

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

FORM 10-Q

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

For the quarterly period ended April 30, 2018

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)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 7, 2018, 7,696,068 shares of the registrant's Common Stock, no par value, were outstanding.

OPTICAL CABLE CORPORATION

Form 10-Q Index

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Item 1. Financial Statements

PART I. FINANCIAL INFORMATION**OPTICAL CABLE CORPORATION**
Condensed Consolidated Balance Sheets
(Unaudited)

	April 30, 2018	October 31, 2017
Assets		
Current assets:		
Cash	\$ 278,381	\$ 891,169
Trade accounts receivable, net of allowance for doubtful accounts of \$89,176 at April 30, 2018 and \$87,446 at October 31, 2017	20,682,902	8,940,540
Other receivables	21,917	72,098
Inventories	18,763,575	16,781,449
Prepaid expenses and other assets	575,506	418,122
Total current assets	40,322,281	27,103,378
Property and equipment, net	11,903,341	12,210,692
Income taxes refundable - noncurrent	66,127	—
Intangible assets, net	619,430	624,264
Other assets, net	96,973	200,846
Total assets	<u>\$ 53,008,152</u>	<u>\$ 40,139,180</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt	\$ 255,775	\$ 250,726
Note payable to bank - current	1,681,303	—
Accounts payable and accrued expenses	9,888,494	2,590,252
Accrued compensation and payroll taxes	2,495,426	1,340,749
Income taxes payable	60,554	15,150
Total current liabilities	14,381,552	4,196,877
Note payable to bank - noncurrent	7,000,000	5,700,000
Long-term debt, excluding current installments	6,290,086	6,419,607
Other noncurrent liabilities	128,525	133,174
Total liabilities	27,800,163	16,449,658
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 7,696,068 shares at April 30, 2018 and 7,315,605 shares at October 31, 2017	12,299,805	11,762,021
Retained earnings	12,908,184	11,927,501
Total shareholders' equity	25,207,989	23,689,522
Commitments and contingencies		
Total liabilities and shareholders' equity	<u>\$ 53,008,152</u>	<u>\$ 40,139,180</u>

See accompanying condensed notes to condensed consolidated financial statements.

OPTICAL CABLE CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2018	2017	2018	2017
Net sales	\$ 26,887,689	\$ 15,847,473	\$ 44,438,729	\$ 30,453,725
Cost of goods sold	<u>17,931,414</u>	<u>10,184,434</u>	<u>30,253,634</u>	<u>19,980,287</u>
Gross profit	8,956,275	5,663,039	14,185,095	10,473,438
Selling, general and administrative expenses	7,400,779	5,898,502	12,958,472	11,091,150
Royalty (income) expense, net	(11,704)	38,914	(17,119)	70,165
Amortization of intangible assets	<u>9,053</u>	<u>6,135</u>	<u>16,292</u>	<u>11,964</u>
Income (loss) from operations	1,558,147	(280,512)	1,227,450	(699,841)
Other income (expense), net:				
Interest expense	(152,467)	(118,153)	(281,293)	(265,966)
Other, net	<u>890</u>	<u>167,395</u>	<u>10,793</u>	<u>98,170</u>
Other income (expense), net	(151,577)	49,242	(270,500)	(167,796)
Income (loss) before income taxes	1,406,570	(231,270)	956,950	(867,637)
Income tax expense (benefit)	<u>15,705</u>	<u>7,812</u>	<u>(23,780)</u>	<u>(12,788)</u>
Net income (loss)	<u>\$ 1,390,865</u>	<u>\$ (239,082)</u>	<u>\$ 980,730</u>	<u>\$ (854,849)</u>
Net income (loss) per share: Basic and diluted	<u>\$ 0.18</u>	<u>\$ (0.04)</u>	<u>\$ 0.13</u>	<u>\$ (0.13)</u>

See accompanying condensed notes to condensed consolidated financial statements.

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

	<u>Six Months Ended April 30, 2018</u>			
	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>		
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.

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

	Six Months Ended April 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ 980,730	\$ (854,849)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation, amortization and accretion	858,662	807,488
Bad debt expense	4,856	11,169
Share-based compensation expense	702,859	431,013
Loss on sale of property and equipment	6,597	88,464
(Increase) decrease in:		
Trade accounts receivable	(11,747,218)	(598,894)
Other receivables	50,181	37,512
Inventories	(1,982,126)	(2,515,733)
Prepaid expenses and other assets	(105,049)	(125,232)
Income taxes refundable - noncurrent	(66,127)	—
Increase (decrease) in:		
Accounts payable and accrued expenses	7,054,110	1,842,164
Accrued compensation and payroll taxes	1,154,677	175,086
Income taxes payable	45,404	5,712
Other noncurrent liabilities	(4,649)	194,832
Net cash used in operating activities	<u>(3,047,093)</u>	<u>(501,268)</u>
Cash flows from investing activities:		
Purchase of and deposits for the purchase of property and equipment	(215,946)	(180,151)
Investment in intangible assets	(11,458)	(22,835)
Net cash used in investing activities	<u>(227,404)</u>	<u>(202,986)</u>
Cash flows from financing activities:		
Payroll taxes withheld and remitted on share-based payments	(165,075)	(94,815)
Proceeds from notes payable to bank	4,050,000	500,000
Principal payments on long-term debt and notes payable to bank	(1,193,169)	(748,915)
Payments for financing costs	(30,000)	(17,500)
Repurchase of common stock	(47)	(16,553)
Net cash provided by (used in) financing activities	<u>2,661,709</u>	<u>(377,783)</u>
Net decrease in cash	(612,788)	(1,082,037)
Cash at beginning of period	<u>891,169</u>	<u>1,879,064</u>
Cash at end of period	<u>\$ 278,381</u>	<u>\$ 797,027</u>

See accompanying condensed notes to condensed consolidated financial statements.

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Consolidated Financial Statements

Six Months Ended April 30, 2018

(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, 2018 are not necessarily indicative of the results for the fiscal year ending October 31, 2018 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, 2017 (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, 2017.

In July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2015-11, *Simplifying the Measurement of Inventory* (“ASU 2015-11”). ASU 2015-11 changes the inventory valuation method from lower of cost or market to lower of cost and net realizable value for inventory valued using first-in, first-out or average cost. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and should be applied prospectively. The Company adopted ASU 2015-11 effective November 1, 2017. The adoption did not have any impact on our results of operations, financial position or liquidity or our related financial statement disclosures.

In March 2016, the FASB issued Accounting Standards Update 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). ASU 2016-09 simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period, with early adoption permitted. The Company adopted ASU 2016-09 effective November 1, 2017. The adoption did not have any impact on our results of operations, financial position or liquidity or our related financial statement disclosures.

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Consolidated Financial Statements

Six Months Ended April 30, 2018

(Unaudited)

In March 2018, the FASB issued Accounting Standards Update 2018-05, *Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118* (“ASU 2018-05”). ASU 2018-05 adds various Securities and Exchange Commission (“SEC”) paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* (“SAB 118”), which was effective immediately. The SEC issued SAB 118 to address concerns about reporting entities’ ability to timely comply with the accounting requirements to recognize all of the effects of the Tax Cuts and Jobs Act (“Tax Act”) in the period of enactment. The Company has accounted for the tax effects of the Tax Act under the guidance of SAB 118 on a provisional basis. As the Company continues to analyze applicable information and data, and interpret any additional guidance issued by the U.S. Treasury Department, the Internal Revenue Service and others, it may make adjustments to the provisional amounts throughout the one-year measurement period as provided by SAB 118. Adoption of ASU 2018-05 did not have any material impact on our results of operations, financial position or liquidity or our related financial statement disclosures.

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

As of April 30, 2018, there were approximately 204,000 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, 2018 was \$589,505 and \$702,859, respectively and for the three months and six months ended April 30, 2017 was \$282,093 and \$431,013, 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, 2018, restricted stock awards for employees under the 2017 Plan totaling 16,584 shares were approved by the Compensation Committee of the Board of Directors of the Company. All of the restricted shares granted are operational performance-based shares vesting over approximately five years beginning on January 31, 2019 based on the achievement of certain quantitative operational performance goals. The Company uses gross profit growth as its performance-based measure for restricted stock awards granted to employees.

During the three months ended April 30, 2018, OCC granted restricted stock awards totaling 35,810 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 \$23,523 and \$46,274, respectively, during the three months and six months ended April 30, 2018 and recorded expense totaling \$7,583 during the three and six months ended April 30, 2017 related to the grants to non-employee Directors.

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Consolidated Financial Statements

Six Months Ended April 30, 2018

(Unaudited)

Restricted stock award activity during the six months ended April 30, 2018 consisted of restricted stock grants totaling 498,083 shares, restricted shares forfeited totaling 49,384 and restricted shares withheld for taxes in connection with the vesting of restricted shares totaling 68,217. 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, 2018, 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 3.4 year weighted-average period is approximately \$2.7 million.

(3) Allowance for Doubtful Accounts for Trade Accounts Receivable

A summary of changes in the allowance for doubtful accounts for trade accounts receivable for the six months ended April 30, 2018 and 2017 follows:

	Six Months Ended April 30,	
	2018	2017
Balance at beginning of period	\$ 87,446	\$ 74,266
Bad debt expense	4,856	11,169
Losses charged to allowance	(3,126)	(4,729)
Balance at end of period	<u>\$ 89,176</u>	<u>\$ 80,706</u>

(4) Inventories

Inventories as of April 30, 2018 and October 31, 2017 consist of the following:

	April 30, 2018	October 31, 2017
Finished goods	\$ 4,831,941	\$ 5,869,269
Work in process	3,621,043	2,507,434
Raw materials	10,015,377	8,108,433
Production supplies	295,214	296,313
Total	<u>\$ 18,763,575</u>	<u>\$ 16,781,449</u>

(5) Product Warranties

As of April 30, 2018 and October 31, 2017, the Company's accrual for estimated product warranty claims totaled \$195,000 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, 2018 totaled \$92,185 and \$134,181, respectively. Warranty claims expense for the three months and six months ended April 30, 2017 totaled \$33,783 and \$81,638, respectively.

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Consolidated Financial Statements

Six Months Ended April 30, 2018

(Unaudited)

The following table summarizes the changes in the Company's accrual for product warranties during the six months ended April 30, 2018 and 2017:

	Six Months Ended April 30,	
	2018	2017
Balance at beginning of period	\$ 180,000	\$ 70,000
Liabilities accrued for warranties issued during the period	179,494	101,824
Warranty claims and costs paid during the period	(119,181)	(56,638)
Changes in liability for pre-existing warranties during the period	(45,313)	(20,186)
Balance at end of period	<u>\$ 195,000</u>	<u>\$ 95,000</u>

(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"), a revolving credit note, and a special project revolving credit note.

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, 2018 and October 31, 2017 consists of the following:

	April 30, 2018	October 31, 2017
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	\$ 4,868,166	\$ 4,960,738
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	1,677,695	1,709,595
Total long-term debt	6,545,861	6,670,333
Less current installments	255,775	250,726
Long-term debt, excluding current installments	<u>\$ 6,290,086</u>	<u>\$ 6,419,607</u>

The Revolving Credit Note ("Revolver") with Pinnacle provides the Company with a \$7.0 million revolving line of credit ("Revolving Loan") 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 Revolving Loan is in effect.

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Consolidated Financial Statements

Six Months Ended April 30, 2018

(Unaudited)

The applicable margin in the Revolving Credit Note has a floor on the interest rate for the Revolving Credit Note such that the rate will never be less than 2.50% per annum. The Revolving Loan accrues interest at LIBOR plus 2.50% (resulting in a 4.38% rate at April 30, 2018). The Revolving Loan is payable in monthly payments of interest only with principal and any outstanding interest due and payable at maturity.

On April 10, 2018, the Company entered into a Fourth 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 Fourth Loan Modification Agreement extends the maturity date of the Revolving Loan to September 30, 2019 and modifies two financial covenants for the Company. All other terms of the Revolving Loan remain unaltered and in effect.

Also on April 10, 2018, the Company entered into a Special Project Loan Agreement and Special Project Revolving Credit Note (“Special Project Revolver”) with Pinnacle which provides the Company with a \$6.0 million revolving line of credit (the “Special Project Revolving Loan”) for the working capital needs related to the fulfillment and processing of certain orders. Under the Special Project Revolver, Pinnacle provides the Company with one or more revolving loans in a collective maximum principal amount of \$6.0 million. The Company may borrow, repay, and reborrow at any time or from time to time while the Special Project Revolving Loan is in effect.

The Special Project Revolving Loan accrues interest at LIBOR plus 4.0% (resulting in a 5.94% rate at April 30, 2018). The Special Project Revolving Loan is payable in monthly payments of interest only with principal and any outstanding interest due and payable at maturity. Maturity for the Special Project Revolving Loan is October 1, 2018, unless extended.

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

As of April 30, 2018, the Company had \$7.0 million of outstanding borrowings on its Revolving Loan and no available credit, and \$1.7 million of outstanding borrowings on its Special Project Revolving Loan and \$4.3 million in available credit. As of October 31, 2017, the Company had outstanding borrowings of \$5.7 million on its Revolving Loan and \$1.3 million in available credit.

(7) Fair Value Measurements

The carrying amounts reported in the condensed consolidated balance sheets as of April 30, 2018 and October 31, 2017 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, 2018 and October 31, 2017. 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.

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Consolidated Financial Statements

Six Months Ended April 30, 2018

(Unaudited)

(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 April 30,		Six months ended April 30,	
	2018	2017	2018	2017
Net income (loss) (numerator)	\$ 1,390,865	\$ (239,082)	\$ 980,730	\$ (854,849)
Shares (denominator)	7,675,129	6,488,328	7,489,843	6,520,582
Basic and diluted net income (loss) per share	\$ 0.18	\$ (0.04)	\$ 0.13	\$ (0.13)

Weighted average unvested shares for the three months and six months ended April 30, 2017 totaling 882,637 and 717,816, 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, 2017 (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; however, at April 30, 2018, 61.2% of the Company's trade accounts receivable is from one customer. 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, 2018 have been adequately provided for in the condensed consolidated financial statements.

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. For the three months and six months ended April 30, 2017, 16.6% and 16.5%, respectively, of consolidated net sales were attributable to a different customer.

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

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Consolidated Financial Statements

Six Months Ended April 30, 2018

(Unaudited)

(10) 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.

(11) New Accounting Standards Not Yet Adopted

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 is a comprehensive new revenue recognition model that expands disclosure requirements and requires an entity to recognize revenue when promised goods or services are transferred to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, the FASB issued Accounting Standards Update 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* ("ASU 2015-14") which defers the effective date of the new revenue recognition standard by one year. Under ASU 2015-14, the new revenue recognition standard is effective for the Company beginning in fiscal year 2019. The FASB has also issued ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12, ASU 2016-20 and ASU 2017-14 all of which clarify certain implementation guidance within ASU 2014-09. The Company is currently evaluating the potential impact of the adoption of this guidance, but does not anticipate that the adoption will significantly change the timing or amount of revenue recognized. Therefore, the Company believes the adoption will be limited to expanded disclosures with no material impact on its results of operations, financial position and liquidity.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 requires the recognition of a separate lease liability representing the required lease payments over the lease term and a separate lease asset representing the right to use the underlying asset during the same lease term. Additionally, this ASU provides clarification regarding the identification of certain components of contracts that would represent a lease as well as requires additional disclosures to the notes to the financial statements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period with early adoption permitted. The Company is currently evaluating the provisions of ASU 2016-02 in order to determine the impact on its results of operations, financial position and liquidity and its related financial statement disclosures. The Company expects the adoption of ASU 2016-02 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.

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

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Consolidated Financial Statements

Six Months Ended April 30, 2018

(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 that reporting period, with early adoption permitted. The adoption of ASU 2016-16 is not expected to have a material impact on the Company's results of operations, financial position or liquidity or its related financial statement disclosures.

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

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; the loss of or conflict with one or more key suppliers or customers; an adverse outcome in litigation, claims and other actions, and potential litigation, claims and other actions against us; an adverse outcome in regulatory reviews and audits and potential regulatory reviews and audits; adverse changes in state tax laws and/or positions taken by state taxing authorities affecting us; technological changes and introductions of new competing products; changes in end-user preferences for competing technologies relative to our product offering; economic conditions that affect the telecommunications sector, the data communications sector, certain technology sectors and/or certain industry market sectors (for example, mining, oil & gas, military and wireless carrier industry market sectors); economic conditions that affect U.S. based manufacturers; economic conditions or changes in relative currency strengths (for example, the strengthening of the U.S. dollar relative to certain foreign currencies) that affect certain geographic markets, the relative costs of U.S. products exported, and/or the economy as a whole; changes in demand for our products from certain competitors for which we provide private label connectivity products; changes in the mix of products sold during any given period (due to, among other things, seasonality or strength or weaknesses in particular markets in which we participate) which may impact gross profits and gross profit margins or net sales; variations in orders and production volumes of hybrid cables (fiber and copper) with high copper content, which tend to have lower gross profit margins; 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 upcoming 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; the impact of the Patient Protection and Affordable Care Act of 2010, the Health Care and Education Reconciliation Act of 2010, and any revisions to those acts that apply to us and the related legislation and regulation associated with those acts, which directly or indirectly result in increases to our costs; the impact of changes in state or federal tax laws and regulations increasing our costs and/or impacting the net return to investors owning our shares; any changes in the status of our compliance with financial debt covenants with our lender; our ability to maintain and/or secure debt financing and/or equity financing to adequately finance our ongoing operations; the impact of future consolidation among competitors and/or among customers adversely affecting our position with our customers and/or our market position; actions by customers adversely affecting us in reaction to the expansion of our product offering in any manner, including, but not limited to, by offering products that compete with our customers, and/or by entering into alliances with, making investments in or with, and/or acquiring parties that compete with and/or have conflicts with our customers; voluntary or involuntary delisting of the Company's common stock from any exchange on which it is traded; the deregistration by the Company from SEC reporting requirements, as a result of the small number of holders of the Company's common stock; a continued suspension of dividends declared to shareholders due to inadequate or alternative uses of cash on hand; adverse reactions by customers, vendors or other service providers to unsolicited proposals regarding the ownership or management of the Company; the additional costs of considering, responding to and possibly defending our position on unsolicited proposals regarding the ownership or management of the Company; impact of weather or natural disasters in the areas of the world in which we operate, market our products and/or acquire raw materials; an increase in the number of shares of the Company's common stock issued and outstanding; further economic downturns generally and/or in one or more of the markets in which we operate; changes in market demand, exchange rates, productivity, market dynamics, market confidence, macroeconomic and/or other economic conditions in the areas of the world in which we operate and market our products; and our success in managing the risks involved in the foregoing.

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

OCC[®] 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 9001:2008 registered and MIL-STD-790G certified.

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

We market and sell the products manufactured at our Dallas facility through our wholly owned subsidiary Applied Optical Systems, Inc. ("AOS") under the names Optical Cable Corporation and OCC[®] 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[®], Procyon Blade[™], 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 2018

- OCC set a record for the highest quarterly net sales in the Company's history during the second quarter of fiscal year 2018. Consolidated net sales for the second quarter of fiscal year 2018 were \$26.9 million, an increase of 69.7% when compared to consolidated net sales of \$15.8 million for the same period last year. Consolidated net sales for the first half of fiscal year 2018 increased 45.9% to \$44.4 million, compared to consolidated net sales of \$30.5 million for the first half of fiscal year 2017.
- As of April 30, 2018, our sales order backlog/forward load was \$11.8 million, or approximately 7 to 8 weeks of net sales (on a trailing 12 month basis). By comparison, our sales order backlog/forward load was \$14.8 million, or approximately 11 to 12 weeks of net sales (on a trailing 12 month basis), as of January 31, 2018 (the end of our first quarter of fiscal year 2018), and \$19.0 million, or approximately 14 to 15 weeks of net sales (on a trailing 12 month basis) as of the end of February 2018. Our sales order backlog/forward load can vary throughout the year, but is generally between approximately 3 to 4 weeks of net sales, or approximately \$4 million to \$5 million.

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- Gross profit increased 58.2% to \$9.0 million in the second quarter of fiscal year 2018, compared to \$5.7 million for the second quarter of fiscal year 2017. Gross profit increased 35.4% to \$14.2 million in the first half of fiscal year 2018, compared to \$10.5 million for the same period last year.
- Gross profit margin (gross profit as a percentage of net sales) was 33.3% during the second quarter of fiscal year 2018, compared to 35.7% for the second quarter of fiscal year 2017. Gross profit margin was 31.9% during the first half of fiscal year 2018, compared to 34.4% for the first half of fiscal year 2017.
- Net income was \$1.4 million, or \$0.18 per share, during the second quarter of fiscal year 2018, compared to a net loss of \$239,000, or \$0.04 per share, for the comparable period last year. Net income was \$981,000 or \$0.13 per share, during the first half of fiscal year 2018, compared to a net loss of \$855,000, or \$0.13 per share, for the first half of fiscal year 2017.
- OCC renegotiated certain of its credit facility terms with Pinnacle Bank in the second quarter of fiscal year 2018 and obtained a special project revolving credit note to provide additional availability for working capital purposes of \$6.0 million.

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

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

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

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

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

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

Other 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	Six Months Ended		Percent
	April 30,			April 30,		
	2018	2017	Change	2018	2017	Change
Net sales	\$ 26,888,000	\$ 15,847,000	69.7%	\$ 44,439,000	\$ 30,454,000	45.9%
Gross profit	8,956,000	5,663,000	58.2%	14,185,000	10,473,000	35.4%
SG&A expenses	7,401,000	5,899,000	25.5%	12,958,000	11,091,000	16.8%
Net income (loss)	1,391,000	(239,000)	681.8%	981,000	(855,000)	214.7%

Three Months Ended April 30, 2018 and 2017

Net Sales

Consolidated net sales for the second quarter of fiscal year 2018 increased 69.7% to \$26.9 million, the highest quarterly net sales in the Company's history, compared to net sales of \$15.8 million for the same period last year. We experienced an increase in net sales in our specialty markets in the second quarter of fiscal year 2018 compared to the same period last year, particularly in our wireless carrier and military markets. This increase in the specialty markets was partially offset by a decrease in net sales in our enterprise markets.

Net sales to customers in the United States increased 88.0% in the second quarter of fiscal year 2018, compared to the same period last year. Net sales to customers outside of the United States decreased 4.3% compared to the same period last year.

During our second fiscal quarter of 2018, we experienced an increase in our sales order backlog/forward load—particularly for our fiber optic cable products. Generally, OCC's consolidated sales order backlog/forward load varies throughout the year between approximately 3 to 4 weeks of net sales, or approximately \$4 million to \$5 million. As of April 30, 2018, our sales order backlog/forward load was \$11.8 million, or approximately 7 to 8 weeks of net sales (on a trailing 12 month basis). By comparison, our sales order backlog/forward load was \$14.8 million, or approximately 11 to 12 weeks of net sales (on a trailing 12 month basis) as of January 31, 2018 (the end of our first quarter of fiscal year 2018), and \$19.0 million, or approximately 14 to 15 weeks of net sales (on a trailing 12 month basis) as of the end of February 2018.

OCC's increase in net sales during the second quarter of fiscal year 2018 and backlog/forward load have been driven by significant orders from one customer with whom OCC has done business for a number of years.

As a result of our sales order backlog/forward load at the end of the second quarter of fiscal year 2018, at this time, we believe it is likely we will see a positive impact on net sales during the third quarter of fiscal year 2018, compared to the same period last year. However, we expect net sales during the third quarter to be less than net sales during the second quarter of fiscal year 2018.

Gross Profit

Our gross profit was \$9.0 million in the second quarter of fiscal year 2018, an increase of 58.2% compared to gross profit of \$5.7 million in the second quarter of fiscal year 2017. Gross profit margin, or gross profit as a percentage of net sales, was 33.3% in the second quarter of fiscal year 2018 compared to 35.7% in the second quarter of fiscal year 2017.

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Our gross profit margin percentages are heavily dependent upon product mix on a quarterly basis. Gross profit margin in the second quarter of fiscal year 2018 was negatively impacted by a shift in product mix toward the sale of certain lower margin products in the second quarter of fiscal year 2018 compared to the second quarter of fiscal year 2017. However, the significant increase in net sales levels during the second quarter of fiscal year 2018 for our fiber optic cable products helped to offset the impact of the decrease in gross profit margin on gross profit, as certain fixed manufacturing costs were spread over higher sales.

Selling, General, and Administrative Expenses

SG&A expenses increased 25.5% to \$7.4 million during the second quarter of fiscal year 2018, compared to \$5.9 million for the same period last year. SG&A expenses as a percentage of net sales were 27.5% in the second quarter of fiscal year 2018, compared to 37.2% in the second quarter of fiscal year 2017.

The increase in SG&A expenses during the second quarter of fiscal year 2018 compared to the same period last year was primarily the result of increases in employee related costs totaling \$1.4 million. Included in employee related costs are employee incentives and commissions which increased due to increased net sales and the improved financial results during the second quarter of fiscal year 2018.

Royalty Income (Expense), Net

We recognized royalty income, net of royalty and related expenses, totaling \$12,000 during the second quarter of fiscal year 2018 compared to royalty expense, net of royalty income, totaling \$39,000 during the second quarter of fiscal year 2017. The change when comparing the second quarter of fiscal year 2018 to the same period last year is due to the expiration of a patent in the fourth quarter of fiscal year 2017 that was previously licensed by OCC from a third party for product sold by OCC. We expect the trend of royalty income to offset royalty expense to continue in fiscal year 2018.

Amortization of Intangible Assets

We recognized \$9,000 of amortization expense, associated with intangible assets, during the second quarter of fiscal year 2018, compared to \$6,000 during the second quarter of fiscal year 2017.

Other Income (Expense), Net

We recognized other expense, net in the second quarter of fiscal year 2018 of \$152,000 compared to other income, net of \$49,000 in the second quarter of fiscal year 2017. Other expense, net for the second quarter of fiscal year 2018 was comprised primarily of interest expense together with other miscellaneous items which may fluctuate from period to period. Other income, net during the second quarter of fiscal year 2017 was comprised of the reversal of amounts previously accrued of approximately \$171,000, resulting from the favorable settlement of certain legal matters, partially offset by interest expense and other miscellaneous items.

Income (loss) Before Income Taxes

We reported income before income taxes of \$1.4 million for the second quarter of fiscal year 2018, compared to a loss before income taxes of \$231,000 for the second quarter of fiscal year 2017. The change was primarily due to the increase in gross profit of \$3.3 million, partially offset by the increase in SG&A expenses of \$1.5 million, compared to the same period in 2017.

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Income Tax Expense (Benefit)

Income tax expense totaled \$16,000 in the second quarter of fiscal year 2018, compared to \$8,000 for the same period in fiscal year 2017. Our effective tax rate for the second quarter of fiscal year 2018 was 1.1% compared to negative 3.4% for the second quarter of fiscal year 2017.

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.

The Tax Cuts and Jobs Act (the "Tax Act"), enacted on December 22, 2017, lowers the statutory federal corporate income tax rate from 35% to 21%. The reduction of the statutory federal corporate tax rate to 21% became effective on January 1, 2018. Because our fiscal year 2018 commenced on November 1, 2017, the annual statutory federal corporate tax rate applicable to fiscal year 2018 is a blended rate of 23.2%. Beginning in our 2019 fiscal year, the annual statutory federal corporate tax rate will be 21%. As a result of the reduction in the federal corporate tax rate, we remeasured our net deferred tax assets and the corresponding valuation allowance in the period that includes the enactment date of the Tax Act, resulting in a reduction of \$1.3 million in both our net deferred tax assets and the corresponding valuation allowance. The use of a blended rate may result in further adjustment to the remeasurement of the net deferred tax assets and the corresponding valuation allowance in the fourth quarter of fiscal year 2018, when the annual results are finalized and the annual change in gross temporary differences are determined. Because we decreased both our net deferred tax assets and our valuation allowance by the same amount, there was no impact on our results of operations from the remeasurement. Any future benefit we may realize from our net deferred tax assets is effectively reduced by \$1.3 million, adjusted for any changes that may be recorded in the fourth quarter of fiscal year 2018, as a result of the remeasurement.

As of October 31, 2017, prior to the enactment of the Tax Act, our valuation allowance totaled \$3.6 million, completely offsetting our net deferred tax assets.

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Net Income (Loss)

Net income for the second quarter of fiscal year 2018 was \$1.4 million compared to a net loss of \$239,000 for the second quarter of fiscal year 2017. This change was primarily due to the increase in income before income taxes of \$1.6 million.

Six Months Ended April 30, 2018 and 2017

Net Sales

Consolidated net sales for the first half of fiscal year 2018 increased 45.9% to \$44.4 million compared to net sales of \$30.5 million for the same period last year. We experienced an increase in net sales in our specialty markets in the first half of fiscal year 2018 compared to the same period last year, particularly in our wireless carrier and military markets, but this increase was partially offset by a decrease in net sales in our enterprise market. Net sales to customers in the United States increased 53.9% in the first half of fiscal year 2018 compared to the same period last year, and net sales to customers outside of the United States increased 12.9%.

OCC's increase in net sales during the first half of fiscal year 2018 and backlog/forward load have been driven by significant orders from one customer with whom OCC has done business for a number of years.

Gross Profit

Our gross profit was \$14.2 million in the first half of fiscal year 2018, an increase of 35.4% compared to gross profit of \$10.5 million in the first half of fiscal year 2017. Gross profit margin, or gross profit as a percentage of net sales, was 31.9% in the first half of fiscal year 2018 compared to 34.4% in the first half of fiscal year 2017.

Our gross profit margin percentages are heavily dependent upon product mix on a quarterly basis. Gross profit margin in the first half of fiscal year 2018 was negatively impacted by a shift in product mix toward the sale of certain lower margin products in the first half of fiscal year 2018 compared to the first half of fiscal year 2017. However, the significant increase in net sales levels during the first half of fiscal year 2018 for our fiber optic cable products helped to offset the impact of the decrease in gross profit margin on gross profit, as certain fixed manufacturing costs were spread over higher sales.

Selling, General, and Administrative Expenses

SG&A expenses increased 16.8% to \$13.0 million for the first half of fiscal year 2018 from \$11.1 million for the same period last year. SG&A expenses as a percentage of net sales were 29.2% in the first half of fiscal year 2018 compared to 36.4% in the first half of fiscal year 2017.

The increase in SG&A expenses during the first half of fiscal year 2018 compared to the same period last year was primarily the result of increases in employee related costs totaling \$1.8 million. Included in employee related costs are employee incentives and commissions which increased due to increased net sales and the improved financial results during the first half of fiscal year 2018.

Royalty Income (Expense), Net

We recognized royalty income, net of royalty and related expenses, totaling \$17,000 during the first half of fiscal year 2018, compared to royalty expense, net of royalty income totaling \$70,000 during the same period last year. The change when comparing the first half of fiscal year 2018 to the same period last year is due to the expiration of a patent in the fourth quarter of fiscal year 2017 that was previously licensed by OCC from a third party for product sold by OCC. We expect the trend of royalty income to offset royalty expense to continue in fiscal year 2018.

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Amortization of Intangible Assets

We recognized \$16,000 of amortization expense, associated with intangible assets, for the first half of fiscal year 2018, compared to amortization expense of \$12,000 during the first half of fiscal year 2017.

Other Expense, Net

We recognized other expense, net in the first half of fiscal year 2018 of \$271,000 compared to \$168,000 in the first half of fiscal year 2017. Other expense, net in the first half of fiscal year 2018 was comprised of interest expense together with other miscellaneous items. Other expense, net in the first half of fiscal year 2017 was comprised of interest expense and other miscellaneous items, partially offset by income of approximately \$171,000, resulting from the reversal of amounts previously accrued upon the favorable settlement of certain legal matters.

Income (Loss) Before Income Taxes

We reported income before income taxes of \$957,000 for the first half of fiscal year 2018 compared to loss before income taxes of \$868,000 for the first half of fiscal year 2017. This change was primarily due to the increase in gross profit of \$3.7 million, partially offset by the increase in SG&A expenses of \$1.9 million in the first half of fiscal year 2018, compared to the same period in 2017.

Income Tax Benefit

Income tax benefit totaled \$24,000 in the first half of fiscal year 2018 compared to \$13,000 for the same period in fiscal year 2017. Our effective tax rate for the first half of fiscal year 2018 was negative 2.5% compared to 1.5% for the first half of fiscal year 2017.

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.

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The Tax Cuts and Jobs Act (the “Tax Act”), enacted on December 22, 2017, lowers the statutory federal corporate income tax rate from 35% to 21%. The reduction of the statutory federal corporate tax rate to 21% became effective on January 1, 2018. Because our fiscal year 2018 commenced on November 1, 2017, the annual statutory federal corporate tax rate applicable to fiscal year 2018 is a blended rate of 23.2%. Beginning in our 2019 fiscal year, the annual statutory federal corporate tax rate will be 21%. As a result of the reduction in the federal corporate tax rate, we remeasured our net deferred tax assets and the corresponding valuation allowance in the period that includes the enactment date of the Tax Act, resulting in a reduction of \$1.3 million in both our net deferred tax assets and the corresponding valuation allowance. The use of a blended rate may result in further adjustment to the remeasurement of the net deferred tax assets and the corresponding valuation allowance in the fourth quarter of fiscal year 2018, when the annual results are finalized and the annual change in gross temporary differences are determined. Because we decreased both our net deferred tax assets and our valuation allowance by the same amount, there was no impact on our results of operations from the remeasurement. Any future benefit we may realize from our net deferred tax assets is effectively reduced by \$1.3 million, adjusted for any changes that may be recorded in the fourth quarter of fiscal year 2018, as a result of the remeasurement.

As of October 31, 2017, prior to the enactment of the Tax Act, our valuation allowance totaled \$3.6 million, completely offsetting our net deferred tax assets.

Net Income (Loss)

Net income for the first half of fiscal year 2017 was \$981,000 compared to a net loss of \$855,000 for the first half of fiscal year 2017. This change was due primarily to the increase in income before income taxes of \$1.8 million in the first half of fiscal year 2018, compared to the same period in fiscal year 2017.

Financial Condition

Total assets increased \$12.9 million, or 32.1%, to \$53.0 million at April 30, 2018, from \$40.1 million at October 31, 2017. This increase was primarily due to an \$11.7 million increase in trade accounts receivable, net and a \$2.0 million increase in inventories. The increase in trade accounts receivable, net largely resulted from the increase in net sales in the second quarter of fiscal year 2018 when compared to the fourth quarter of fiscal year 2017. At April 30, 2018, 61.2% of our trade accounts receivable is from one customer; however, we believe that credit risks as of April 30, 2018 have been adequately provided for in the condensed consolidated financial statements. Inventories increased as the result of the timing of certain raw material purchases and increases in work in process levels related to pending shipments.

Total liabilities increased \$11.4 million, or 69.0%, to \$27.8 million at April 30, 2018, from \$16.4 million at October 31, 2017. The increase in total liabilities was primarily due to an increase in accounts payable and accrued expenses, including accrued compensation and payroll taxes, totaling \$8.5 million, primarily resulting from purchases of raw materials in preparation for the manufacture and shipment of orders in the second and third quarters of fiscal year 2018 and the timing of certain vendor and payroll related payments. Also contributing to the increase in total liabilities was the increase in note payable to bank-noncurrent totaling \$1.3 million and the increase in note payable to bank-current totaling \$1.7 million due to borrowings on our new special project revolving credit note. Our additional borrowing needs during the first half of fiscal year 2018 are a result of significant orders placed by one customer requiring completion within a short timeframe.

Total shareholders' equity at April 30, 2018 increased \$1.5 million in the first half of fiscal year 2018. The increase resulted primarily from net income of \$981,000 and share-based compensation, net of \$538,000.

Liquidity and Capital Resources

Our primary capital needs during the first half of fiscal year 2018 have been to fund working capital requirements and to make principal payments on long-term debt. Our primary source of capital for these purposes has been existing cash, borrowings under our revolving credit facilities and cash provided by operations.

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Our cash totaled \$278,000 as of April 30, 2018, a decrease of \$613,000, compared to \$891,000 as of October 31, 2017. The decrease in cash for the six months ended April 30, 2018 primarily resulted from net cash used in operating activities of \$3.0 million, partially offset by cash provided by financing activities of \$2.7 million.

On April 30, 2018, we had working capital of \$25.9 million compared to \$22.9 million on October 31, 2017. The ratio of current assets to current liabilities as of April 30, 2018 was 2.8 to 1 compared to 6.5 to 1 as of October 31, 2017. The increase in working capital was primarily due to the \$11.7 million increase in trade accounts receivable, net and the \$2.0 million increase in inventories, partially offset by the \$8.5 million increase in accounts payable and accrued expenses, including accrued compensation and payroll taxes and the \$1.7 million increase in note payable to bank-current. The decrease in the current ratio was primarily due to the fact that current assets increased \$13.2 million, or 48.8%, while current liabilities increased \$10.2 million, or 242.7%.

As of April 30, 2018 and October 31, 2017, we had outstanding loan balances under our revolving credit facilities totaling \$8.7 million and \$5.7 million, respectively. As of April 30, 2018 and October 31, 2017, we had outstanding loan balances, excluding our revolving credit facility, totaling \$6.5 million and \$6.7 million, respectively.

Net Cash

Net cash used in operating activities was \$3.0 million in the first half of fiscal year 2018, compared to \$501,000 in the first half of fiscal year 2017. 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. We expect that operating activities will provide net cash during the second half of fiscal year 2018 as payments associated with the significant increase in net sales are received, but there can be no guarantees that operating activities will provide net cash in the second half of fiscal year 2018.

Net cash used in operating activities during the first half of fiscal year 2017 primarily resulted from an increase in inventories totaling \$2.5 million and the cash flow impact of increases in trade accounts receivable, net totaling \$599,000, partially offset by certain adjustments to reconcile a net loss of \$855,000 to net cash used in operating activities including depreciation, amortization and accretion of \$807,000 and share-based compensation expense of \$431,000. Additionally, the cash flow impact of increases in accounts payable and accrued expenses of \$1.8 million further contributed to offset net cash used in operating activities.

Net cash used in investing activities totaled \$227,000 in the first half of fiscal year 2018, compared to \$203,000 in the first half of fiscal year 2017. Net cash used in investing activities during the first half of fiscal years 2018 and 2017 resulted primarily from purchases of property and equipment and deposits for the purchase of property and equipment.

Net cash provided by financing activities totaled \$2.7 million in the first half of fiscal year 2018, compared to net cash used in financing activities of \$378,000 in the first half of fiscal year 2017. 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. Net cash used in financing activities in the first half of fiscal year 2017 resulted primarily from repayments, net of proceeds from a note payable to our bank under our line of credit totaling \$100,000 and principal payments on long-term debt totaling \$149,000.

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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, 2018, we had 398,400 shares remaining to purchase under this Repurchase Plan.

We have repurchased outstanding common stock outside of the Repurchase Plan through an odd lot repurchase offer. During the first half of fiscal year 2018, we repurchased and retired 19 shares for \$47, 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”), a revolving credit note and a special project revolving credit note.

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 Revolving Credit Note (“Revolver”) with Pinnacle provides the Company with a \$7.0 million revolving line of credit (“Revolving Loan”) 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 Revolving Loan is in effect.

The applicable margin in the Revolving Credit Note has a floor on the interest rate for the Revolving Credit Note such that the rate will never be less than 2.50% per annum. The Revolving Loan accrues interest at LIBOR plus 2.50% (resulting in a 4.38% rate at April 30, 2018). The Revolving Loan is payable in monthly payments of interest only with principal and any outstanding interest due and payable at maturity.

On April 10, 2018, we entered into a Fourth 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 Fourth Loan Modification Agreement extends the maturity date of the Revolving Loan to September 30, 2019 and modifies two financial covenants for the Company. All other terms of the Revolving Loan remain unaltered and in effect.

Also on April 10, 2018, we entered into a Special Project Loan Agreement and Special Project Revolving Credit Note (“Special Project Revolver”) with Pinnacle which provides the Company with a \$6.0 million revolving line of credit (the “Special Project Revolving Loan”) for the working capital needs related to the fulfillment and processing of certain orders. Under the Special Project Revolver, Pinnacle provides us with one or more revolving loans in a collective maximum principal amount of \$6.0 million. We may borrow, repay, and reborrow at any time or from time to time while the Special Project Revolving Loan is in effect.

The Special Project Revolving Loan accrues interest at LIBOR plus 4.0% (resulting in a 5.94% rate at April 30, 2018). The Special Project Revolving Loan is payable in monthly payments of interest only with principal and any outstanding interest due and payable at maturity. Maturity for the Special Project Revolving Loan is October 1, 2018, unless extended.

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

As of April 30, 2018, we had \$7.0 million of outstanding borrowings on our Revolving Loan and no available credit, and \$1.7 million of outstanding borrowings on our Special Project Revolving Loan and \$4.3 million in available credit.

Capital Expenditures

We did not have any material commitments for capital expenditures as of April 30, 2018. During our 2018 fiscal year budgeting process, we included an estimate for capital expenditures of \$2.0 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 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. Our trend for the last three fiscal years has been that an average of approximately 48%, 47% and 49% of our net sales occurred during the first half of fiscal years 2017, 2016 and 2015, respectively, and an average of approximately 52%, 53% and 51% of our net sales occurred during the second half of fiscal years 2017, 2016 and 2015, respectively.

This trend may be substantially altered during any quarter or year by the timing of larger projects, timing of orders from larger customers, other economic factors impacting our industry or impacting the industries of our customers and end-users, and macroeconomic conditions. We believe we will not experience this typical seasonality pattern in fiscal year 2018 as a result of significant sales to one customer concentrated in the first half of the year. 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 2017 provides a summary of our significant accounting policies. Those significant accounting policies detailed in our fiscal year 2017 Form 10-K did not change during the period from November 1, 2017 through April 30, 2018.

New Accounting Standards

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). ASU 2014-09 is a comprehensive new revenue recognition model that expands disclosure requirements and requires an entity to recognize revenue when promised goods or services are transferred to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, the FASB issued Accounting Standards Update 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (“ASU 2015-14”) which defers the effective date of the new revenue recognition standard by one year. Under ASU 2015-14, the new revenue recognition standard is effective for the Company beginning in fiscal year 2019. The FASB has also issued ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12, ASU 2016-20, and ASU 2017-14 all of which clarify certain implementation guidance within ASU 2014-09. We are currently evaluating the potential impact of the adoption of this guidance, but do not anticipate that the adoption will significantly change the timing or amount of revenue recognized. Therefore, we believe the adoption will be limited to expanded disclosures with no material impact on our results of operations, financial position and liquidity.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (“ASU 2016-02”). ASU 2016-02 requires the recognition of a separate lease liability representing the required lease payments over the lease term and a separate lease asset representing the right to use the underlying asset during the same lease term. Additionally, this ASU provides clarification regarding the identification of certain components of contracts that would represent a lease as well as requires additional disclosures to the notes of the financial statements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period with early adoption permitted. We are currently evaluating the provisions of ASU 2016-02 in order to determine the impact on our results of operations, financial position and liquidity and our related financial statement disclosures. We expect the adoption of ASU 2016-02 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 us 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.

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

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

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

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, 2018. 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, 2018, 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, 2018 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

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

SIGNATURES

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

OPTICAL CABLE CORPORATION
(Registrant)

Date: June 11, 2018

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

Date: June 11, 2018

/s/ Tracy G. Smith
Tracy G. Smith
Senior Vice President and Chief Financial
Officer

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
3.1	<u>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).</u>
3.2	<u>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).</u>
3.3	<u>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).</u>
4.1	<u>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)).</u>
4.2	<u>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).</u>
4.3	<u>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).</u>
4.4	<u>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).</u>
4.5	<u>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).</u>
4.6	<u>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).</u>

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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 [Special Project Loan Agreement dated April 10, 2018 by and between Optical Cable Corporation and Pinnacle Bank \(successor by merger with Bank of North Carolina\) \(incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated April 13, 2018\).](#)
 - 4.19 [Special Project Revolving Credit Note dated April 10, 2018 by Optical Cable Corporation in favor of Pinnacle Bank \(successor by merger with Bank of North Carolina\) \(incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K dated April 13, 2018\).](#)
 - 4.20 [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. FILED HEREWITH.](#)
 - 4.21 [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. FILED HEREWITH.](#)
 - 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 \(incorporated by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed March 4, 2015\).](#)
 - 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 \(incorporated herein by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006 filed June 14, 2006\).](#)
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- 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 \(incorporated herein by reference to Exhibit 10.22 of the Company's Quarterly Report on Form 10-Q for the period ended January 31, 2014 filed March 17, 2014\).](#)
 - 10.14* [Form of vesting award agreement for non-employee Board members under the Optical Cable Corporation 2017 Stock Incentive Plan \(incorporated herein by reference to Exhibit 10.21 of the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2017 filed June 13, 2017\).](#)
-

[Table of Contents](#)

- 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, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at April 30, 2018 and October 31, 2017, (ii) Condensed Consolidated Statements of Operations for the six months ended April 30, 2018 and 2017, (iii) Condensed Consolidated Statement of Shareholders' Equity for the six months ended April 30, 2018, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended April 30, 2018 and 2017, and (v) Condensed Notes to Condensed Consolidated Financial Statements. FILED HEREWITH.

* Management contract or compensatory plan or agreement.

Return to:

Prepared by: Dennis A. Barbour (VSB 22144), 4415 Electric Road, Roanoke, Virginia 24018

Tax Map Parcels: 037.07-01-05.02-0000, 037.07-01-15.00-0000 & 037.07-01-15.01-0000

Recording Tax Exemption: Virginia Code Section 58.1-803(D). Amount of Original Debt: 17,000,000.00. Amount of Additional Obligation Secured hereby: \$2,600,000.00.

SECOND MODIFICATION OF CREDIT LINE DEED OF TRUST

THIS MODIFICATION OF CREDIT LINE DEED OF TRUST (this "Modification") dated May 2, 2018, is made and executed among **OPTICAL CABLE CORPORATION**, a Virginia corporation, whose address is 5290 Concourse Drive, Roanoke, Virginia 24019 ("Grantor"); **W. TODD ROSS**, whose business address is 36 Church Avenue SW, Roanoke, Virginia 24011, as Trustee ("Grantee," also referred to below as "Trustee"); and **PINNACLE BANK**, organized and existing under the laws of Tennessee (and successor in interest through name change and by merger with **BANK OF NORTH CAROLINA**), whose address is 36 Church Avenue SW, Roanoke, Virginia 24011 ("Beneficiary," also referred to below as "Lender").

THIS IS A CREDIT LINE DEED OF TRUST. The name of the Beneficiary is Pinnacle Bank and the address at which communications may be mailed or delivered to the Beneficiary is 36 Church Avenue SW, Roanoke, Virginia 24011. **The maximum aggregate amount of principal to be secured at any one time is \$19,600,000.00**. The name and address of the Beneficiary are changed from the information listed in the Deed of Trust.

DEED OF TRUST. Grantor executed and delivered a Deed of Trust dated May 30, 2008, recorded on May 30, 2008, in the Clerk's Office of the Circuit Court of Roanoke County, Virginia, as Instrument #200807565, as corrected by Corrected Deed of Trust dated June 4, 2008, and recorded on June 4, 2008, in the Clerk's Office aforesaid as Instrument #200807923, and as modified by Modification of Credit Line Deed of Trust dated April 26, 2016, and recorded on April 27, 2016 as Instrument 201603786 (collectively, the "**Deed of Trust**"), with respect to certain real property more particularly described in the Deed of Trust. The Deed of Trust encumbers the Real Property as described therein and more particularly described on attached Schedule A.

Since the recordation of the first modification of the Deed of Trust, the following events have occurred: (1) Bank of North Carolina was merged into Pinnacle Bank; (2) Beneficiary appointed and substituted W. Todd Ross as Trustee under the Deed of Trust by Substitution of Trustee recorded prior to this instrument; (3) Grantor has incurred an additional obligation with Lender; and (4) Grantor and Lender wish to increase the maximum principal secured by the Deed of Trust to cover the additional obligation.

MODIFICATION. Grantor, Trustee and Lender hereby modify the Deed of Trust as follows:

1. The maximum aggregate amount of principal secured by the Deed of Trust is increased from \$17,000,000.00 to \$19,600,000.00.

2. Definitions. The definitions of **Agreement**, **Beneficiary**, **Obligations**, **Credit Agreement**, and **Notes** as set forth in the Deed of Trust are modified to provide as follows, and the definitions of **Special Project Loan Agreement** and **Special Project Revolving Credit Note** are added as follows:

(a) **Agreement.** The word “Agreement” means the Prior Agreement as amended, modified, continued and restated by the Credit Agreement.

(b) **Beneficiary.** The word “Beneficiary” means Pinnacle Bank and its successors and assigns.

(c) **Obligations.** The word “Obligations” means all of the Obligations as defined in the Deed of Trust, the Obligations defined in the Credit Agreement including but not limited to the Notes (together with any and all modifications, extensions, amendments, consolidations, substitutions, replacements, supplements, or renewals thereof), and the Obligations as defined in the Special Project Loan Agreement dated April 10, 2018, including but not limited to the Special Project Revolving Credit Note dated April 10, 2018 (together with any and all modifications, extensions, amendments, consolidations, substitutions, replacements, supplements, or renewals thereof), all of which are incorporated herein as if fully set forth in this Modification.

(d) **Credit Agreement.** The words “Credit Agreement” mean the Credit Agreement dated April 26, 2016, by and between Grantor and the Beneficiary, as the same may be amended, restated, renewed, extended, supplemented or otherwise modified from time to time (including without limitation the Fourth Loan Modification Agreement dated April 10, 2018), which Credit Agreement amends, modifies, continues, and restates the Prior Agreement.

(e) **Notes.** The word “Notes” means the three promissory notes dated April 26, 2016, executed and delivered pursuant to the Credit Agreement by Grantor in favor of Beneficiary as follows: Revolving Credit Note in the principal amount of \$7,000,000.00, Term Loan A Note in the principal amount of \$1,816,609.03, and Term Loan B Note in the principal amount of \$5,271,410.83, as the same, or any of them, may be amended, restated, renewed, extended, supplemented or otherwise modified from time to time.

(f) **Special Project Loan Agreement.** The words “Special Project Loan Agreement” mean the Special Project Loan Agreement by and between Grantor and the Beneficiary dated April 10, 2018, as the same may be amended, restated, renewed, extended, supplemented or otherwise modified from time to time.

(g) **Special Project Revolving Credit Note.** The words “Special Project Revolving Credit Note” mean the Special Project Revolving Credit Note dated April 10, 2018, in the principal amount of \$6,000,000.00, executed and delivered pursuant to the Special Project Loan Agreement by Grantor in favor of Beneficiary, as the same may be amended, restated, renewed, extended, supplemented or otherwise modified from time to time.

3. **Agreement.** All references in the Deed of Trust to “Agreement” shall mean the “Agreement” as defined in this Modification.
4. **Beneficiary.** All references in the Deed of Trust to “Beneficiary” shall mean the “Beneficiary” as defined in this Modification.
5. **Obligations.** All references in the Deed of Trust to “Obligations” shall mean the “Obligations” as defined in this Modification.
6. **Trustee.** All references in the Deed of Trust to “Trustee” shall mean W. Todd Ross, Trustee, as designated and appointed as Trustee in substitution of Andrew B. Agee in accordance with Virginia Code Section 55-59(9).

7. **No Novation.** The Deed of Trust secures the Obligations as defined in this Modification. There has been no novation with regard to any indebtedness or obligations originally secured by the Deed of Trust, and such indebtedness and obligations of Grantor secured by the Deed of Trust are not extinguished or released hereby. This Modification shall not release or affect the liability of any co-makers, obligors, endorsers, or guarantors of the obligations secured by the Deed of Trust except as may be expressly provided herein. All references to the “Virginia Deed of Trust” in any of the Financing Documents (which include the Credit Agreement and the Notes, and as more particularly defined in the Credit Agreement) shall hereinafter be deemed to refer to the Deed of Trust as amended, modified, continued, and restated hereby and by any other modification or amendment. Grantor represents, affirms and agrees that the Deed of Trust, as modified hereby, along with the Credit Agreement and the other Financing Documents and the Special Project Loan Agreement and Special Project Revolving Credit Note, are and shall remain in full force and effect and be binding upon Grantor without defense or offset of any nature. Beneficiary, by its execution of this Modification, evidences its consent to the modifications herein set forth.

8. **Credit Line Deed of Trust.** The parties agree to change the name and address of the Beneficiary as set forth on page 1 of this Modification under the heading THIS IS A CREDIT LINE DEED OF TRUST.

9. **Notices.** The address of the Trustee is listed in the preamble of this Modification, and the address of the Beneficiary is listed in the preamble of this Modification.

10. **Grant in Trust.** In consideration of the foregoing and other good and valuable consideration, Grantor grants, conveys, transfers, encumbers, pledges and assigns, with general warranty of title and power of sale, to Trustee for the benefit of Lender as Beneficiary, all of the Property as defined and described in the Deed of Trust, including, but not limited to, the Real Property as more particularly described in Exhibit A attached to and made a part of this Modification, **IN TRUST** to secure the Beneficiary for the payment and performance of the Obligations .

11. Continuation of Representations, Warranties, etc. All of the representations, warranties, agreements, and covenants of Grantor with respect to the Property (including, but not limited to warranties of title), as set forth in the Deed of Trust, are hereby ratified and affirmed by Grantor.

12. Effect of Modification. Except as expressly modified above, the terms of the Deed of Trust shall remain unchanged and in full force and effect. Consent by Lender to this Modification does not waive Lender's right to require strict performance of the Deed of Trust as modified hereby nor obligate Lender to make any future modifications. Nothing in this Modification shall constitute a satisfaction or extinguishment of the indebtedness and obligations secured by the Deed of Trust. Grantor and Beneficiary expressly agree that this Modification is effective in accordance with its terms, and they hereby expressly ratify and affirm the Deed of Trust as modified by this Modification and direct the Trustee to execute this Modification.

[Signatures on Following Pages]

SIGNATURE AND ACKNOWLEDGMENT

Grantor has executed this Modification of Credit Line Deed of Trust with the specific intention of creating an instrument under seal as of the date first written above.

GRANTOR:

OPTICAL CABLE CORPORATION,
a Virginia corporation

By: /s/ Tracy G. Smith (SEAL)
Tracy G. Smith
Chief Financial Officer and SVP

COMMONWEALTH OF VIRGINIA

CITY/COUNTY OF Roanoke, to wit:

The foregoing instrument was acknowledged before me this 2nd day of May, 2018, by **Tracy G. Smith**, as Chief Financial Officer and SVP of Optical Cable Corporation, a Virginia corporation, on behalf of the corporation.

/s/ Deborah C. Burch [SEAL]
Notary Public

My commission expires: Feb 28, 2022

Registration Number: 7327086

[Signatures Continued on Following Page]

BENEFICIARY:

PINNACLE BANK,
a Tennessee banking corporation

By: /s/ Shannon S. Miller (SEAL)
Shannon S. Miller
Senior Vice President

COMMONWEALTH OF VIRGINIA
CITY OF ROANOKE, to-wit:

The foregoing instrument was acknowledged before me this 2nd day of May, 2018, by **Shannon S. Miller**, Senior Vice President of Pinnacle Bank, a Tennessee banking corporation, on behalf of the corporation.

/s/ Deborah C. Burch [SEAL]
Notary Public

My commission expires: Feb 28, 2022

Registration Number: 7327086

TRUSTEE:

/s/ W. Todd Ross, Trustee (SEAL)
W. Todd Ross, Trustee

COMMONWEALTH OF VIRGINIA
CITY OF ROANOKE, to-wit:

The foregoing instrument was acknowledged before me this 2nd day of May, 2018, by **W. Todd Ross, Trustee**.

/s/ Angela G. Harmon [SEAL]
Notary Public

My commission expires: 9/30/19

Registration Number: 237545

SCHEDULE A
LEGAL DESCRIPTION

Roanoke County, Virginia

PARCEL 1: ALL THOSE LOTS IN HOLLINS MAGISTERIAL DISTRICT, ROANOKE COUNTY, VIRGINIA, MORE PARTICULARLY DESCRIBED AS "NEW TRACT 2A-1, CONTAINING 11.284 ACRES" AND "TRACT 3E-1A, CONTAINING 11.238 ACRES", ON PLAT OF SURVEY DATED MARCH 20, 1997, PREPARED BY LUMSDEN ASSOCIATES, P.C., ENTITLED "PLAT SHOWING THE COMBINATION OF TRACT 3C AND TRACT 2A PROPERTY OF OPTICAL CABLE CORPORATION, CREATING HEREON NEW TRACT 2A-1 (11.284 AC.) SITUATED ALONG VALLEYPONTE PARKWAY AT THE TERMINUS OF NORTH & SOUTH CONCOURSE DRIVE, A COPY OF WHICH SURVEY IS RECORDED IN THE CLERK'S OFFICE, CIRCUIT COURT OF ROANOKE COUNTY, VIRGINIA, IN PLAT BOOK 20, PAGE 72; AND,

BEING THAT PROPERTY DESCRIBED IN DEED BOOK 1403, PAGE 469; IN DEED BOOK 1459, PAGE 1925; AND IN DEED BOOK 1521, PAGE 994; OF RECORD IN THE AFORESAID CLERK'S OFFICE; AND,

PARCEL 2: ALL THAT LOT OR PARCEL OF LAND LYING AT THE INTERSECTION OF VALLEYPONTE PARKWAY AND NORTH CONCOURSE DRIVE (FORMERLY CONCOURSE DRIVE) IN THE VALLEYPONTE INDUSTRIAL PARK, CONTAINING .488 ACRE, AS SHOWN ON "PLAT OF SURVEY SHOWING THE SUBDIVISION AND DEDICATION OF THE PROPERTY OF THE BOARD OF SUPERVISORS OF ROANOKE COUNTY", DATED MAY 10, 1990, AND RECORDED IN THE AFORESAID CLERK'S OFFICE, IN PLAT BOOK 12, PAGE 133; AND,

BEING THAT PROPERTY DESCRIBED IN DEED BOOK 1557, PAGE 1371, OF RECORD IN THE AFORESAID CLERK'S OFFICE.

Return to:
Prepared by: Dennis A. Barbour, 4415 Electric Road,
Roanoke, Virginia 24018

This instrument should be indexed as a "subsequent instrument," pursuant to N.C.G.S. § 161-14.1, and is intended to modify, amend and/or supplement the following previously registered instruments: Deed of Trust recorded in Deed Book 4570, page 969, as corrected and amended by Corrected Deed of Trust recorded in Deed Book 4573, page 1676; Modification of Deed of Trust, Security Agreement, and Assignment of Leases and Rents recorded in Deed Book 5419, page 1087.

**SECOND MODIFICATION OF DEED OF TRUST, SECURITY AGREEMENT,
AND ASSIGNMENT OF LEASES AND RENTS
(NORTH CAROLINA)**

THIS DEED OF TRUST IS ALSO A SECURITY AGREEMENT UNDER ARTICLE 9 OF THE UNIFORM COMMERCIAL CODE, WITH GRANTOR AS DEBTOR AND BENEFICIARY AS SECURED PARTY. THIS INSTRUMENT COVERS GOODS THAT ARE OR ARE TO BECOME FIXTURES ON THE REAL PROPERTY DESCRIBED HEREIN. ACCORDINGLY, IN ADDITION TO ITS BEING FILED AS A DEED OF TRUST, IT SHOULD ALSO BE FILED AND INDEXED AS A FIXTURE FILING PURSUANT TO THE NORTH CAROLINA UNIFORM COMMERCIAL CODE.

This SECOND MODIFICATION OF DEED OF TRUST, SECURITY AGREEMENT, AND ASSIGNMENT OF LEASES AND RENTS (the "*Modification*") is made as of May 2, 2018, by and among:

Grantor/ Debtor: **OPTICAL CABLE CORPORATION**, a Virginia corporation (and successor by merger to **SUPERIOR MODULAR PRODUCTS INCORPORATED**) ("*Grantor*" or "*Debtor*"), whose address is 5290 Concourse Drive, Roanoke, Virginia 24019;

To and for the benefit of

Trustee: W. TODD ROSS, as Trustee ("*Trustee*") whose business address is 36 Church Avenue SW, Roanoke, Virginia 24011, and

Grantee/Beneficiary/Lender: PINNACLE BANK, a Tennessee banking corporation (and successor by merger with BANK OF NORTH CAROLINA ("*Grantee*", "*Beneficiary*", or "*Lender*"), whose address is 36 Church Avenue SW, Roanoke, Virginia 24011.

THIS DEED OF TRUST IS A SECOND MODIFICATION OF A DEED OF TRUST recorded in Deed Book 4570, Page 969, as corrected and amended by Corrected Deed of Trust recorded in Deed Book 4573, page 1676, and as modified by Modification of Deed of Trust, Security Agreement, and Assignment of Rents and Leases recorded in Deed Book 5419, page 1087 (collectively, the "*Deed of Trust*"), which is modified and amended by this Modification.

Since the recordation of the first modification of the Deed of Trust, the following events have occurred: (1) Bank of North Carolina was merged into Pinnacle Bank; (2) Beneficiary appointed and substituted W. Todd Ross as Trustee under the Deed of Trust by Substitution of Trustee recorded prior to this instrument; (3) Grantor has incurred an additional obligation with Lender; and (4) Grantor and Lender wish to increase the maximum principal secured by the Deed of Trust to cover the additional obligation.

MODIFICATION. Grantor, Trustee, and Lender hereby modify the Deed of Trust as follows:

1. The maximum aggregate amount of principal secured by the Deed of Trust is increased from \$17,000,000.00 to \$19,600,000.00.
2. **Definitions.** The definitions of **Agreement**, **Beneficiary**, **Obligations**, **Credit Agreement**, and **Notes** as set forth in the Deed of Trust are modified to provide as follows, and the definitions of **Special Project Loan Agreement** and **Special Project Revolving Credit Note** are added as follows:
 - (a) **Agreement.** The word "Agreement" means the Prior Agreement as amended, modified, continued and restated by the Credit Agreement.
 - (b) **Beneficiary.** The word "Beneficiary" means Pinnacle Bank and its successors and assigns.
 - (c) **Obligations.** The word "Obligations" means all of the Obligations as defined in the Deed of Trust, the Obligations defined in the Credit Agreement including but not limited to the Notes (together with any and all modifications, extensions, amendments, consolidations, substitutions, replacements, supplements, or renewals thereof), and the Obligations as defined in the Special Project Loan Agreement dated April 10, 2018 including but not limited to the Special Project Revolving Credit Note dated April 10, 2018 (together with any and all modifications, extensions, amendments, consolidations, substitutions, replacements, supplements, or renewals thereof), all of which are incorporated herein as if fully set forth in this Modification.

(d) **Credit Agreement.** The words “Credit Agreement” mean the Credit Agreement dated April 26, 2016, by and between Grantor and the Beneficiary, as the same may be amended, restated, renewed, extended, supplemented or otherwise modified from time to time (including without limitation the Fourth Loan Modification Agreement dated April 10, 2018), which Credit Agreement amends, modifies, continues, and restates the Prior Agreement.

(e) **Notes.** The word “Notes” means the three promissory notes dated April 26, 2016, executed and delivered pursuant to the Credit Agreement by Grantor in favor of Beneficiary as follows: Revolving Credit Note in the principal amount of \$7,000,000.00, Term Loan A Note in the principal amount of \$1,816,609.03, and Term Loan B Note in the principal amount of \$5,271,410.83, as the same, or any of them, may be amended, restated, renewed, extended, supplemented or otherwise modified from time to time.

(f) **Special Project Loan Agreement.** The words “Special Project Loan Agreement” mean the Special Project Loan Agreement by and between Grantor and the Beneficiary dated April 10, 2018, as the same may be amended, restated, renewed, extended, supplemented or otherwise modified from time to time.

(g) **Special Project Revolving Credit Note.** The words “Special Project Revolving Credit Note” mean the Special Project Revolving Credit Note dated April 10, 2018, in the principal amount of \$6,000,000.00, executed and delivered pursuant to the Special Project Loan Agreement by Grantor in favor of Beneficiary, as the same may be amended, restated, renewed, extended, supplemented or otherwise modified from time to time.

3. **Agreement.** All references in the Deed of Trust to “Agreement” shall mean the “Agreement” as defined in this Modification.

4. **Beneficiary.** All references in the Deed of Trust to “Beneficiary” shall mean the “Beneficiary” as defined in this Modification.

5. **Obligations.** All references in the Deed of Trust to “Obligations” shall mean the “Obligations” as defined in this Modification.

6. **Trustee.** All references in the Deed of Trust to “Trustee” shall mean W. Todd Ross, Trustee, as designated and appointed as Trustee in substitution of Andrew B. Agee in accordance with N.C.G.S Section 45-10.

7. **No Novation.** The Deed of Trust secures the Obligations as defined in this Modification. There has been no novation with regard to any indebtedness or obligations originally secured by the Deed of Trust, and such indebtedness and obligations of Grantor secured by the Deed of Trust are not extinguished or released hereby. This Modification shall not release or affect the liability of any co-makers, obligors, endorsers, or guarantors of the obligations secured by the Deed of Trust except as may be expressly provided herein. All references to the “Deed of Trust recorded in the land records of Buncombe County, North Carolina” or the North Carolina Deed of Trust” in any of the Financing Documents (which include the Credit Agreement and the Notes, and as more particularly defined in the Credit Agreement) shall hereinafter be deemed to refer to the Deed of Trust as amended, modified, continued, and restated hereby and by any other modification or amendment. Grantor represents, affirms and agrees that the Deed of Trust, as modified hereby, along with the Credit Agreement and the other Financing Documents and the Special Project Loan Agreement and Special Project Revolving Credit Note, are and shall remain in full force and effect and be binding upon Grantor without defense or offset of any nature. Beneficiary, by its execution of this Modification, evidences its consent to the modifications herein set forth.

8. Notices. The address of the Trustee is listed in the preamble of this Modification, and the address of the Beneficiary is listed in the preamble of this Modification.

9. Grant in Trust and Warranty of Title. In consideration of the foregoing and other good and valuable consideration, Grantor hereby reaffirms the grant and conveyance to Trustee, in trust for the benefit of Lender and the successors, successors-in-title and assigns of Lender, with power of sale, as set forth in the Deed of Trust, of all of the estate, right, title, and interest that Grantor now has or may later acquire in and to the Property as defined and described in the Deed of Trust, including, but not limited to, the Real Property as more particularly described in Exhibit A attached to and made a part of this Modification, which Property is not used principally or primarily for agricultural or farming purposes.

TO HAVE AND TO HOLD the Property and all parts, rights, members, and appurtenances thereto, to the use and benefit of Trustee in trust for the benefit of Lender as Beneficiary, and all of such Lender's successors and assigns, forever, IN FEE SIMPLE.

Grantor covenants with Trustee and Beneficiary that it is seized of the Real Property in fee simple, and is the sole owner of the Real Property and has the right to convey its interest in the Real Property as provided herein; that title is marketable and free and clear of all encumbrances, except for Permitted Liens (as defined in the Credit Agreement); and that it will warrant and defend the title to the Real Property against the lawful claims of all persons whomsoever, except for the Permitted Liens.

10. Obligations Secured by Deed of Trust. Grantor makes the grant, conveyance, transfer and assignment of the Property for the benefit of Lender and the purpose of securing the Obligations.

11. Future Advances. The Deed of Trust secures to Lender payment of all future advances, indebtedness and further sums and/or performance of such further obligations as Grantor or the then record owner of the Property or the then owner of the balance of the Property may undertake to pay and/or perform (whether as principal, surety, or guarantor) for the benefit of Lender, its successors or assigns, (it being contemplated by Grantor and Lender that Grantor may hereafter become indebted to Lender in such further sum or sums), when such borrowing and/or obligations are evidenced by a written instrument reciting that it or they are secured by the Deed of Trust. As provided pursuant to the provisions of Section 45-67, et seq., of the North Carolina General Statutes, the Deed of Trust is given wholly or partly to secure future advances and/or future obligations that may be incurred. The maximum principal amount that may be secured by the Deed of Trust at any one time is \$19,600,000.00, exclusive of payments made, sums advanced and expenses incurred by Beneficiary (and interest accrued thereon): (i) for insurance, taxes and assessments; (ii) to protect Beneficiary's interest under the Deed of Trust; or (iii) to preserve and protect the value or condition of the Property. Future advances or future obligations to be secured by the Deed of Trust shall be made or incurred no later than May 30, 2038. All terms and conditions under which future advances may be made are set forth in the Financing Documents. Beneficiary is obligated to make future advances only in accordance with the terms and conditions of the Financing Documents and nothing in this Modification shall require Beneficiary to make any future advances.

12. Continuation of Representations, Warranties, etc. All of the representations, warranties, agreements, and covenants of Grantor with respect to the Property, as set forth in the Deed of Trust, are hereby ratified and affirmed by Grantor. In addition, Grantor represents and warrants that Grantor: (i) holds good and marketable fee simple title to all of the Real Property, subject only to Permitted Liens (as defined in the Credit Agreement); (ii) has the right to transfer such Real Property in accordance with the terms contained herein; and (iii) has good title to all portions of the Property other than the Real Property, subject only to Permitted Liens.

13. Effect of Modification. Except as expressly modified above, the terms of the Deed of Trust shall remain unchanged and in full force and effect. Consent by Beneficiary to this Modification does not waive Beneficiary's right to require strict performance of the Deed of Trust as modified hereby nor obligate Beneficiary to make any future modifications. Nothing in this Modification shall constitute a satisfaction or extinguishment of the indebtedness and obligations secured by the Deed of Trust. Grantor and Beneficiary expressly agree that this Modification is effective in accordance with its terms, and they hereby expressly ratify and affirm the Deed of Trust as modified by this Modification and direct the Trustee to execute this Modification.

[Signatures on Following Pages]

SIGNATURE AND ACKNOWLEDGMENT

Grantor has executed this Modification with the specific intention of creating an instrument under seal as of the date first written above.

GRANTOR:

OPTICAL CABLE CORPORATION,
a Virginia corporation

By: /s/ Tracy G. Smith (SEAL)
Tracy G. Smith
Chief Financial Officer and SVP

COMMONWEALTH OF VIRGINIA

CITY/COUNTY OF Roanoke, to wit:

The foregoing instrument was acknowledged before me this 2nd day of May, 2018, by **Tracy G. Smith**, as Chief Financial Officer and SVP of Optical Cable Corporation, a Virginia corporation, on behalf of the corporation.

/s/ Deborah C. Burch [SEAL]
Printed Name: Deborah C. Burch, Notary Public

My commission expires: Feb 28, 2022

Registration Number: 7327086

[Signatures Continued on Following Page]

BENEFICIARY:

PINNACLE BANK,
a Tennessee banking corporation

By: /s/ Shannon S. Miller (SEAL)
Shannon S. Miller
Senior Vice President

COMMONWEALTH OF VIRGINIA

CITY OF ROANOKE, to-wit:

The foregoing instrument was acknowledged before me this 2nd day of May, 2018, by **Shannon S. Miller**, Senior Vice President of Pinnacle Bank, a Tennessee banking corporation, on behalf of the corporation.

/s/ Deborah C. Burch [SEAL]
Printed Name: Deborah C. Burch, Notary Public

My commission expires: Feb 28, 2022

Registration Number: 7327086

TRUSTEE:

/s/ W. Todd Ross _____ (SEAL)
W. Todd Ross, Trustee

COMMONWEALTH OF VIRGINIA

CITY OF ROANOKE, to-wit:

The foregoing instrument was acknowledged before me this 2nd day of May, 2018, by **W. Todd Ross, Trustee**.

/s/ Angela G. Harmon _____ [SEAL]
Printed Name: Angela G. Harmon _____, Notary Public

My commission expires: 9/30/19 _____

Registration Number: 237545 _____

SCHEDULE A
Property Description

Tract 1

Lying in Swannanoa Township, Buncombe County, North Carolina, and being more particularly described as follows:

Beginning at a rebar set in the center of the Southern Railroad right of way, said rebar being the northeast corner of Tract 2 described in that deed dated October 12, 1978 to Julius Blum recorded in Buncombe County Deed Book 1201 at page 389, said beginning corner also being the northeast corner of the tract described in the document recorded in Buncombe County Deed Book 1409 at page 119; and running thence South 3 deg. 42 min. West 488.96 feet to a point in the northern right of way of Interstate 40; thence with said margin of said right of way the following three courses and distances, to wit: South 84 deg. 6 min. West 100.51 feet to a right of way monument, South 68 deg. 30 min. West 252.42 feet to a right of way monument and South 76 deg. 17 min. West 236.01 feet to a point; thence leaving said right of way and running North 22 deg. 2 min. West 197.36 feet to a spike set in the centerline of a gravel drive, said point hereinafter the "Drive Point"; and running thence North 60 deg. 44 min. East 141.17 feet to a set spike; thence North 22 deg. 2 min. West 303.26 feet to a point in the center of the Southern Railroad right of way; thence with said center of said right of way, North 80 deg. 14 min. East 670.09 feet to the Beginning. Containing 7.03 acres as shown on a plat thereof prepared by Kenneth O. Pankow, entitled "Survey for Superior Modular Products, Incorporated" dated February 1, 1996, revised through July 11, 1996. [Note – The unrevised version of this plat is recorded in Buncombe County Plat Book 64 at page 196.] Together with a non-exclusive easement for ingress, egress and regress 40 feet in width (the "Present Right of Way"), the centerline of which is described as follows:

Beginning at a set spike which stands North 60 deg. 44 min. East 141.17 feet from the Drive Point and running thence from the beginning point thus established, South 60 deg. 44 min. West 141.17 feet to the Drive Point; thence South 79 deg. 49 min. West 197.58 feet to a set spike; thence on a curve to the right with a radius of 155 feet, a chord bearing and distance of North 89 deg. 47 West 55.91 feet, an arc length of 56.22 feet to a point; thence North 79 deg. 24 min. West 192.58 feet to a point; thence on a curve to the left with a radius of 110 feet, a chord bearing and distance of North 89 deg. 37 min. West 39.03 feet, an arc length of 39.24 feet to a point; thence South 80 deg. 10 min. West 53.17 feet to the center of Buckeye Cove Road. The foregoing right of way is subject to the encroachment thereon by the portion of the building located thereon, as shown on the said plat of Kenneth O. Pankow.

Notwithstanding the foregoing, the Present Right of Way is terminable by Buckeye Limited Partnership or its successor in ownership of the 4.22 Acre Tract shown on said Pankow plat, in the manner set forth hereafter. At such time as there is constructed a roadway (the "Roadway") of as good quality, material and width as that which presently exists within the Present Right of Way, Grantee shall be provided with a document in recordable form granting a perpetual, non-exclusive easement 40 feet in width over the Roadway and upon which Grantee shall release all its rights in the Present Right of Way by joining therein. The centerline of the Roadway is intended to be substantially as follows: Beginning at the Drive Point and running thence, North 60 deg. 44 min. East 79.49 feet to a point; thence on a curve to the left with a radius of 70 feet, a chord bearing and distance of North 19 deg. 21 min. East, 92.56 feet, an arc length of 101.13 feet to a point; thence North 22 deg. 2 min. West 63.82 feet to a point; thence on a curve to the left with a radius of 125 feet, a chord bearing and distance of North 49 deg. 5 min. West, 113.16 feet, an arc length of 117.99 feet to a point; thence on a curve to the left with a radius of 125 feet, a chord bearing and distance of North 86 deg. 16 min. West 44.02 feet, an arc length of 44.25 feet to a point; thence South 83 deg. 36 min. West 118.42 feet to a point; thence South 78 deg. 15 min. West 254.62 feet to a point; thence on a curve to the left with a radius of 70 feet, a chord bearing and distance of South 56 deg. 55 min. West 50.92 feet, an arc length of 52.12 feet to a point; thence on a curve to the right with radius of 90 feet, a chord bearing and distance of South 56 deg. 29 min. West 64.18 feet an arc length of 65.62 feet to a point; thence South 77 deg. 22 min. West 45.71 feet to a point in the center of Buckeye Cove Road. Grantor excepts and reserves herefrom a perpetual non-exclusive easement 40 feet in width over and across the roadway, including those portions which lie within the bounds of the 7.03 acre tract above described. The Roadway shall provide access to both the 7.03 acre tract as well as the 1.76 acre tract shown on the said Pankow plat. Grantor further excepts herefrom the non-exclusive, perpetual right of way over the following described tract for the purpose of utilizing the same as a part of the Roadway, to wit: Beginning at a point standing South 22 deg. 2 min. East 20.16 feet from the Drive Point and running North 60 deg. 44 min. East 44.05 feet to a point; thence on a curve to the left with a radius of 50 feet, a chord bearing and distance of South 19 deg. 21 min. West 66.111 feet, an arc length of 72.23 feet to a point; thence North 22 deg. 2 min. West 44.06 feet to the beginning. Grantee understands that Grantor may, but need not, use the Roadway for access to the 1.76 acre tract in lieu of any other access route.

Being the same property conveyed in that certain Deed of Trust, Security Agreement and Fixture Filing recorded in the Office of the Register of Deeds for Buncombe County, North Carolina in Deed Book 4570 at Page 969-981.

Tract 2

BEING all of Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15 of Block A; Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 27, 26, and 25 of Block B, and Lots 2, 3, 4, 5, 6, 7, 8, 9 and 10 of Block E as shown on the plat of University Heights recorded in the Office of the Register of Deeds for Buncombe County, North Carolina in Plat Book 7 at Page 87.

BEING IN FACT the same property conveyed in that certain North Carolina General Warranty Deed recorded in the Office of the Register of Deeds for Buncombe County, North Carolina in Plat Book 1944 at Page 559.

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, 2018

/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, 2018

/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, 2018 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, 2018, and for the period then ended.

Date: June 11, 2018

/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, 2018 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, 2018, and for the period then ended.

Date: June 11, 2018

/s/ Tracy G. Smith

Tracy G. Smith
Senior Vice President and
Chief Financial Officer