Amendment filed November 5, 2001 to the Amended and Restated Articles of Incorporation, as amended through November 5, 2001 (incorporated herein by reference to Exhibit 1 to the Company's Form 8-A12G filed with the Commission on November 5, 2001).
3.2	Articles of Amendment filed July 5, 2002 to the Amended and Restated Articles of Incorporation, as amended through July 5, 2002 (incorporated herein by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed July 5, 2002).
3.3	Amended and Restated Bylaws of Optical Cable Corporation (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2011).
4.1	Form of certificate representing Common Stock (incorporated herein by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2004 (file number 0-27022)).
4.2	Form of certificate representing Common Stock (incorporated herein by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2012).
4.3	Stockholder Protection Rights Agreement dated as of October 28, 2011, between Optical Cable Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent, including as Exhibit A The Forms of Rights Certificate and Election to Exercise (incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-A12G filed with the Commission on November 1, 2011).
4.4	Credit 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).
4.5	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).
4.6	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).

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- 4.7 [Credit Agreement dated April 26, 2016 by and between Optical Cable Corporation as borrower and Pinnacle Bank \(successor by merger with Bank of North Carolina\) as lender \(incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K/A filed May 3, 2016\).](#)
- 4.8 [Revolving Credit Note in the amount of \\$7,000,000 by Optical Cable Corporation dated April 26, 2016 \(incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K/A filed May 3, 2016\).](#)
- 4.9 [Term Loan A Note in the amount of \\$1,816,609 by Optical Cable Corporation dated April 26, 2016 \(incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K/A filed May 3, 2016\).](#)
- 4.10 [Term Loan B Note in the amount of \\$5,271,411 by Optical Cable Corporation dated April 26, 2016 \(incorporated herein by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K/A filed May 3, 2016\).](#)
- 4.11 [Modification of Credit Line Deed of Trust dated April 26, 2016 by and between Optical Cable Corporation \(successor by merger to Superior Modular Products Incorporated\) as Grantor, Andrew B. Agee \(in substitution of LeClairRyan\) as Trustee and Pinnacle Bank \(successor by merger with Bank of North Carolina\) as Beneficiary, modifying that certain Credit Line Deed of Trust dated May 30, 2008 \(incorporated herein by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K/A filed May 3, 2016\).](#)
- 4.12 [Modification of Deed of Trust, Security Agreement, and Assignment of Leases and Rents dated April 26, 2016 by and between Optical Cable Corporation \(successor by merger to Superior Modular Products Incorporated\) as Grantor, Andrew B. Agee \(in substitution of LeClairRyan\) as Trustee and Pinnacle Bank \(successor by merger with Bank of North Carolina\) as Beneficiary, modifying that certain Deed of Trust, Security Agreement and Assignment of Leases and Rents dated May 30, 2008 \(incorporated herein by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K/A filed May 3, 2016\).](#)
- 4.13 [Security Agreement dated April 26, 2016 between Optical Cable Corporation and Pinnacle Bank \(successor by merger with Bank of North Carolina\) \(incorporated herein by reference to Exhibit 4.7 to the Company's Current Report on Form 8-K/A filed May 3, 2016\).](#)
- 4.14 [Loan Modification Agreement dated December 21, 2016 between Optical Cable Corporation and Pinnacle Bank \(successor by merger with Bank of North Carolina\) \(incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed December 21, 2016\).](#)
- 4.15 [Second Loan Modification Agreement dated February 28, 2017 by and between Optical Cable Corporation and Pinnacle Bank \(successor by merger with Bank of North Carolina\) \(incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated March 2, 2017\).](#)

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- 4.16 [Third Loan Modification Agreement dated April 27, 2017 by and between Optical Cable Corporation and Pinnacle Bank \(successor by merger with Bank of North Carolina\) \(incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated April 28, 2017\).](#)
- 4.17 [Fourth Loan Modification Agreement dated April 10, 2018 by and between Optical Cable Corporation and Pinnacle Bank \(successor by merger with Bank of North Carolina\) \(incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated April 13, 2018\).](#)
- 4.18 [Modification of Credit Line Deed of Trust dated May 2, 2018 by and between Optical Cable Corporation \(successor by merger to Superior Modular Products Incorporated\) as Grantor, W. Todd Ross \(in substitution of LeClairRyan\) as Trustee and Pinnacle Bank \(successor by merger with Bank of North Carolina\) as Beneficiary, modifying that certain Credit Line Deed of Trust dated May 30, 2008 \(incorporated herein by reference to Exhibit 4.20 to the Company's Quarterly Report on Form 10-Q for the second quarter ended April 30, 2018\).](#)
- 4.19 [Modification of Deed of Trust, Security Agreement, and Assignment of Leases and Rents dated May 2, 2018 by and between Optical Cable Corporation \(successor by merger to Superior Modular Products Incorporated\) as Grantor, W. Todd Ross \(in substitution of LeClairRyan\) as Trustee and Pinnacle Bank \(successor by merger with Bank of North Carolina\) as Beneficiary, modifying that certain Deed of Trust, Security Agreement and Assignment of Leases and Rents dated May 30, 2008 \(incorporated herein by reference to Exhibit 4.21 to the Company's Quarterly Report on Form 10-Q for the second quarter ended April 30, 2018\).](#)
- 4.20 [Fifth Loan Modification Agreement dated October 15, 2018 by and between Optical Cable Corporation and Pinnacle Bank \(successor by merger with Bank of North Carolina\) \(incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 17, 2018\).](#)
- 4.21 [Sixth Loan Modification Agreement dated April 30, 2019 by and between Optical Cable Corporation and](#)

[Pinnacle Bank \(successor by merger with Bank of North Carolina\) \(incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 1, 2019\).](#)

- 10.1* [Optical Cable Corporation 2011 Stock Incentive Plan \(incorporated by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed February 23, 2011\).](#)
- 10.2* [Optical Cable Corporation Amended and Restated 2011 Stock Incentive Plan \(incorporated by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed February 27, 2013\).](#)
- 10.3* [Optical Cable Corporation Second Amended and Restated 2011 Stock Incentive Plan \(incorporated by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed March 4, 2015\).](#)

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- 10.4* [Optical Cable Corporation 2017 Stock Incentive Plan \(incorporated by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed March 13, 2017\).](#)
- 10.5* [Form of time vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan, 2011 Stock Incentive Plan, Amended and Restated 2011 Stock Incentive Plan and 2017 Stock Incentive Plan \(incorporated herein by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006 filed June 14, 2006\).](#)
- 10.6* [Form of operational performance \(Company financial performance measure\) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan, 2011 Stock Incentive Plan, Amended and Restated 2011 Stock Incentive Plan and 2017 Stock Incentive Plan \(incorporated by reference to Exhibit 10.20 of the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2009 filed June 12, 2009\).](#)
- 10.7 [Redemption Agreement by and between Optical Cable Corporation and BB&T Capital Markets dated July 14, 2015 \(incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed July 14, 2015\).](#)
- 10.8* [Amended and Restated Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective April 11, 2011 \(incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed April 15, 2011\).](#)
- 10.9* [Amendment, effective December 18, 2012, to Amended and Restated Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective April 11, 2011 \(incorporated herein by reference to Exhibit 10.16 of the Company's Quarterly Report on Form 10-Q for the period ended January 31, 2013 filed March 15, 2013\).](#)
- 10.10* [Second Amendment, effective March 14, 2014, to Amended and Restated Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective April 11, 2011, as amended December 18, 2012 \(incorporated herein by reference to Exhibit 10.19 of the Company's Quarterly Report on Form 10-Q for the period ended January 31, 2014 filed March 17, 2014\).](#)
- 10.11* [Amended and Restated Employment Agreement by and between Optical Cable Corporation and Tracy G. Smith effective April 11, 2011 \(incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed April 15, 2011\).](#)
- 10.12* [Amendment, effective December 18, 2012, to Amended and Restated Employment Agreement by and between Optical Cable Corporation and Tracy G. Smith effective April 11, 2011 \(incorporated herein by reference to Exhibit 10.18 of the Company's Quarterly Report on Form 10-Q for the period ended January 31, 2013 filed March 15, 2013\).](#)
- 10.13* [Second Amendment, effective March 14, 2014, to Amended and Restated Employment Agreement by and between Optical Cable Corporation and Tracy G. Smith effective April 11, 2011, as amended December 18, 2012 \(incorporated herein by reference to Exhibit 10.22 of the Company's Quarterly Report on Form 10-Q for the period ended January 31, 2014 filed March 17, 2014\).](#)

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- 10.14* [Form of vesting award agreement for non-employee Board members under the Optical Cable Corporation 2017 Stock Incentive Plan \(incorporated herein by reference to Exhibit 10.21 of the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2017 filed June 13, 2017\).](#)
- 11.1 [Statement regarding computation of per share earnings \(incorporated by reference to note 8 of the Condensed Notes to Condensed Consolidated Financial Statements contained herein\).](#)
- 31.1 [Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HERewith.](#)

- 31.2 [Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.](#)
- 32.1 [Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FURNISHED 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. FURNISHED HEREWITH.](#)
- 101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at April 30, 2019 and October 31, 2018, (ii) Condensed Consolidated Statements of Operations for the six months ended April 30, 2019 and 2018, (iii) Condensed Consolidated Statements of Shareholders' Equity for the six months ended April 30, 2019 and 2018, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended April 30, 2019 and 2018, and (v) Condensed Notes to Condensed Consolidated Financial Statements. FILED HEREWITH.
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* Management contract or compensatory plan or agreement.

CERTIFICATION

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

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

Date: June 11, 2019

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.

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

CERTIFICATION

I, Tracy G. Smith, certify that:

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

Date: June 11, 2019

/s/ Tracy G. Smith

Tracy G. Smith
Senior Vice President and
Chief Financial Officer

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

In connection with the Quarterly Report of Optical Cable Corporation (the "Company") on Form 10-Q for the quarter ended April 30, 2019 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 presents, in all material respects, the financial condition and results of operations of the Company as of April 30, 2019, and for the period then ended.

Date: June 11, 2019

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.

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

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

In connection with the Quarterly Report of Optical Cable Corporation (the "Company") on Form 10-Q for the quarter ended April 30, 2019 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 presents, in all material respects, the financial condition and results of operations of the Company as of April 30, 2019, and for the period then ended.

Date: June 11, 2019

/s/ Tracy G. Smith

Tracy G. Smith
Senior Vice President and
Chief Financial Officer