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

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**Form 10-K**

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

For the fiscal year ended October 31, 2006

Commission File Number 0-27022

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**OPTICAL CABLE CORPORATION**

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

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

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

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

**24019**  
(Zip Code)

**(540) 265-0690**

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act. (Check one)

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the registrant's Common Stock, no par value, held by non-affiliates of the registrant (without admitting any person whose shares are not included in determining such value is an affiliate) as of April 30, 2006, the last business day of the Company's most recent second quarter was \$25,901,443 based upon the closing price of these shares as reported by the Nasdaq Global Market on April 28, 2006.

As of January 18, 2007, the Company had outstanding 6,008,016 common shares.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's Proxy Statement for the 2007 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K Report: "Election of Directors," "Beneficial Ownership of Securities," "Compensation of Executive Officers," "Compensation of Directors," "Compliance with Section 16(a) of the Securities Exchange Act of 1934," "Code of Ethics," "Executive Compensation," "Compensation Committee Report on Executive Compensation," "Compensation Committee Interlocks and Insider Participation," "Performance Graph," "Beneficial Ownership of Common Stock," "Equity Compensation Plans Information," "Certain Relationships and Related Transactions," "Independent Registered Public Accounting Firm," and "Audit Committee Pre-approval of Audit and Permissible Non-audit Services of Independent Registered Public Accounting Firm." In addition, portions of the Company's Annual Report filed as exhibit 13.1 to this report on Form 10-K are incorporated by reference in Part II of this Form 10-K Report: "Corporate Information," "Selected Financial Information," "Management's Discussion and Analysis," "Financial Statements," "Notes to Financial Statements," "Report of Independent Registered Public Accounting Firm" and "Management's Statement of Responsibility."

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PART I

**Item 1. BUSINESS**

**Overview**

Optical Cable Corporation was incorporated in the Commonwealth of Virginia in 1983. Our executive offices are located at 5290 Concourse Drive, Roanoke, Virginia 24019 and our telephone number is (540) 265-0690.

We are a leading manufacturer of fiber optic cables primarily sold into the enterprise market, and the premier manufacturer of military ground tactical fiber optic cable for the U.S. military.

Founded in 1983, Optical Cable Corporation pioneered 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. Our current broad product offering is built on the evolution of these fundamental technologies, and is designed to provide end-users with fiber optic cables that are easy and economical to install, provide a high degree of reliability and offer outstanding performance characteristics.

We sell our products worldwide for uses ranging from commercial and campus installations to customized products for specialty applications and harsh environments, including military applications. We manufacture our high quality fiber optic cables at our ISO 9001:2000 registered and MIL-STD-790F certified facility located in Roanoke, Virginia.

Our tight buffered fiber optic cables are used for high bandwidth transmission of data, video and audio communications. The enterprise market into which we sell includes local area network and premises markets. Our fiber optic cables are well-suited for use in various other short- to moderate-distance applications as well.

**Products**

We manufacture and market a broad array of fiber optic cables that provide high bandwidth transmission of data, video and voice communications over short- to moderate-distances. Our product line is diverse and versatile, in keeping with evolving application needs of customers within our markets. Our tight buffered fiber optic cables address the needs of the enterprise market in particular, and to a lesser extent the access market.

The following summarizes the major construction types of fiber optic cables we produce and their attributes; however, we produce many other types of fiber optic cables as well:

*A-Series Assembly Fiber Optic Cables.* Our A-Series fiber optic cables contain one or two optical fibers which are surrounded by a layer of aramid yarn strength members to prevent the optical fiber from being stretched if there is tension on the fiber optic cable. A flexible and resilient thermoplastic outer jacket is then applied to further strengthen and protect the optical fiber. These fiber optic cables are used for jumpers, which are short length patch cords, and for pigtails, which are short lengths of fiber optic cable with a connector on one end. Various special outer jacket materials are offered to provide flammability ratings and handling characteristics tailored to customers' needs. These fiber optic cables are sometimes privately labeled and often sold to original equipment manufacturers that produce the fiber optic cable assemblies.

*B-Series Breakout Fiber Optic Cables.* Our B-Series fiber optic cables consist of a number of subcables, each consisting of a single optical fiber, aramid yarn strength members and a subcable jacket. These subcables are generally tightbound in a high performance Core-Locked™ outer jacket to form the finished multifiber fiber optic cables. Like the A-Series fiber optic cables, the subcables are intended to be terminated directly with connectors. This direct termination feature makes this fiber optic cable type particularly well suited for shorter distance installations, where there are many terminations and termination costs are more significant. The materials and construction of the fiber optic cable permit its use both indoors and outdoors. These features make the fiber optic cables suitable for use in campus and industrial complex installations and between and within buildings since there is no need to splice outdoor fiber optic cables to indoor fiber optic cables at the building entrance.

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*D-Series Distribution Fiber Optic Cables.* Our D-Series fiber optic cables are made with the same tight buffered optical fiber as the B-Series fiber optic cables and with a high performance outer jacket. Unlike the B-Series fiber optic cables, each tight buffered optical fiber in a D-Series fiber optic cable is not covered with a separate subcable jacket, giving the D-Series cables a smaller and more lightweight configuration. Our D-Series fiber optic cables also are available with a Core-Locked™ jacket. The tight buffered optical fiber and high performance outer jacket make D-Series fiber optic cables rugged and survivable. D-Series fiber optic cables are suitable for longer distance applications, where termination considerations are less important and often traded off for size, weight and cost. They also can be armored for additional protection for use in buried and overhead installations. The high strength to weight ratio of these fiber optic cables makes them well suited for installations where long lengths of fiber optic cables must be pulled through duct systems. D-Series fiber optic cables are used in relatively longer length segments of installations, such as trunking, LAN and distribution applications, optical fiber in the loop, optical fiber to the curb and drop cables.

*G-Series Subgrouping Fiber Optic Cables.* Our G-Series fiber optic cables combine a number of multifiber subcables, each similar to a D-Series fiber optic cable. Each multifiber subcable generally is tightbound with an elastomeric jacket, providing excellent mechanical and environmental performance. These subcables are further protected with a pressure extruded, high performance Core-Locked™ outer jacket to form the finished fiber optic cable. This design permits the construction of very high fiber count fiber optic cables. These fiber optic cables are well-suited for installations where groups of optical fibers must be routed to different locations.

*Other Fiber Optic Cable Types.* We believe that we offer the most comprehensive fiber optic cable product offering for the enterprise market. We produce variations on the basic fiber optic cable styles discussed above for more specialized installations, as well as various hybrid and composite cables (some variations are not available for all cable styles or types). We can armor fiber optic cables with corrugated steel tape or interlocking armor for further protection in certain installations. We offer cables suitable for underground or overhead installations. For overhead installations on utility poles, we offer several self-supporting fiber optic cables, with higher performance outer jackets, as well as M-Series aerial messenger cables which feature a stainless steel or galvanized steel, self-supporting messengered construction. We have fiber optic cables available in several flammability ratings, including plenum for use in moving air spaces in buildings, and riser for less critical flame-retardant requirements. Zero halogen versions of many of our fiber optic cables are available for use in enclosed spaces where there is concern over release of toxic gases during fire. We offer various hybrid and composite fiber optic cables combining different types of optical fiber and/or copper wires, with copper wires being used as power feeds or to facilitate the transition from copper wire to optical fiber-based systems without further installation of fiber optic cables. Our composite cables include a line of security cables which combine copper power feeds with optical fiber in the cables making them particularly well suited for surveillance camera operation. We also offer specialty fiber optic cables, such as military ground tactical, industrial (including tray cables), mining, festoon, and pierside fiber optic cables. Our product offering further includes fiber optic cables complying with or certified to various standards for specialty applications, such as: U.S. Department of Defense MIL-PRF-85045/8A qualification for military ground tactical fiber optic cable; Det Norske Veritas (DNV) type approval certificate for marine shipboard and offshore platform applications; U.S. Mine Safety and Health Administration (MSHA) approval for use in mines; and American Bureau of Shipping (ABS) type approved cables. Additionally, we offer our customers a variety of customized constructions to meet their specific communication needs.

**Customers**

We have a global customer base, selling in over 50 countries in fiscal year 2006. Our customers include distributors, original equipment manufacturers, system integrators, electrical contractors, value added resellers and end users. The following is a partial list of representative types of end users of our fiber optic cables:

- **Commercial Institutions.** Businesses located in offices, retail space, medical facilities, to name a few, are installing or improving networks to distribute increasing volumes of data among workstations. Businesses are using fiber optic backbones to cable their enterprise networks to meet these needs and increasingly are using fiber optic cable in other parts of their networks.
- **Government Agencies.** Government agencies tend to have large buildings or complexes, many people, and the need to access and process large quantities of data. Like commercial institutions, these routinely include high performance LANs with fiber optic segments. Security also may be desired, and therefore, optical fiber to the desk or workstation may be implemented.
- **Industrial and Manufacturing Facilities.** Industrial and manufacturing facilities typically have a more severe environment (often with heavy electrical equipment) than other types of businesses. Fiber optic cable in this environment offers immunity to electrical noise, ruggedness, high information carrying capacity and greater distance capability. Our products are installed in automotive assembly plants, steel plants, chemical and drug facilities, petrochemical facilities and petroleum refineries, mines and other similar environments.
- **Original Equipment Manufacturers.** Original equipment manufacturers typically manufacture fiber optic cable assemblies, which are short lengths of fiber optic cable pre-terminated with connectors. Supporting virtually all segments of the market, these manufacturers consume large quantities of fiber optic cables, which can be privately labeled.
- **Military.** Our core technologies enable us to develop and efficiently produce fiber optic cables for military tactical applications that survive extreme mechanical and environmental conditions. We are certified by the United States Department of Defense (“U.S. DoD”) as a qualified supplier of ground tactical fiber optic cable. Our manufacturing facility has also been certified by the U.S. DoD as a MIL-STD-790F facility, one of the most respected certifications in the defense industry.
- **Educational Institutions.** Colleges, universities, high schools and grade schools are installing and improving their networks for higher data transmission speeds. As interactive learning systems require increased transmission speeds, optical fiber becomes a logical medium.

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

**Employees**

As of October 31, 2006, we employed a total of 216 persons. None of our employees is represented by a labor union. We have experienced no work stoppages and we believe our employee relations are good.

## Item 1A. RISK FACTORS

There are a number of business risks and uncertainties that may adversely affect our financial condition, our results of operations, our liquidity, the trading price of our common shares, and the prospects regarding any of the foregoing—collectively, our business and its prospects. These risks and uncertainties could cause future results to differ from past performance or expected results, including results described in statements elsewhere in this report that constitute “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. The risks that we highlight below are NOT the only ones that we face. We discuss in this section some of the risk factors and uncertainties which we consider to be the most relevant to our specific activities and that we believe, if they actually occurred, could materially and adversely affect our business and its prospects. In addition to the risks and uncertainties included below, other risks and uncertainties include, but are not limited to, the additional risk factors included in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Forward-Looking Information.” Additionally, risks and uncertainties not presently known to us or that we currently believe to be immaterial also may adversely impact our business and its prospects. Should any risks or uncertainties develop into actual events, these developments could have material adverse effects on our business and its prospects.

In addition to historical information, this Annual Report on Form 10-K contains or may contain certain forward-looking statements, within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Generally, the words “will,” “may,” “should,” “continue,” “believes,” “expects,” “intends,” “anticipates,” “estimates” or similar expressions identify forward-looking statements. These forward-looking statements involve certain risks and uncertainties. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements include, among others, the risks and uncertainties identified below and the additional risk factors included in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Forward-Looking Information.” We will sometimes set forth examples to further describe a risk factor or otherwise elaborate on a point by using the word “including.” When we use the word including in this Annual Report on Form 10-K or in any of our other disclosures, we always mean “including, but not limited to” rather than including all examples.

### ***A decline in the demand for fiber optic cable generally or in certain applications or for tight buffer fiber optic cable specifically or in certain applications, in the markets we target may cause our sales to fall.***

Fiber optic cable, specifically tight buffer fiber optic cable, accounts for almost all of our sales. As a result, any decline in the demand for fiber optic cable generally or tight buffer fiber optic cable specifically will likely adversely affect our business and its prospects, including causing our sales to fall, causing our share price to decline and limiting our future sales prospects. We focus on producing tight buffer fiber optic cable that is used to connect optical networking equipment in short- to moderate-distance applications, including the enterprise market, and to a lesser extent, the metropolitan and access markets. Our future growth is affected by the rate at which optical networking and related optical cabling are deployed in these markets. The desire of organizations to deploy fiber optic cabling depends on such factors as end-user demand for the increased bandwidth made possible by optical networks, as well as a lack of suitable alternative technologies. Additionally, any decline in the demand for fiber optic cable used in short- to moderate-distance applications, such as metropolitan, access and enterprise networks, will likely adversely affect our business and its prospects, including causing our sales to fall, limiting our prospects for the future sales and causing a decline in our share price. If alternative fiber optic cable constructions, such as loose-tube fiber optic cable, become more accepted as alternatives to tight buffer fiber optic cable construction in our target markets, then our business and its prospects could be adversely affected, including material decreases in our sales, adverse affects on our future prospects and potential, significant declines in our share price.

### ***Our ability to remain competitive in the fiber optic cable market is crucial to our continued success.***

The market for fiber optic cables, including the short- to moderate-distance markets in which our products are concentrated, is highly competitive. We compete with large, integrated fiber optic cable manufacturers such as Corning Cabling Systems, OFS, Alcatel and Draka, as well as with other large fiber optic cable manufacturers such as General Cable, Belden, Nexans (doing business

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

***We are a “microcap” stock with little, if any, coverage by security analysts, and with limited institutional following. Therefore, the price of our common shares is volatile and subject to significant fluctuations.***

Optical Cable Corporation has a relatively low market capitalization represented by the total number of common shares issued and outstanding multiplied by the price per common share. Often the capital stock of companies with such low market capitalizations are referred to as “microcap” stocks. As a result of this low market capitalization, it is quite difficult for us to secure coverage by security analysts and to convince institutional investors to invest substantial amounts in our common shares. Additionally, our low market capitalization makes it likely that the sale or purchase of even relatively small blocks of our common shares can result in significant fluctuations in the price of our common shares with or without any underlying change in our financial performance. As a result, the price of our common stock is volatile and subject to significant fluctuations.

***We believe our quarterly results may tend to fluctuate due to many factors, including timing of key projects, changing levels of corporate and government spending, fluctuations in spending in certain specialty markets we target, seasonality, and manufacturing yields and efficiencies. The price of our common shares will likely fall if our quarterly results are lower than the expectations of securities analysts, if any, or our shareholders.***

We expect our sales and income to fluctuate from quarter to quarter. In future quarters, our operating results may be below the expectations of securities analysts, if any securities analysts are offering coverage of us, or our shareholders. If this occurs, the price of our common shares is likely to fall and you may lose all or part of your investment. A number of factors, many of which are discussed in more detail in other risk factors, may cause variations in the results of our operations, including, but not limited to:

- The proportion of our net sales made to distributors relative to other types of customers;
- The proportion of large to small orders;
- Our product mix, including fluctuations in demand in our target and specialty markets;
- The timing of orders that we receive from our customers, including, larger projects;
- Fluctuations in spending on fiber optic cable in certain specialty markets we target;
- Fluctuations in corporate or government spending;
- Seasonality, including affects of weather, construction and annual budgetary cycles on demand;
- Changes in the general economic conditions—whether in the U.S., other countries or specific regions that impact spending on fiber optic cabling products;
- Changes in the cost and availability of our raw materials;
- Our manufacturing capacity, efficiencies and yield; and
- Spending for fiber optic cabling in the metropolitan, access and enterprise markets.



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A significant percentage of our expenses, including those relating to manufacturing, sales and marketing, and general and administrative functions, are relatively fixed in the short term. As a result, if we experience delays in generating or recognizing revenue, our operating results would be disproportionately affected. You should not rely on our results for one quarter as any indication of our future performance. We believe our results of operations may reflect some seasonality. Historically, our sales are lower in the first half of each fiscal year and higher in the second half of each fiscal year, which we believe may be partially due to construction cycles and budgetary cycles of our customers.

### ***If our supplier relationships are disrupted or if costs or availability of our raw materials change, our operating results may suffer.***

Our business and its prospects are affected by the cost and availability of raw materials. We currently rely on a limited number of suppliers for certain of our raw materials, including optical fiber, aramid yarns, plastics and other raw materials. We do not have long-term agreements with all of these suppliers. In fact, some of our suppliers of optical fiber are also major competitors in the market for fiber optic cable. For example, we may buy some of our optical fiber from a supplier that also offers fiber optic cables that compete with our fiber optic cables. These raw materials are critical to our production of fiber optic cables. Our business and its prospects, including our financial condition, future prospects, and results of operations, could be adversely affected by any disruption in our supply of raw materials or any increase in our costs resulting from our suppliers reducing the amount of optical fiber available to us, increasing their prices, lengthening the lead time for orders or otherwise impairing our ability to secure optical fiber, aramid yarns, plastics or other raw materials on competitive terms.

### ***Potential strategic alliances may not achieve their objectives.***

We intend to explore strategic alliances designed to increase the use of our manufacturing capacity, to increase distribution of our products, to secure supplies of raw materials and to expand our product offerings. We may not be successful in developing these strategic alliances. Moreover, alliances that Optical Cable Corporation does develop may not achieve their strategic objectives, and parties to our strategic alliances may not perform as contemplated.

### ***If a disaster struck our primary business facility, our business, results of operations and financial condition may be harmed.***

We believe that our success to date has been, and future results of operations will be, dependent in large part upon our ability to provide prompt and efficient service to our customers. As a result, any disruption of our day-to-day operations could cause a significant decline in our sales, negatively impact our financial performance and cause a decline in our share price. Our manufacturing operations, marketing, management information systems, customer service and distribution functions are housed in a single facility in Roanoke, Virginia. A fire, flood, earthquake, terrorist attack, act of war, military conflict, or any other disaster affecting our facility could disable the functions performed at our Roanoke, Virginia facility. Any significant damage to this facility would have a material adverse effect on our business and its prospects, including our results of operations and financial condition.

## **Item 1B. UNRESOLVED STAFF COMMENTS**

None

## **Item 2. PROPERTIES**

We own our principal administration, marketing, manufacturing, and product development facilities which are situated on approximately 23 acres of land near the Roanoke, Virginia airport and major trucking company facilities. Our facilities are housed in an approximately 146,000 square foot building on this property. We also lease a 385 square foot sales office in Fort Wayne, Indiana. We believe that we are currently operating at approximately 60% of our production equipment capacity. Additional personnel would

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

### **Item 3. LEGAL PROCEEDINGS**

None.

### **Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the fourth quarter of the year ended October 31, 2006.

## PART II

### **Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

The information pertaining to shareholders beneficially owning more than five percent of the Company's common stock and the security ownership of management, which is set forth under the caption "Beneficial Ownership of Common Stock" in the Proxy Statement for the 2007 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

The information contained under the caption "Corporate Information" of our Annual Report for the fiscal year ended October 31, 2006, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

### **Item 6. SELECTED FINANCIAL DATA**

The information contained under the caption "Selected Financial Information" of our Annual Report for the fiscal year ended October 31, 2006, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

### **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report for the fiscal year ended October 31, 2006, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

### **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of October 31, 2006, our financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk.

### **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information contained under the captions "Financial Statements," "Notes to Financial Statements," "Report of Independent Registered Public Accounting Firm," and "Management's Statement of Responsibility" of our Annual Report for the fiscal year ended October 31, 2006, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

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

None.

**Item 9A. CONTROLS AND PROCEDURES**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of October 31, 2006. Based on this evaluation process, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective and that there have been no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None.

PART III

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

For information with respect to the Directors of the registrant, see "Election of Directors" in the Proxy Statement for the 2007 Annual Meeting of Shareholders of the Company, which information is incorporated herein by reference.

For information with respect to the executive officers and significant employees of the registrant, see "Executive Officers" in the Proxy Statement for the 2007 Annual Meeting of Shareholders of the Company, which information is incorporated herein by reference.

The information with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934, which is set forth under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement for the 2007 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

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

**Item 11. EXECUTIVE COMPENSATION**

The information set forth under the captions "Executive Compensation," "Compensation Committee Report on Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Performance Graph" in the Proxy Statement for the 2007 Annual Meeting of Shareholders of the Company is incorporated herein by reference.

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

**Equity Compensation Plan Information**

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
1996 Stock Incentive Plan			
Stock Option Grants	232,466 shares	\$ 7.69	— shares
Restricted Share Grants	130,347 shares	—	— shares
<b>Total 1996 Stock Incentive Plan</b>	<b>362,813 shares</b>	<b>\$ 4.93</b>	<b>— shares</b>
2005 Stock Incentive Plan	209,824 shares	—	771,515 shares
2004 Non-employee Directors Plan	— shares	—	229,000 shares
<b>Total for approved plans</b>	<b>572,637 shares</b>	<b>\$ 3.12</b>	<b>1,000,515 shares</b>
Equity compensation not pursuant to plan approved by security holders			
	3,123 shares	\$ 7.12	— shares
<b>Total for all plans</b>	<b>575,760 shares</b>	<b>\$ 3.14</b>	<b>1,000,515 shares</b>

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

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

The information concerning stock ownership by directors, executive officers and shareholders beneficially owning more than five percent of the Company’s common stock, which is set forth under the caption “Beneficial Ownership of Common Stock” in the Proxy Statement for the 2007 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

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

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

The information with respect to certain transactions with management of the Company, which is set forth under the caption "Certain Relationships and Related Transactions" in the Proxy Statement for the 2007 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

### **Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information with respect to certain principal accountant fees and services, which is set forth under the caption "Independent Registered Public Accounting Firm" in the Proxy Statement for the 2007 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

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

## PART IV

### **Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

1. Financial statements: The Company's financial statements and related information are hereby incorporated by reference to pages 18 to 36 of the Company's Annual Report filed as Exhibit 13.1 to this Form 10-K.
2. Financial statement schedules: All schedules are omitted, as the required information is inapplicable or the information is presented in financial statements or related notes thereto.
3. Exhibits to this Form 10-K pursuant to Item 601 of Regulation S-K are as follows:

<u>Exhibit No.</u>	<u>Description</u>
3.1	Articles of Amendment filed November 5, 2001 to the Amended and Restated Articles of Incorporation, as amended through November 5, 2001 (incorporated herein by reference to Exhibit 1 to the Company's Form 8-A filed with the Commission on November 5, 2001).
3.2	Bylaws of Optical Cable Corporation, as amended (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2004 (file number 0-27022)).
4.1	Form of certificate representing Common Stock (incorporated herein by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2004 (file number 0-27022)).
4.2	Rights Agreement dated as of November 2, 2001 (incorporated herein by reference to Exhibit 4 to the Company's Form 8-A filed with the Commission on November 5, 2001).
4.3	Form of certificate representing preferred share purchase right (incorporated herein by reference to Exhibit 5 to the Company's Form 8-A filed with the Commission on November 5, 2001).

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- 4.4 Warrant Agreement dated as of October 24, 2002 (incorporated herein by reference to Exhibit 4.1 to the Company's Form S-3 filed with the Commission on February 11, 2003).
- 4.5 Form of warrant certificate (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 filed with the Commission on February 11, 2003).
- 4.6 Commercial Loan Agreement dated September 22, 2006 by and between Optical Cable Corporation and Valley Bank in the amount of \$6,500,000 (Loan No. 156779). FILED HEREWITH.
- 4.7 Commercial Loan Agreement dated September 22, 2006 by and between Optical Cable Corporation and Valley Bank in the amount of \$2,000,000 (Loan No. 156833). FILED HEREWITH.
- 4.8 Commercial Loan Agreement dated September 22, 2006 by and between Optical Cable Corporation and Valley Bank in the amount of \$5,000,000 (Loan No. 156809). FILED HEREWITH.
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- 4.10 Credit Line Deed of Trust dated September 22, 2006 by and among Optical Cable Corporation as Grantor, John T. McCaleb and Catherine J. Hartman as Trustees, and Valley Bank as Lender. FILED HEREWITH.
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- 4.12 Promissory Note dated September 22, 2006 by Optical Cable Corporation in the amount of \$5,000,000 (Loan No. 156809). FILED HEREWITH.
- 10.1\* Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective November 1, 2002 (incorporated by reference to Exhibit 10.1 to our Amended Quarterly Report on Form 10-Q/A for the quarterly period ended January 31, 2003 (file number 0-27022)).
- 10.2\* Employment Agreement dated December 10, 2004 by and between Optical Cable Corporation and Tracy G. Smith (incorporated by reference herein to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 24, 2005 (file number 0-27022)).
- 10.3\* Employment Agreement by and between Optical Cable Corporation and Luke J. Huybrechts, effective November 1, 2002 (incorporated by reference to Exhibit 10.2 to the Company's Amended Quarterly Report on Form 10-Q/A for the quarterly period ended January 31, 2003 (file number 0-27022)).
- 10.5\* Optical Cable Corporation Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the period ended July 31, 1998 (file number 0-27022)).
- 10.6\* Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 28.1 to the Company's Registration Statement on Form S-8 No. 333-09733).
- 10.7\* Optical Cable Corporation Amended 2004 Non-Employee Directors Stock Plan (incorporated herein by reference to Appendix B to the Company's definitive proxy statement on Form 14A filed February 23, 2005).
- 10.8\* Form of December 17, 2004 restricted stock award agreement under the Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed January 24, 2005).
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- 10.11\* Optical Cable Corporation 2005 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed February 23, 2005).

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10.12*	Form of time vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
10.13*	Form of stock performance vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
10.14*	Form of operational performance vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
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13.1	Annual Report. FILED HEREWITH.
23.1	Consent of Independent Registered Public Accounting Firm. FILED HEREWITH.
31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
32.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.

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32.2 Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.

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\* Management contract or compensatory plan or agreement.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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

Date: January 29, 2007

By: \_\_\_\_\_  
/s/ NEIL D. WILKIN, JR.  
Neil D. Wilkin, Jr.  
Chairman of the Board of Directors,  
President and Chief Executive Officer

Date: January 29, 2007

By: \_\_\_\_\_  
/s/ TRACY G. SMITH  
Tracy G. Smith  
Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of January 29, 2007.

Date: January 29, 2007

\_\_\_\_\_  
/s/ NEIL D. WILKIN, JR.  
Neil D. Wilkin, Jr.  
Chairman of the Board of Directors,  
President and Chief Executive Officer

Date: January 29, 2007

\_\_\_\_\_  
/s/ LUKE J. HUYBRECHTS  
Luke J. Huybrechts  
Senior Vice President of Operations and Director

Date: January 29, 2007

\_\_\_\_\_  
/s/ RANDALL H. FRAZIER  
Randall H. Frazier  
Director

Date: January 29, 2007

\_\_\_\_\_  
/s/ JOHN M. HOLLAND  
John M. Holland  
Director

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Date: January 29, 2007

/s/ CRAIG H. WEBER

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**Craig H. Weber**  
**Director**

Date: January 29, 2007

/s/ JOHN B. WILLIAMSON, III

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**John B. Williamson, III**  
**Director**

## Exhibit Index

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\* Management contract or compensatory plan or agreement.

LOAN NUMBER	LOAN NAME	ACCT. NUMBER	AGREEMENT DATE	INITIALS
156779	Optical Cable Corporation	19398	09/22/06	MNM
NOTE AMOUNT	INDEX (w/Margin)	RATE	MATURITY DATE	LOAN PURPOSE
\$5,000,000.00	30 Day LIBOR plus 2.150%	7.54%	2/28/08	Commercial

**Creditor Use Only**

**COMMERCIAL LOAN AGREEMENT**  
Accounts Receivable and/or Inventory Financing

**DATE AND PARTIES.** The date of this Commercial Loan Agreement (Agreement) is September 22, 2006. The parties and their addresses are as follows:

**LENDER:**

**VALLEY BANK**  
36 W. Church Ave. S.W.  
Roanoke, Virginia 24011

**BORROWER:**

**OPTICAL CABLE CORPORATION**  
a Virginia Corporation  
5290 Concourse Drive  
Roanoke, Virginia 24019

**1. DEFINITIONS.** For the purposes of this Agreement, the following terms have the following meanings.

**A. Accounting Terms.** In this Agreement, any accounting terms that are not specifically defined will have their customary meanings under generally accepted accounting principles.

**B. Insiders.** Insiders include those defined as insiders by the United States Bankruptcy Code, as amended; or to the extent left undefined, include without limitation any officer, director, partner, or any immediate family member of any of the foregoing, or any person or entity which, directly or indirectly, controls, is controlled by or is under common control with it.

**C. Loan.** The Loan refers to this transaction generally, including obligations and duties arising from the terms of all documents prepared or submitted for this transaction.

**D. Loan Documents.** Loan Documents refer to all the documents executed as a part of or in connection with the Loan.

**E. Pronouns.** The pronouns "the Company" or "Optical Cable Corporation" refer to the Borrower signing this Agreement. "You" and "your" refers to the Loan's lender.

**F. Property.** Property is any property, real, personal or intangible, that secures the Company's performance of the obligations of this Loan.

**G. Asset-Based Financing Definitions.** For the purposes of this Agreement, the following terms will have the following meanings.

(1) Account Debtors. Account Debtors are persons who are obligated on the Accounts Receivable.

(2) Account Guarantors. Account Guarantors are persons who have guaranteed certain Accounts Receivable.

(3) Accounts Receivable. Accounts Receivable will include all of the following meanings.

(a) Accounts and Other Rights to Payment. All rights the Company has now or in the future to payments including, but not limited to, payment for goods and other property sold or leased or for services rendered, whether or not the Company has earned such payment by performance. This includes any rights and interests (including all guaranties, standby letters of credit, liens and security interests) which the Company may have by law or agreement against any Account Debtor.

(b) General Intangibles. All general intangibles including, but not limited to, tax refunds, applications for patents, patents, copyrights, trademarks, trade secrets, good will, trade names, customer lists, permits and franchises, and the right to use the Company's name.

(c) Proceeds. All proceeds from the disposition or collection of Accounts Receivable.

(4) Eligible Accounts Receivable. Eligible Accounts Receivable include all of the Company's Accounts Receivable that are and continue to be acceptable to you in all respects. Eligible Accounts Receivable exclude all Accounts Receivable, or the portion of any Account Receivable as indicated, that:

(a) Have not been finally accepted by the Account Debtors and Guarantors without dispute, offset, defense or counterclaim for the purpose of voiding, avoiding or reducing the amount of the Accounts Receivable.

- (b) Are subject or will be subject to a service or maintenance agreement or a prior claim, assignment, security interest or any type of lien, unless you consent to these interests or these interests are subordinated to your interest.
  - (c) The portion of any Account Receivable that is subject to a credit adjustment or allowance (except for a discount for prompt payments).
  - (d) Are subject to a return, rejection or repossession.
  - (e) Have Account Debtors or Guarantors that cannot be identified on the Company's records.
  - (f) Are owed by Account Debtors or Guarantors who are insolvent, subject to bankruptcy or receivership proceedings, have made an assignment for the benefit of creditors or whose credit standing is otherwise unacceptable to you and you have so notified it.
  - (g) Have Account Debtors that are foreign governments.
  - (h) Have Account Debtors that are not residents of the United States of America.
  - (i) Are subject to a retainage to the extent of the retainage.
  - (j) Have Account Debtors that are an Insider or "affiliate" of the Company, as defined by the United States Bankruptcy Code, as amended.
  - (k) Have Account Debtors or Guarantors whose credit standing in relation to the amount of credit extended has become unsatisfactory to you.
  - (l) The portion of any otherwise Eligible Accounts Receivable balances the payment of which is subject to withholding by the Account Debtor until the Company has completed performance of services or delivery of goods.
  - (m) The portion of any otherwise Eligible Accounts Receivable balances which have been due and owing for more than 90 days measured from the invoice due dates and all remaining Accounts Receivable owed by these Account Debtors who are overdue on at least one of their Accounts Receivable.
  - (n) The entire balance of any otherwise Eligible Accounts Receivable if 50 percent or more of that entire balance has been due and owing for more than 90 days from the invoice due dates.
  - (o) The portion of any otherwise Eligible Accounts Receivable balance which is offset by a contra account owing from the Company (e.g., only the net amount due from the Account Debtor after the amount the Company owes the Account Debtor is subtracted from the amount the Account Debtor owes the Company is eligible).
  - (p) Percent of the balance of any otherwise Eligible Accounts Receivable owed by an Account Debtor whose total Eligible Accounts Receivable balance exceeds 20 percent of the total Eligible Accounts Receivable balances owing from all Account Debtors.
  - (q) Have arisen from sales made outside of the ordinary course of business.
  - (r) Are not subject to the Uniform Commercial Code and for which the sales agreement or purchase orders have a non-assignability clause.
  - (s) You, in your discretion exercised reasonably and in good faith, judge not to qualify as an Eligible Accounts Receivable.
- (5) Overadvance. An Overadvance is made when advances exceed the maximum outstanding Principal balance.

**2. ADVANCES.** Advances under this Agreement are made according to the following terms and conditions.

**A. Asset Based Financing - Revolving Draw.** In accordance with the terms of this Agreement and other Loan Documents, you will extend to the Company and the Company may from time to time borrow, repay, and reborrow, one or more advances. The amount of advances will not exceed the lesser of \$5,000,000.00 (Principal) or the Borrowing Base. The Borrowing Base is calculated as 85 percent of Eligible Accounts Receivable. As long as the Company owes any amounts to you under the Loan, the Company will calculate this Borrowing Base as of the close of its business day the time specified under the Line Manager Addendum, and within every 30 days, and will provide you with a Borrowing Base Certificate containing an assignment of any Accounts Receivable. The Borrowing Base Certificate will be in form and substance acceptable to you, will contain the Company's Borrowing Base calculation and will be certified and signed by an officer of the Company. The Company's calculation of its Borrowing Base is subject to your confirmation or redetermination. Your calculation of the Borrowing Base will be the final determination when your calculation of the Borrowing Base ratio differs from the Company's.

**B. Requests for Advances.** The Company's requests are a representation that the Company is in compliance with all the Loan Documents. When required by you for a particular method of advance, the Company's requests for an advance must specify the requested amount and the date and be accompanied with any agreements, documents, and instruments that you require for the Loan. Any payment by you of any check, share draft or other charge may, at your option, constitute an advance on the Loan to the Company. All advances will be made in United States dollars. The Company will indemnify you and hold you harmless for your reliance on any request for advances by the Company that you reasonably believe to be genuine.

The only persons authorized to request advances are set forth in Schedule A to this Loan Agreement. The Company may revise Schedule A from time to time; provided the change will not be binding on you until your receipt of written notice thereof. Such revisions will be signed by the Chief Executive Officer and the Chief Financial Officer of the Company. Requests for advances may be made by authorized persons in the form of fax.

**C. Advance Limitations.** In addition to any other Loan conditions, requests for, and access to, advances are subject to the following limitations.

- (1) **Obligatory Advances.** You will make all Loan advances subject to this Agreement's terms and conditions.
- (2) **Advance Amount.** Subject to the terms and conditions contained in this Agreement, advances will be made in exactly the amounts requested by the Company.
- (3) **Cut-Off Time.** Requests for an advance received before 02:00 PM will be made on any day that you are open for business, on the day for which the advance is requested.
- (4) **Disbursement of Advances.** On the Company's fulfillment of this Agreement's terms and conditions, you will disburse the advance in any manner as you and the Company agree.
- (5) **Credit Limit.** The Company understands that you will not ordinarily grant a request for an advance that would cause the unpaid principal of the Company's Loan to be greater than the Principal limit. You may, at your option, grant such a request without obligating yourselves to do so in the future. The Company will pay any overadvances in addition to its regularly scheduled payments. The Company will repay any overadvance by repaying you the amount of the overadvance in full within 10 days after the overadvance occurs.
- (6) **Records.** Your records will be conclusive evidence as to the amount of advances, the Loan's unpaid principal balances and the accrued interest.
- (7) **Repayment Of Overadvances.** The Company will pay any Overadvances in addition to its regularly scheduled payments. The Company will repay any Overadvance by repaying you in full within 3 days after the Overadvance occurs, except the Company may repay an Overadvance of \$0 or less within 0 days if the outstanding Principal balance, including the excess, does not exceed the liquidation value of Accounts Receivable and Inventory and the Overadvance resulted from you declaring ineligible previously Eligible Accounts Receivable and Inventory. Otherwise, the Company will repay any Overadvance by making periodic payments to you as you request.

**D. Conditions.** The Company will satisfy all of the following conditions before you either issue any promissory notes or make any advances under this Agreement.

- (1) **No Default.** There has not been a default under this Agreement or any other Loan Documents nor would a default result from making the Loan or any advance.
- (2) **Information.** You have received all documents, information, certifications and warranties as you may require, all properly executed, if appropriate, on forms acceptable to you. This includes, but is not limited to, the documents and other items listed in the Loan Checklist Report which is hereby incorporated by reference into this Agreement.
- (3) **Inspections.** You have made all inspections that you consider necessary and are satisfied with this inspection.
- (4) **Conditions and Covenants.** The Company will have performed and complied with all conditions required for an advance and all covenants in this Agreement and any other Loan Documents.
- (5) **Warranties and Representations.** The warranties and representations by the Company contained in this Agreement are true and correct at the time of making the requested advance.
- (6) **Financial Statements.** The Company's most recent financial statements, Inventory or Accounts Receivable schedules and other financial reports, delivered to you, are current, complete, true and accurate in all material respects and fairly represent the Company's financial condition in all materials respects.
- (7) **Bankruptcy Proceedings.** No proceeding under the United States Bankruptcy Code has been commenced by or against the Company or any of its affiliates.

**3. DEMAND.** This Loan and the obligation evidenced by the Note mature on February 28, 2008, unless otherwise extended by written agreement by the parties hereto; however, the Company agrees to fully repay the Loan on demand with 60 days prior written notice by you. Unless sooner demanded, all principal, accrued interest, costs, and other amounts owed shall be due and payable on February 28, 2008. Notwithstanding the foregoing, in the event the Company defaults hereunder or under any other Loan Document you may immediately declare the Loan due and payable in full, together with all other amounts owed hereunder.

**4. WARRANTIES AND REPRESENTATIONS.** The Company makes to you the following warranties and representations which will continue as long as this Loan is in effect, except when this Agreement provides otherwise.

**A. Power.** The Company is duly organized, and validly existing and in good standing in all jurisdictions in which it operates. The Company has the power and authority to enter into this transaction and to carry on its business or activity as it is now being conducted and, as applicable, is qualified to do so in each jurisdiction in which it operates.

**B. Authority.** The execution, delivery and performance of this Loan and the obligation evidenced by the Note are within the Company's powers, have been duly authorized, have received all necessary governmental approval, will not violate any provision of law, or order of court or governmental agency, and will not violate any agreement to which the Company is a party or to which the Company or any of its property is subject.

**C. Name and Place of Business.** Other than previously disclosed in writing to you the Company has not changed its name or principal place of business within the last 5 years and has not used any other trade or fictitious name. Without your prior written consent, the Company does not and will not use any other name and will preserve its existing name, trade names and franchises.

**D. Hazardous Substances.** Except as the Company previously disclosed in writing and you acknowledge in writing, no Hazardous Substance, underground tanks, private dumps or open wells are currently located at, on, in, under or about the Property.



**E. Use of Property.** After diligent inquiry, the Company does not know or have reason to know that any Hazardous Substance has been discharged, leached or disposed of, in violation of any Environmental Law, from the property onto, over or into any other property, or from any other property onto, over or into the property.

**F. Environmental Laws.** The Company has no knowledge or reason to believe that there is any pending or threatened investigation, claim, judgment or order, violation, lien, or other notice under any Environmental Law that concerns Optical Cable Corporation or the property. The property and any activities on the property are in full compliance with all Environmental Law.

**G. Loan Purpose.** The purpose of this Loan is to establish a Line Manager Line of Credit to support working capital.

**H. No Other Liens.** The Company owns or leases all property that is needed to conduct its business and activities. The Company has good and marketable title to all property that it owns or leases. All of the Company's Property is free and clear of all liens, security interests, encumbrances and other adverse claims and interests, except those disclosed to you or those you consent to in writing.

**I. Compliance With Laws.** The Company is not materially violating any laws, regulations, rules, orders, judgments or decrees applicable to the Company or its property, except for those which the Company is challenging in good faith through proper proceedings after providing appropriate reserves in accordance with generally accepted accounting principles to fully pay the claim and its challenge should I lose.

**J. Legal Dispute.** There are no pending or threatened lawsuits, arbitrations or other proceedings against the Company or the Company's property that singly or together may materially and adversely affect the Company's property, operations, financial condition, or business, other than any potential litigation which has been disclosed to you in writing.

**K. Adverse Agreements.** The Company is not a party to, nor is it bound by, any agreement that is now or is likely to become materially adverse to the Company's business, Property or operations.

**L. Other Claims.** There are no outstanding claims or rights that would conflict with the execution, delivery or performance by the Company of the terms and conditions of this Agreement or the other Loan Documents. No outstanding claims or rights exist that may result in a lien on the Property, the Property's proceeds and the proceeds of proceeds, except liens that were disclosed to and agreed to by you in writing.

**M. Solvency.** The Company is able to pay its debts as they mature, the Company's assets exceed its liabilities and the Company will have sufficient capital for current and planned business and other activities after this financing. The Company will not become insolvent by the execution or performance of this Loan.

**5. FINANCIAL STATEMENTS.** The Company will prepare and maintain its financial records using consistently applied generally accepted accounting principles then in effect. The Company will provide you with financial information in a form that you accept and under the following terms.

**A. Certification.** The Company represents and warrants that any financial statements that the Company provides you fairly represents its financial condition for the stated periods, is current, complete, true and accurate in all material respects, includes all of its direct or contingent liabilities (to the extent required by generally accepted accounting principles) and there has been no material adverse change in the Company's financial condition, operations or business since the date the financial information was prepared.

**B. Frequency.** Each year, the Company will provide to you its audited annual financial statements and any written reports prepared by the Company's independent accountants prepared in connection with the audit as soon as available or at least within 90 days after the close of the Company's fiscal year.

(1) Interim Financial Reports. Each quarter, the Company will provide to you unaudited financial statements and any written reports prepared by the Company's independent accountants as soon as available or at least within 45 days after the close of this business period.

(2) Accounts Receivable Schedule. Each quarter (reporting period), the Company will provide you with an Accounts Receivable schedule within 15 days after the end of this reporting period or with the frequency and promptness you otherwise request.

**C. SEC Reports.** The Company will provide you with true and correct copies of all reports, notices or statements that it provides to the Securities and Exchange Commission, any securities exchange or its stockholders, owners, or the holders of any material indebtedness as soon as available or at least within 10 days after issuance, to the extent not available on the SEC website.

**D. Requested Information.** The Company will provide you with any other information about its operations, financial affairs and condition within 15 days after your reasonable request.

**E. Additional Financial Statements Term.** In addition, Optical Cable Corporation is required to submit Accounts Receivable Agings quarterly and Accounts Payable Agings annually. Optical Cable Corporation will also provide you with budgets and forecasts approved by its Board of Directors, tax returns (both Federal and state) upon your request.

**6. COVENANTS.** Until the Loan and all related debts, liabilities and obligations are paid and discharged, the Company will comply with the following terms, unless you waive compliance in writing.

**A. Participation.** The Company consents to you participating or syndicating the Loan and sharing any information that you decide is necessary about the Company and the Loan with the other participants or syndicators.

**B. Inspection.** Following your written request, the Company will immediately pay for all one-time and recurring out-of-pocket costs that are related to the inspection of the Company records, business or Property that secures the Loan. Upon reasonable notice, the Company will permit you or your agents to enter any of Optical Cable Corporation's premises and any location where the Company's Property is located during regular business hours to do the following.

(1) You may inspect, audit, check, review and obtain copies from the Company's books, records, journals, orders, receipts, and any correspondence and other business related data.

(2) You may inspect the Company's Property, audit for the use and disposition of the Property's proceeds and proceeds of proceeds; or do whatever you decide is necessary to preserve and protect the Property and your interest in the Property.

After prior notice to the Company, you may discuss the Company's financial condition and business operations with the Company's independent accountants, if any, or the chief financial officer of the Company and a representative of the Company may be present during these discussions. As long as the Loan is outstanding, the Company will direct all of its accountants and auditors to permit you to examine its records in their possession and to make copies of these records. You will maintain the confidentiality of the information you or your agents obtain, except you may provide your regulator and your independent accountants, if any, with required information about the Company's financial condition, operation and business or that of any parent, subsidiaries or affiliates of the Company. Provided the Company is not in default, you agree that your inspection of the Company's records, business or Property shall be limited to once per calendar year.

**C. Business Requirements.** The Company will preserve and maintain its present existence and good standing in the jurisdiction where the Company is organized and all of the Company's rights, privileges and franchises. The Company will do all that is needed or required to continue its business or activities as presently conducted, by obtaining licenses, permits and bonds everywhere it engages in business or activities or own, lease or locate its property. The Company will obtain your prior written consent before the Company ceases its business or before the Company engages in any new line of business that is materially different from its present business or new businesses presently contemplated.

**D. Compliance with Laws.** The Company will not materially violate any laws, regulations, rules, orders, judgments or decrees applicable to it or its Property, except for those which the Company challenges in good faith through proper proceedings after providing appropriate reserves to pay the claim and its appeal should the Company lose. Laws include without limitation the Federal Fair Labor Standards Act requirements for producing goods, the federal Employee Retirement Income Security Act of 1974's requirements for the establishment, funding and management of qualified deferred compensation plans for employees, health and safety laws, environmental laws, tax laws, licensing and permit laws. On your request, the Company will provide you with written evidence that it has fully and timely paid its taxes, assessments and other governmental charges levied or imposed on the Company, its income or profits and its property. Taxes include without limitation sales taxes, use taxes, personal property taxes, documentary stamp taxes, recordation taxes, franchise taxes, income taxes, withholding taxes, FICA taxes and unemployment taxes. The Company will adequately provide for the payment of these taxes, assessments and other charges that have accrued but are not yet due and payable.

**E. New Organizations.** The Company will obtain your written consent and any necessary changes to the Loan Documents before it organizes or participates in the organization of any entity, merges into or consolidates with any one, permits any one else to merge into the Company, acquires all or substantially all of the assets of any one else or otherwise materially changes its legal structure, management, ownership or financial condition.

**F. Dealings with Insiders.** The Company will not purchase, acquire or lease any property or services from, or sell, provide or lease any property or services to, or permit any outstanding loans or credit extensions to, or otherwise deal with, any Insiders except as required under contracts existing at the time the Company applied for the Loan and approved by you or as this Agreement otherwise permits and except to the extent that such dealings with Insiders are on customary business terms at least as favorable to the Company as would be a similar transaction with a non-Insider. The Company will not change or breach these contracts existing at Loan application so as to cause an acceleration of or an increase in any payments due. This provision does not apply to any dealings with the sole company identified to you in writing contemporaneously with the signing hereof.

**G. Other Debts.** The Company will pay when due any and all other debts owed or guaranteed by it and will faithfully perform, or comply with all the conditions and obligations imposed on the Company concerning the debt or guaranty.

**H. Other Liabilities.** The Company will not incur, assume or permit any debt evidenced by notes, bonds or similar obligations, except: debt in existence on the date of this Agreement and fully disclosed to you; debt subordinated in payment to you on conditions and terms acceptable to you; accounts payable incurred in the ordinary course of its business and paid under customary trade terms or contested in good faith with appropriate reserves under generally accepted accounting principles.

**I. Notice to You.** The Company will promptly notify you of any material change in its financial condition, of the occurrence of a default under the terms of this Agreement or any other Loan Document, or a default by the Company under any agreement between the Company and any third party which materially and adversely affects its property, operations, financial condition or business.

**J. Certification of No Default.** On your request, the chief financial officer or the independent accountant will provide you with a written certification that to the best of their knowledge no event of default exists under the terms of this Agreement or the other Loan Documents, and that there exists no other action, condition or event which with the giving of notice or lapse of time or both would constitute a default. As requested, the chief financial officer will also provide you with computations demonstrating compliance with any financial covenants and ratios contained in this Agreement. If an action, condition or event of default does exist, the certificate must accurately and fully disclose the extent and nature of this action, condition or event and state what must be done to correct it.

**K. Use of Loan Proceeds.** The Company will not permit the loan proceeds to be used to purchase, carry, reduce, or retire any loan originally incurred to purchase or carry any margin stock or otherwise cause the Loan to violate Federal Reserve Board Regulations U or X, or Section 8 of the Securities and Exchange Act of 1934 and its regulations, as amended.

**L. Dispose of No Assets.** Without your prior written consent or as the Loan Documents permit, the Company will not sell, lease, assign, transfer, dispose of or otherwise distribute all or substantially all of its assets to any person other than in the ordinary course of business for the assets' depreciated book value or more.

**M. No Other Liens.** The Company will not create, permit or suffer any lien or encumbrance upon any of its properties for or by anyone, other than you, except for: nonconsensual liens imposed by law arising out of the ordinary course of business on obligations that are not overdue or which the Company is contesting in good faith after making appropriate reserves; valid purchase money security interest on personal property; or any other liens specifically agreed to by you in writing.

**N. Guaranties.** The Company will not guaranty or become liable in any way as surety, endorser (other than as endorser of negotiable instruments in the ordinary course of business) or accommodation endorser or otherwise for the debt or obligations of any other person or entity, except to you or as you otherwise specifically agree in writing.

**O. No Default under Other Agreements.** The Company will not allow to occur, or to continue unremedied, any act, event or condition which constitutes a material default, or which, with the passage of time or giving of notice, or both, would constitute a material default under any material agreement, document, instrument or undertaking to which the Company is a party or by which the Company may be bound.

**P. Legal Disputes.** The Company will promptly notify you in writing of any threatened or pending lawsuit, arbitration or other proceeding against the Company or any of its property, not identified in my financial statements, and that singly or together with other proceedings may materially and adversely affect my property, operations, financial condition or business. The Company will use its best efforts to bring about a favorable and speedy result of any of these lawsuits, arbitrations or other proceedings.

**Q. Other Notices.** The Company will immediately provide you with any information that may materially and adversely affect its ability to perform this Agreement and of its anticipated effect.

**R. No Change in Capital.** The Company will not release, redeem, retire, purchase or otherwise acquire, directly or indirectly, any of its capital stock or other equity security or partnership interest, or make any change in its capital structure, except to the extent required by any agreements signed prior to this Agreement and disclosed to you or with your prior written consent; and except with respect to the repurchase of stock in the form of "net share withholdings" pursuant to restricted share grants made under its current and future Stock Incentive Plans.

**S. Loan Obligations.** The Company will comply with the terms and agreements contained in this Agreement and in the other Loan Documents.

**T. Insurance.** The Company will obtain and maintain insurance with insurers, in amounts and coverages that are acceptable to you and customary with industry practice. This may include without limitation insurance policies for public liability, fire hazard and extended risk, workers compensation, and, at your request, business interruption and/or rent loss insurance. At your request, the Company will deliver to you certified copies of all of these insurance policies, binders or certificates. The Company will obtain and maintain a mortgagee or lender loss payee endorsement for you when these endorsements are available. The Company will immediately notify you of cancellation or termination of insurance. The Company will require all insurance policies to provide you with at least 10 days prior written notice to you of cancellation or modification. The Company consents to you using or disclosing information relative to any contract of insurance required by the Loan for the purpose of replacing this insurance. The Company also authorizes its insurer and you to exchange all relevant information related to any contract of insurance required by any document executed as part of this Loan.

**U. Property Maintenance.** The Company will keep all tangible and intangible property that the Company considers necessary or useful in its business in good working condition by making all needed repairs, replacements and improvements and by making all rental, lease or other payments due on this property.

**V. Property Loss.** The Company will immediately notify you, and the insurance company when appropriate, of any material casualty, loss or depreciation to the Property or to its other property that affects its business.

**W. Accounts Receivable Collection.** The Company will collect and otherwise enforce all of its unpaid Accounts Receivable at the Company's cost and expense, until you end its authority to do so, which you may do at any time to protect your best interests. Notwithstanding the foregoing, you agree that you will not end its authority to collect the Company's unpaid Accounts Receivables until the Company is in default of this Agreement or any other Loan Documents. The Company will not sell, assign or otherwise dispose of any Accounts Receivable without your written consent.

**X. Reserves.** You may set aside and reserve Loan proceeds for Loan interest, fees and expenses, taxes, and insurance. The Company grants you a security interest in the reserves. No interest will accrue on any reserve Loan proceeds. Disbursement of reserves is disbursement of the Loan's proceeds. At the Company's request, you will disburse the reserves for the purpose they were set aside for, as long as the Company is not in default under this Agreement. You may directly pay these reserved items, reimburse the Company for payments the Company made, or reduce the reserves and increase the Loan proceeds available for disbursement.

**Y. Additional Taxes.** The Company will pay all filing and recording costs and fees, including any recordation, documentary or transfer taxes or stamps, that are required to be paid with respect to this Loan and any Loan Documents.

**7. COLLECTION EXPENSES AND ATTORNEYS' FEES.** On or after Default, to the extent permitted by law, the Company agrees to pay all expenses of collection, enforcement or protection of your rights and remedies under this Agreement or any other Loan Document. Expenses include (unless prohibited by law) reasonable attorneys' fees, court costs, and other legal expenses. These expenses are due and payable immediately. If not paid immediately, these expenses will bear interest from the date of payment until paid in full at the highest interest rate in effect as provided for in the terms of this Loan. All fees and expenses will be secured by the Property the Company has granted to you, if any. In addition, to the extent permitted by the United States Bankruptcy Code, the Company agrees to pay the reasonable attorneys' fees incurred by you to protect your rights and interests in connection with any bankruptcy proceedings initiated by or against the Company.

**8. APPLICABLE LAW.** This Agreement is governed by the laws of Virginia, the United States of America, and to the extent required, by the laws of the jurisdiction where the Property is located.

**9. JOINT AND INDIVIDUAL LIABILITY AND SUCCESSORS.** The Company's obligation to pay the Loan is independent of the obligation of any other person who has also agreed to pay it. You may sue the Company alone, or anyone else who is obligated on the Loan, or any number of them together, to collect the Loan. Extending the Loan or new obligations under the Loan, will not affect the Company's duty under the Loan and the Company will still be obligated to pay the Loan. You may assign all or part of your rights or duties under this Agreement or the Loan Documents without the Company's consent. If you assign this Agreement, all of the Company's covenants, agreements, representations and warranties contained in this Agreement or the Loan Documents will benefit your successors and assigns. The Company may not assign this Agreement or any of its rights under it without your prior written consent. The duties of the Loan will bind its successors and assigns.

**10. AMENDMENT, INTEGRATION AND SEVERABILITY.** This Agreement may not be amended or modified by oral agreement. No amendment or modification of this Agreement is effective unless made in writing and executed by you and the Company. This Agreement and the other Loan Documents are the complete and final expression of the understanding between you and the Company. If any provision of this Agreement is unenforceable, then the unenforceable provision will be severed and the remaining provisions will still be enforceable.

**11. INTERPRETATION.** Whenever used, the singular includes the plural and the plural includes the singular. The section headings are for convenience only and are not to be used to interpret or define the terms of this Agreement.

**12. NOTICE, FINANCIAL REPORTS AND ADDITIONAL DOCUMENTS.** Unless otherwise required by law, any notice will be given by delivering it or mailing it by first class mail to the appropriate party's address listed in the DATE AND PARTIES section, or to any other address designated in writing. Notice to one Borrower will be deemed to be notice to all Borrowers. The Company will inform you in writing of any change in its name, address or other application information. The Company will provide you any financial statement or information you request. All financial statements and information the Company gives you will be correct and complete. The Company agrees to sign, deliver, and file any additional documents or certifications that you may consider necessary to perfect, continue, and preserve its obligations under this Loan and to confirm your lien status on any Property. Time is of the essence.

**13. CROSS-DEFAULT.** A default under this Agreement or any of the Loan Documents shall be deemed a default under (i) the Commercial Loan Agreement and loan documents executed in connection therewith by the Company dated even date herewith in connection with the \$2,000,000 loan made by you to the Company and (ii) the Commercial Loan Agreement and loan documents executed in connection therewith dated even date herewith in connection with the \$6,500,000 loan made by you to the Company.

**14. SIGNATURES.** By signing under seal, the Company agrees to the terms contained in this Agreement. The Company also acknowledges receipt of a copy of this Agreement.

**BORROWER:**

Optical Cable Corporation

By /s/ Tracy G. Smith (Seal)

Name: Tracy G. Smith

Title: Vice President and CFO

LOAN NUMBER	LOAN NAME	ACCT. NUMBER	AGREEMENT DATE	INITIALS
156833	Optical Cable Corporation	19398	09/22/06	MNM
NOTE AMOUNT	INDEX (w/Margin)	RATE	MATURITY DATE	LOAN PURPOSE
\$2,000,000.00	30 Day LIBOR plus 2.150%	7.54%	2/28/08	Commercial

**Creditor Use Only**

**COMMERCIAL LOAN AGREEMENT**  
Accounts Receivable and/or Inventory Financing

**DATE AND PARTIES.** The date of this Commercial Loan Agreement (Agreement) is September 22, 2006. The parties and their addresses are as follows:

**LENDER:**

**VALLEY BANK**  
36 W. Church Ave. S.W.  
Roanoke, Virginia 24011

**BORROWER:**

**OPTICAL CABLE CORP**  
a Virginia Corporation  
5290 Concourse Drive  
Roanoke, Virginia 24019

**1. DEFINITIONS.** For the purposes of this Agreement, the following terms have the following meanings.

**A. Accounting Terms.** In this Agreement, any accounting terms that are not specifically defined will have their customary meanings under generally accepted accounting principles.

**B. Insiders.** Insiders include those defined as insiders by the United States Bankruptcy Code, as amended; or to the extent left undefined, include without limitation any officer, director, partner, or any immediate family member of any of the foregoing, or any person or entity which, directly or indirectly, controls, is controlled by or is under common control with it.

**C. Loan.** The Loan refers to this transaction generally, including obligations and duties arising from the terms of all documents prepared or submitted for this transaction.

**D. Loan Documents.** Loan Documents refer to all the documents executed as a part of or in connection with the Loan.

**E. Pronouns.** The pronouns "the Company", "it" and "its" refer to the Borrower signing this Agreement. "You" and "your" refers to the Loan's lender.

**F. Property.** Property is any property, real, personal or intangible, that secures the Company's performance of the obligations of this Loan.

**2. ADVANCES.** Advances under this Agreement are made according to the following terms and conditions.

**A. Multiple Advances - Revolving.** In accordance with the terms of this Agreement and other Loan Documents, you will extend to the Company and the Company may from time to time borrow, repay, and reborrow, one or more advances. The amount of advances will not exceed \$2,000,000.00 (Principal).

**B. Requests for Advances.** Its requests are a representation that the Company is in compliance with all the Loan Documents. When required by you for a particular method of advance, its requests for an advance must specify the requested amount and the date and be accompanied with any agreements, documents, and instruments that you require for the Loan. Any payment by you of any check, share draft or other charge may, at your option, constitute an advance on the Loan to the Company. All advances will be made in United States dollars. The Company will indemnify you and hold you harmless for your reliance on any request for advances that you reasonably believe to be genuine.

The only persons authorized to request advances are set forth in Schedule A to this Loan Agreement. The Company may revise Schedule A from time to time; provided the change will not be binding on you until your receipt of written notice thereof. Such revisions will be signed by the Chief Executive Officer and the Chief Financial Officer of the Company. Requests for advances may be made by authorized persons in the form of fax, email or electronic sweep.

**C. Advance Limitations.** In addition to any other Loan conditions, requests for, and access to, advances are subject to the following limitations.

**(1) Obligatory Advances.** You will make all Loan advances subject to this Agreement's terms and conditions.

(2) Advance Amount. Subject to the terms and conditions contained in this Agreement, advances will be made in exactly the amount the Company requests.

(3) Cut-Off Time. Requests for an advance received before 02:00 PM will be made on any day that you are open for business, on the day for which the advance is requested.

(4) Disbursement of Advances. On the Company's fulfillment of this Agreement's terms and conditions, you will disburse the advance in any manner as you and the Company agree.

(5) Credit Limit. The Company understands that you will not ordinarily grant a request for an advance that would cause the unpaid principal of its Loan to be greater than the Principal limit. You may, at your option, grant such a request without obligating yourselves to do so in the future. The Company will pay any overadvances in addition to its regularly scheduled payments. The Company will repay any overadvance by repaying you the amount of the overadvance in full within 10 days after the overdraft occurs.

(6) Records. Your records will be conclusive evidence as to the amount of advances, the Loan's unpaid principal balances and the accrued interest.

**D. Conditions.** The Company will satisfy all of the following conditions before you either issue any promissory notes or make any advances under this Agreement.

(1) No Default. There has not been a default under this Agreement or any other Loan Documents nor would a default result from making the Loan or any advance.

(2) Information. You have received all documents, information, certifications and warranties as you may require, all properly executed, if appropriate, on forms acceptable to you. This includes, but is not limited to, the documents and other items listed in the Loan Checklist Report which is hereby incorporated by reference into this Agreement.

(3) Inspections. You have made all inspections that you consider necessary and are satisfied with this inspection.

(4) Conditions and Covenants. The Company will have performed and complied with all conditions required for an advance and all covenants in this Agreement and any other Loan Documents.

(5) Warranties and Representations. The warranties and representations contained in this Agreement are true and correct at the time of making the requested advance.

(6) Financial Statements. The Company's most recent financial statements and other financial reports, delivered to you, are current, complete, true and accurate in all material respects and fairly represent its financial condition in all material respects.

(7) Bankruptcy Proceedings. No proceeding under the United States Bankruptcy Code has been commenced by or against the Company or any of its affiliates.

**3. DEMAND.** This Loan and the obligation evidenced by the Note mature on February 28, 2008, unless otherwise extended by written agreement by the parties hereto; however, the Company agrees to fully repay the Loan on demand with 60 days prior written notice by you. Unless sooner demanded, all principal, accrued interest, costs and other amounts owed shall be due and payable on February 28, 2008. Notwithstanding the foregoing, in the event the Company defaults hereunder or under any other Loan Document you may immediately declare the Loan due and payable in full, together with all other amounts owed hereunder.

**4. WARRANTIES AND REPRESENTATIONS.** The Company makes to you the following warranties and representations which will continue as long as this Loan is in effect, except when this Agreement provides otherwise.

**A. Power.** The Company is duly organized, and validly existing and in good standing in all jurisdictions in which the Company operates. The Company has the power and authority to enter into this transaction and to carry on its business or activity as it is now being conducted and, as applicable, is qualified to do so in each jurisdiction in which the Company operates.

**B. Authority.** The execution, delivery and performance of this Loan and the obligation evidenced by the Note are within the Company's powers, have been duly authorized, have received all necessary governmental approval, will not violate any provision of law, or order of court or governmental agency, and will not violate any agreement to which the Company is a party or to which the Company is or any of its property is subject.

**C. Name and Place of Business.** Other than previously disclosed in writing to you the Company has not changed its name or principal place of business within the last 5 years and has not used any other trade or fictitious name. Without your prior written consent, the Company does not and will not use any other name and will preserve its existing name, trade names and franchises.

**D. Hazardous Substances.** Except as the Company previously disclosed in writing and you acknowledge in writing, no Hazardous Substance, underground tanks, private dumps or open wells are currently located at, on, in, under or about the Property.

**E. Use of Property.** After diligent inquiry, the Company does not know or have reason to know that any Hazardous Substance has been discharged, leached or disposed of, in violation of any Environmental Law, from the property onto, over or into any other property, or from any other property onto, over or into the property.

**F. Environmental Laws.** The Company has no knowledge or reason to believe that there is any pending or threatened investigation, claim, judgment or order, violation, lien, or other notice under any Environmental Law that concerns the Company or the property. The property and any activities on the property are in full compliance with all Environmental Law.

**G. Loan Purpose.** The purpose of this Loan is to establish a Line Manager Line of Credit to support working capital.

**H. No Other Liens.** The Company owns or leases all property that the Company needs to conduct its business and activities. The Company has good and marketable title to all property that the Company owns or leases. All of its Property is free and clear of all liens, security interests, encumbrances and other adverse claims and interests, except those disclosed to you or those you consent to in writing.

**I. Compliance With Laws.** The Company is not materially violating any laws, regulations, rules, orders, judgments or decrees applicable to it or its property, except for those which the Company is challenging in good faith through proper proceedings after providing appropriate reserves in accordance with generally accepted accounting principles.

**J. Legal Dispute.** There are no pending or threatened lawsuits, arbitrations or other proceedings against it or its property that singly or together may materially and adversely affect the Company's property, operations, financial condition, or business, other than any potential litigation which has been disclosed to you in writing.

**K. Adverse Agreements.** The Company is not a party to, nor is the Company bound by, any agreement that is now or is likely to become materially adverse to its business, Property or operations.

**L. Other Claims.** There are no outstanding claims or rights that would conflict with the execution, delivery or performance by the Company of the terms and conditions of this Agreement or the other Loan Documents. No outstanding claims or rights exist that may result in a lien on the Property, the Property's proceeds and the proceeds of proceeds, except liens that were disclosed to and agreed to by you in writing.

**M. Solvency.** The Company is able to pay its debts as they mature, its assets exceed its liabilities and the Company has sufficient capital for its current and planned business and other activities. The Company will not become insolvent by the execution or performance of this Loan.

**5. FINANCIAL STATEMENTS.** The Company will prepare and maintain its financial records using consistently applied generally accepted accounting principles then in effect. The Company will provide you with financial information in a form that you accept and under the following terms.

**A. Certification.** The Company represents and warrants that any financial statements that the Company provides you fairly represent its financial condition for the stated periods, is current, complete, true and accurate in all material respects, includes all of its direct or contingent liabilities (to the extent required by generally accepted accounting principles) and there has been no material adverse change in its financial condition, operations or business since the date the financial information was prepared.

**B. Frequency.** Each year the Company will provide to you its audited annual financial statements and any written reports prepared by the Company's independent accountants as soon as available or at least within 90 days after the close of its fiscal year. Any annual financial statements that the Company provides you will be audited statements.

(1) **Interim Financial Reports.** Each quarter, the Company will provide to you its unaudited financial statements and any written reports prepared by the Company's independent accountants, tax reports, statements of cash flow, budgets and forecasts, certificates and schedules of Property as soon as available or at least within 45 days after the close of this business period.

(2) **Accounts Receivable Schedule.** N/A

**C. SEC Reports.** The Company will provide you with true and correct copies of all reports, notices or statements that the Company provides to the Securities and Exchange Commission, any securities exchange or its stockholders, owners, or the holders of any material indebtedness as soon as available or at least within 10 days after issuance, to the extent not available on the SEC website.

**D. Requested Information.** The Company will provide you with any other information about its operations, financial affairs and condition within 15 days after your reasonable request.

**E. Additional Financial Statements Term.** In addition, Optical Cable Corporation is required to submit Accounts Receivable Agings quarterly and Accounts Payable Agings annually. Optical Cable Corporation will also provide you with budgets and forecasts approved by its Board of Directors, tax returns (both Federal and state) upon your request.

**6. COVENANTS.** Until the Loan and all related debts, liabilities and obligations are paid and discharged, the Company will comply with the following terms, unless you waive compliance in writing.

**A. Participation.** The Company consents to you participating or syndicating the Loan and sharing any information that you decide is necessary about the Company and the Loan with the other participants or syndicators.

**B. Inspection.** Following your written request, the Company will immediately pay for all one-time and recurring out-of-pocket costs that are related to the inspection of its records, business or Property that secures the Loan. Upon reasonable notice, the Company will permit you or your agents to enter any of Optical Cable Corporation's premises and any location where the Company's Property is located during regular business hours to do the following.

(1) You may inspect, audit, check, review and obtain copies from the Company's books, records, journals, orders, receipts, and any correspondence and other business related data.

(2) You may inspect the Company's Property, audit for the use and disposition of the Property's proceeds and proceeds of proceeds; or do whatever you decide is necessary to preserve and protect the Property and your interest in the Property. After prior notice to it, you may discuss the Company's financial condition and business operations with its independent accountants, if any, or its chief financial officer and the Company may be present during these discussions. As long as the Loan is outstanding, the Company will direct all of its accountants and auditors to permit you to examine its records in their possession and to make copies of these records. You will use your best efforts to maintain the confidentiality of the information you or your agents obtain, except you may provide your regulator, if any, with required information about its financial condition, operation and business or that of its parent, subsidiaries or affiliates. Provided the Company is not in default, you agree that your inspection of the Company's records, business or Property shall be limited to once per calendar year.

**C. Business Requirements.** The Company will preserve and maintain its present existence and good standing in the jurisdiction where the Company is organized and all of the Company's rights, privileges and franchises. The Company will do all that is needed or required to continue its business or activities as presently conducted, by obtaining licenses, permits and bonds everywhere it engages in business or activities or own, lease or locate its property. The Company will obtain your prior written consent before it ceases its business or before the Company engages in any new line of business that is materially different from its present business or new businesses presently contemplated.

**D. Compliance with Laws.** The Company will not materially violate any laws, regulations, rules, orders, judgments or decrees applicable to it or its Property, except for those which the Company challenge in good faith through proper proceedings after providing appropriate reserves to pay the claim and its appeal should the Company lose. Laws include without limitation the Federal Fair Labor Standards Act requirements for producing goods, the federal Employee Retirement Income Security Act of 1974's requirements for the establishment, funding and management of qualified deferred compensation plans for employees, health and safety laws, environmental laws, tax laws, licensing and permit laws. On your request, the Company will provide you with written evidence that it has fully and timely paid its taxes, assessments and other governmental charges levied or imposed on it, its income or profits and its property. Taxes include without limitation sales taxes, use taxes, personal property taxes, documentary stamp taxes, recordation taxes, franchise taxes, income taxes, withholding taxes, FICA taxes and unemployment taxes. The Company will adequately provide for the payment of these taxes, assessments and other charges that have accrued but are not yet due and payable.

**E. New Organizations.** The Company will obtain your written consent and any necessary changes to the Loan Documents before the Company organizes or participates in the organization of any entity, merges into or consolidates with any one, permits any one else to merge into it, acquires all or substantially all of the assets of any one else or otherwise materially change its legal structure, management, ownership or financial condition.

**F. Dealings with Insiders.** The Company will not purchase, acquire or lease any property or services from, or sell, provide or lease any property or services to, or permit any outstanding loans or credit extensions to, or otherwise deal with, any Insiders except as required under contracts existing at the time the Company applied for the Loan and approved by you or as this Agreement otherwise permits and except to the extent that such dealings with Insiders are on customary business terms at least as favorable to it as would be a similar transaction with a non-Insider. I will not change or breach these contracts existing at Loan application so as to cause an acceleration of or an increase in any payments due. This provision does not apply to any dealings with the sole company identified to you in writing contemporaneously with the signing hereof.

**G. Other Debts.** The Company will pay when due any and all other debts owed or guaranteed by it and will faithfully perform, or comply with all the conditions and obligations imposed on it concerning the debt or guaranty.

**H. Other Liabilities.** The Company will not incur, assume or permit any debt evidenced by notes, bonds or similar obligations, except: debt in existence on the date of this Agreement and fully disclosed to you; debt subordinated in payment to you on conditions and terms acceptable to you; accounts payable incurred in the ordinary course of its business and paid under customary trade terms or contested in good faith with appropriate reserves under generally accepted accounting principles.

**I. Notice to You.** The Company will promptly notify you of any material change in its financial condition, of the occurrence of a default under the terms of this Agreement or any other Loan Document, or a default by it under any agreement between it and any third party which materially and adversely affects its property, operations, financial condition or business.

**J. Certification of No Default.** On your request, the chief financial officer of the Company will provide you with a written certification that to the best of their knowledge no event of default exists under the terms of this Agreement or the other Loan Documents, and that there exists no other action, condition or event which with the giving of notice or lapse of time or both would constitute a default. As requested, such chief financial officer will also provide you with computations demonstrating compliance with any financial covenants and ratios contained in this Agreement. If an action, condition or event of default does exist, the certificate must accurately and fully disclose the extent and nature of this action, condition or event and state what must be done to correct it.

**K. Use of Loan Proceeds.** The Company will not permit the loan proceeds to be used to purchase, carry, reduce, or retire any loan originally incurred to purchase or carry any margin stock or otherwise cause the Loan to violate Federal Reserve Board Regulations U or X, or Section 8 of the Securities and Exchange Act of 1934 and its regulations, as amended.

**L. Dispose of No Assets.** Without your prior written consent or as the Loan Documents permit, the Company will not sell, lease, assign, transfer, dispose of or otherwise distribute all or substantially all of its assets to any person other than in the ordinary course of business for the assets' depreciated book value or more.

**M. No Other Liens.** The Company will not create, permit or suffer any lien or encumbrance upon any of its properties for or by anyone, other than you, except for: nonconsensual liens imposed by law arising out of the ordinary course of business on obligations that are not overdue or which the Company is contesting in good faith after making appropriate reserves; valid purchase money security interest on personal property; or any other liens specifically agreed to by you in writing.

**N. Guaranties.** The Company will not guaranty or become liable in any way as surety, endorser (other than as endorser of negotiable instruments in the ordinary course of business) or accommodation endorser or otherwise for the debt or obligations of any other person or entity, except to you or as you otherwise specifically agree in writing.

**O. No Default under Other Agreements.** The Company will not allow to occur, or to continue unremedied, any act, event or condition which constitutes a material default, or which, with the passage of time or giving of notice, or both, would constitute a material default under any material agreement, document, instrument or undertaking to which the Company is a party or by which the Company may be bound.

**P. Legal Disputes.** The Company will promptly notify you in writing of any threatened or pending lawsuit, arbitration or other proceeding against it or any of its property, not identified in its financial statements, and that singly or together with other proceedings may materially and adversely affect its property, operations, financial condition or business. The Company will use its best efforts to bring about a favorable and speedy result of any of these lawsuits, arbitrations or other proceedings.



**Q. Other Notices.** The Company will immediately provide you with any information that may materially and adversely affect its ability to perform this Agreement and of its anticipated effect.

**R. No Change in Capital.** The Company will not release, redeem, retire, purchase or otherwise acquire, directly or indirectly, any of its capital stock or other equity security or partnership interest, or make any change in its capital structure, except to the extent required by any agreements signed prior to this Agreement and disclosed to you or with your prior written consent, and except with respect to the repurchase of stock in the form of "net share withholdings" pursuant to restricted share grants made under our current and future Stock Incentive Plans.

**S. Loan Obligations.** The Company will comply with the terms and agreements contained in this Agreement and in the other Loan Documents.

**T. Insurance.** The Company will obtain and maintain insurance with insurers, in amounts and coverages that are acceptable to you and customary with industry practice. This may include without limitation insurance policies for public liability, fire hazard and extended risk, workers compensation, and, at your request, business interruption and/or rent loss insurance. At your request, the Company will deliver to you certified copies of all of these insurance policies, binders or certificates. The Company will obtain and maintain a mortgagee or lender loss payee endorsement for you when these endorsements are available. The Company will immediately notify you of cancellation or termination of insurance. The Company will require all insurance policies to provide you with at least 10 days prior written notice to you of cancellation or modification. The Company consents to you using or disclosing information relative to any contract of insurance required by the Loan for the purpose of replacing this insurance. The Company also authorizes its insurer and you to exchange all relevant information related to any contract of insurance required by any document executed as part of this Loan.

**U. Property Maintenance.** The Company will keep all tangible and intangible property that the Company considers necessary or useful in its business in good working condition by making all needed repairs, replacements and improvements and by making all rental, lease or other payments due on this property.

**V. Property Loss.** The Company will immediately notify you, and the insurance company when appropriate, of any material casualty, loss or depreciation to the Property or to my other property that affects its business.

**W. Accounts Receivable Collection.** The Company will collect and otherwise enforce all of its unpaid Accounts Receivable at its cost and expense, until you end its authority to do so, which you may do at any time to protect your best interests. Notwithstanding the foregoing, you agree that you will not end its authority to collect its unpaid Accounts Receivables until the Company is in default of this Agreement or any other Loan Documents. The Company will not sell, assign or otherwise dispose of any Accounts Receivable without your written consent.

**X. Reserves.** You may set aside and reserve Loan proceeds for Loan interest, fees and expenses, taxes, and insurance. The Company grants you a security interest in the reserves. No interest will accrue on any reserve Loan proceeds. Disbursement of reserves is disbursement of the Loan's proceeds. At its request, you will disburse the reserves for the purpose they were set aside for, as long as the Company is not in default under this Agreement. You may directly pay these reserved items, reimburse it for payments the Company made, or reduce the reserves and increase the Loan proceeds available for disbursement.

**Y. Additional Taxes.** The Company will pay all filing and recording costs and fees, including any recordation, documentary or transfer taxes or stamps, that are required to be paid with respect to this Loan and any Loan Documents.

**7. COLLECTION EXPENSES AND ATTORNEYS' FEES.** On or after Default, to the extent permitted by law, the Company agrees to pay all expenses of collection, enforcement or protection of your rights and remedies under this Agreement or any other Loan Document. Expenses include (unless prohibited by law) reasonable attorneys' fees, court costs, and other legal expenses. These expenses are due and payable immediately. If not paid immediately, these expenses will bear interest from the date of payment until paid in full at the highest interest rate in effect as provided for in the terms of this Loan. All fees and expenses will be secured by the Property the Company has granted to you, if any. In addition, to the extent permitted by the United States Bankruptcy Code, the Company agrees to pay the reasonable attorneys' fees incurred by you to protect your rights and interests in connection with any bankruptcy proceedings initiated by or against it.

**8. APPLICABLE LAW.** This Agreement is governed by the laws of Virginia, the United States of America, and to the extent required, by the laws of the jurisdiction where the Property is located.

**9. JOINT AND INDIVIDUAL LIABILITY AND SUCCESSORS.** The Company's obligation to pay the Loan is independent of the obligation of any other person who has also agreed to pay it. You may sue it alone, or anyone else who is obligated on the Loan, or any number of them together, to collect the Loan. Extending the Loan or new obligations under the Loan, will not affect its duty under the Loan and the Company will still be obligated to pay the Loan. You may assign all or part of your rights or duties under this Agreement or the Loan Documents without its consent. If you assign this Agreement, all of its covenants, agreements, representations and warranties contained in this Agreement or the Loan Documents will benefit your successors and assigns. The Company may not assign this Agreement or any of its rights under it without your prior written consent. The duties of the Loan will bind its successors and assigns.

**10. AMENDMENT, INTEGRATION AND SEVERABILITY.** This Agreement may not be amended or modified by oral agreement. No amendment or modification of this Agreement is effective unless made in writing and executed by you and it. This Agreement and the other Loan Documents are the complete and final expression of the understanding between you and it. If any provision of this Agreement is unenforceable, then the unenforceable provision will be severed and the remaining provisions will still be enforceable.

**11. INTERPRETATION.** Whenever used, the singular includes the plural and the plural includes the singular. The section headings are for convenience only and are not to be used to interpret or define the terms of this Agreement.

**12. NOTICE, FINANCIAL REPORTS AND ADDITIONAL DOCUMENTS.** Unless otherwise required by law, any notice will be given by delivering it or mailing it by first class mail to the appropriate party's address listed in the DATE AND PARTIES section, or to any other address designated in writing. Notice to one Borrower will be deemed to be notice to all Borrowers. The Company will inform you in writing of any change in its name, address or other application information. The Company will provide you any financial statement or information you request. All financial statements and information the Company gives you will be correct and complete. The Company agrees to sign, deliver, and file any additional documents or certifications that you may consider necessary to perfect, continue, and preserve its obligations under this Loan and to confirm your lien status on any Property. Time is of the essence.

**13. CROSS-DEFAULT.** A default under this Agreement or any of the Loan Documents shall be deemed a default under (i) the Commercial Loan Agreement and loan documents executed in connection therewith by the Company dated even date herewith in connection with the \$5,000,000 loan made by you to the Company and (ii) the Commercial Loan Agreement and loan documents executed in connection therewith dated even date herewith in connection with the \$6,500,000 loan made by you to the Company.

**14 SIGNATURES.** By signing under seal, the Company agrees to the terms contained in this Agreement. The Company also acknowledges receipt of a copy of this Agreement.

**BORROWER:**

Optical Cable Corporation

By /s/ Tracy G. Smith (Seal)

Name: Tracy G. Smith

Title: VP and CFO

<b>LOAN NUMBER</b> 156809	<b>LOAN NAME</b> Optical Cable Corporation	<b>ACCT. NUMBER</b> 19398	<b>AGREEMENT DATE</b> 09/22/06	<b>INITIALS</b> MNM
<b>NOTE AMOUNT</b> \$5,000,000.00	<b>INDEX (w/Margin)</b> 30 Day LIBOR plus 2.150%	<b>RATE</b> 7.54%	<b>MATURITY DATE</b> 2/28/08	<b>LOAN PURPOSE</b> Commercial

**Creditor Use Only****PROMISSORY NOTE**

(Commercial – Revolving Draw)

**DATE AND PARTIES.** The date of this Promissory Note (Note) is September 22, 2006. The parties and their addresses are:

**LENDER:****VALLEY BANK**

36 W. Church Ave. S.W.  
Roanoke, Virginia 24011  
Telephone: (540) 342-2265

**BORROWER:****OPTICAL CABLE CORP**

a Virginia Corporation  
5290 Concourse Drive  
Roanoke, Virginia 24019

**1. DEFINITIONS.** As used in this Note, the terms have the following meanings:

- A. Pronouns.** The pronouns “I”, “me” and “my” refer to every Borrower signing this Note, individually or together. “You” and “your” refers to the Loan’s lender.
- B. Note.** Note refers to this document, and any extensions, renewals, modifications and substitutions of this Note.
- C. Loan.** Loan refers to this transaction generally, including obligations and duties arising from the terms of all documents prepared or submitted for this transaction such as applications, security agreements, disclosures or notes, and this Note.
- D. Loan Documents.** Loan Documents refer to all the documents executed as a part of or in connection with the Loan.
- E. Property.** Property is any property, real, personal or intangible, that secures my performance of the obligations of this Loan.
- F. Percent.** Rates and rate change limitations are expressed as annualized percentages.

**2. PROMISE TO PAY.** For value received, I promise to pay you or your order, at your address, or at such other location as you may designate, the lesser of the aggregate unpaid amounts advanced from time to time under the terms of this Note or **\$5,000,000.00 (Principal)** plus interest from the date of disbursement, on the unpaid outstanding Principal balance until this Note is paid in full and Lender has no further obligations to make advances to you under this Loan.

I may borrow up to the Principal amount more than one time.

All advances made will be made subject to all other terms and conditions of this Loan.

**3. INTEREST.** Interest will accrue on the unpaid Principal balance of this Note at the rate of **7.54 percent (Interest Rate)** until October 1, 2006, after which time it may change as described in the Variable Rate subsection, subject to the Interest Reduction subsection.

- A. Interest After Default.** If a default occurs under the terms of this Loan, including for failure to pay in full at maturity, you may increase the Interest Rate payable on the outstanding Principal balance of this Note. In such event, interest will accrue on the outstanding Principal balance at the Interest Rate in effect from time to time under the terms of this Loan, until paid in full.
- B. Maximum Interest Amount.** Any amount assessed or collected as interest under the terms of the Note will be limited to the maximum lawful amount of interest allowed by state or federal law, whichever is greater. Amounts collected in excess of the maximum lawful amount will be applied first to the unpaid Principal balance. Any remainder will be refunded to me.
- C. Statutory Authority.** The amount assessed or collected on this Note is authorized by the Virginia usury laws under Va. Code §§ 6.1-330.49 et. seq.
- D. Accrual.** Interest accrues using an Actual/360 days counting method.
- E. Variable Rate.** The Interest Rate may change during the term of this transaction.

**(1) Index.** Beginning with the first Change Date, the Interest Rate will be based on the following index: defined as the monthly average of interbank offered rates for dollar deposits in the London market based on quotations at the five major London banks and which is commonly known as the LIBOR rate (i.e. the London InterBank Offered Rate) as quoted and published in the Wall Street Journal from time to time.

The Current Index is the most recent index figure available on each Change Date. You do not guaranty by selecting this Index, or the margin, that the Interest Rate on this Note will be the same rate you charge on any other loans or class of loans you make to me or other borrowers. If this Index is no longer available, you will substitute a similar index. You will give me notice of your choice.

(2) Change Date. Each date on which the Interest Rate may change is called a Change Date. The Interest Rate may change October 1, 2006 and every 30 days thereafter.

(3) Calculation Of Change. On each Change Date you will calculate the Interest Rate, which will be the Current Index plus 2.150 percent. The result of this calculation will be rounded to the nearest .01 percent. Subject to any limitations, this will be the Interest Rate until the next Change Date. The new Interest Rate will become effective on each Change Date. The Interest Rate and other charges on this Note will never exceed the highest rate or charge allowed by law for this Note.

(4) Effect Of Variable Rate. A change in the Interest Rate will have the following effect on the payments: The amount of scheduled payments will change.

**F. Interest Reduction.** At the end of each quarter you shall determine if I have maintained an average collected balance of at least \$500,000. If such minimum average collected balance is met, you agree that the interest rate under this Note shall be reduced by .25% for the subsequent quarter.

**4. REMEDIAL CHARGES.** In addition to interest or other finance charges, I agree that I will pay these additional fees based on my method and pattern of payment. Additional remedial charges may be described elsewhere in this Note.

**A. Late Charge.** If a payment is more than 7 days late, I will be charged 5.000 percent of the Unpaid Portion of Payment. I will pay this late charge promptly but only once for each late payment.

**B. Returned Check Charge.** I agree to pay a fee not to exceed \$29.00 for each check, negotiable order of withdrawal or draft I issue in connection with this Loan that is returned because it has been dishonored.

**5. GOVERNING AGREEMENT.** This Note is further governed by the Commercial Loan Agreement executed between you and me as part of this Loan, as modified, amended or supplemented. The Commercial Loan Agreement states the terms and conditions of this note, including the terms and conditions under which the maturity of this Note may be accelerated. When I sign this Note, I represent to you that I have reviewed and am in compliance with the terms contained in the Commercial Loan Agreement.

**6. PAYMENT.** All unpaid principal, accrued interest, costs and expenses are due and payable on February 28, 2008; provided that I shall pay this Note on demand with 60 days prior written notice of demand. Notwithstanding the foregoing, in the event the Company defaults hereunder or under any other Loan Document you may immediately declare the Loan due and payable in full, together with all other amounts owed hereunder. Upon the effective date of demand the entire unpaid balance of Principal and accrued interest, along with any earned, and unpaid fees or charges, and the amount of any advances made on my behalf, will be due and owing. Until demand is made, accrued interest is due and payable in monthly payments on the 1st of each month beginning October 1, 2006, or the day following if the payment day is a holiday or is a non-business day for Bank. Unless paid sooner, all unpaid principal, accrued interest, costs and expenses are due and payable on demand. If the contract rate changes, any remaining payments may be a different amount. All amounts shall be paid in legal U.S. Currency. Any payment made with a check will constitute payment only when collected. Payments will be rounded to the nearest \$.01. With the final payment I also agree to pay any additional fees or charges owing and the amount of any advances you have made to others on my behalf. Payments scheduled to be paid on the 29th, 30th or 31st day of a month that contains no such day will, instead, be made on the last day of such month. Each payment I make on this Note will be applied first to interest that is due then to principal that is due, and finally to any charges that I owe other than principal and interest. If you and I agree to a different application of payments, we will describe our agreement on this Note. You may change how payments are applied in your sole discretion without notice to me. The actual amount of my final payment will depend on my payment record.

**7. PREPAYMENT.** I may prepay this Loan in full or in part at any time. Any partial prepayment will not excuse any later scheduled payments until I pay in full.

**8. LOAN PURPOSE.** The purpose of this Loan is to establish a Line Manager Line of Credit to support working capital.

**9. ADDITIONAL TERMS.** This note is cross collateralized and cross defaulted with note numbers 156833 & 156779.

**10. SECURITY.** This loan is secured by separate security instruments prepared together with this Note as follows:

<u>Document Name</u>	<u>Parties to Document</u>
Leases And Rents Assignment – 5290 Concourse Drive	Optical Cable Corporation
Security Agreement - Optical Cable Corporation	Optical Cable Corporation
Deed of Trust – 5290 Concourse Drive	Optical Cable Corporation

**11. DUE ON SALE OR ENCUMBRANCE.** You may, at your option, declare the entire balance of this Note to be immediately due and payable upon the creation of, or contract for the creation of, any material lien or encumbrance of all or any material part of the Property. You agree that I may transfer or sell any part of my Property in the ordinary course of my business.

This right is subject to the restrictions imposed by federal law (12 C.F.R. 591), as applicable.

**12. WAIVERS AND CONSENT.** To the extent not prohibited by law, I waive protest, presentment for payment, demand, notice of acceleration, notice of intent to accelerate and notice of dishonor.

**A. Additional Waivers By Borrower.** In addition, I, and any party to this Note and Loan, to the extent permitted by law, consent to certain actions you may take, and generally waive defenses that may be available based on these actions or based on the status of a party to this Note.

- (1) You may renew or extend payments on this Note, regardless of the number of such renewals or extensions.
- (2) You may release any Borrower, endorser, guarantor, surety, accommodation maker or any other co-signer.
- (3) You may release, substitute or impair any Property securing this Note.
- (4) You, or any institution participating in this Note, may invoke your right of set-off.
- (5) You may enter into any sales, repurchases or participations of this Note to any person in any amounts and I waive notice of such sales, repurchases or participations.
- (6) I agree that any of us signing this Note as a Borrower is authorized to modify the terms of this Note or any instrument securing, guarantying or relating to this Note.

**B. No Waiver By Lender.** Your course of dealing, or your forbearance from, or delay in, the exercise of any of your rights, remedies, privileges or right to insist upon my strict performance of any provisions contained in this Note, or any other Loan Document, shall not be construed as a waiver by you, unless any such waiver is in writing and is signed by you.

**13. COMMISSIONS.** I understand and agree that you (or your affiliate) will earn commissions or fees on any insurance products, and may earn such fees on other services that I buy through you or your affiliate.

**14. APPLICABLE LAW.** This Note is governed by the laws of Virginia, the United States of America, and to the extent required, by the laws of the jurisdiction where the Property is located, except to the extent such state laws are preempted by federal law.

**15. JOINT AND INDIVIDUAL LIABILITY AND SUCCESSORS.** My obligation to pay the Loan is independent of the obligation of any other person who has also agreed to pay it. You may sue me alone, or anyone else who is obligated on the Loan, or any number of us together, to collect the Loan. Extending the Loan or new obligations under the Loan, will not affect my duty under the Loan and I will still be obligated to pay the Loan. This Note shall inure to the benefit of and be enforceable by you and your successors and assigns and shall be binding upon and enforceable against me and my personal representatives, successors, heirs and assigns.

**16. AMENDMENT, INTEGRATION AND SEVERABILITY.** This Note may not be amended or modified by oral agreement. No amendment or modification of this Note is effective unless made in writing and executed by you and me. This Note and the other Loan Documents are the complete and final expression of the agreement. If any provision of this Note is unenforceable, then the unenforceable provision will be severed and the remaining provisions will still be enforceable.

**17. INTERPRETATION.** Whenever used, the singular includes the plural and the plural includes the singular. The section headings are for convenience only and are not to be used to interpret or define the terms of this Note.

**18. NOTICE, FINANCIAL REPORTS AND ADDITIONAL DOCUMENTS.** Unless otherwise required by law, any notice will be given by delivering it or mailing it by first class mail to the appropriate party's address listed in the DATE AND PARTIES section, or to any other address designated in writing. Notice to one Borrower will be deemed to be notice to all Borrowers. I will inform you in writing of any change in my name, address or other application information. I agree to sign, deliver, and file any additional documents or certifications that you may consider necessary to perfect, continue, and preserve my obligations under this Loan and to confirm your lien status on any Property. Time is of the essence.

**19. CREDIT INFORMATION.** I agree to supply you with whatever information you reasonably feel you need to decide whether to continue this Loan. You will make requests for this information without undue frequency and will give me reasonable time in which to supply the information.

**20. ERRORS AND OMISSIONS.** I agree, if requested by you, to fully cooperate in the correction, if necessary, in the reasonable discretion of you of any and all loan closing documents so that all documents accurately describe the loan between you and me. I agree to assume all costs including by way of illustration and not limitation, actual expenses, legal fees and marketing losses for failing to reasonably comply with your requests within thirty (30) days.

**21. SIGNATURES.** By signing under seal, I agree to the terms contained in this Note. I also acknowledge receipt of a copy of this Note.

**BORROWER:**

Optical Cable Corporation

By /s/ Tracy G. Smith (Seal)  
Name: Tracy G. Smith  
Title: VP & CFO

**ACKNOWLEDGMENT (REQUIRED FOR CONFESSION OF JUDGMENT):  
(Business or Entity)**

COMMONWEALTH OF VIRGINIA, COUNTY (OR CITY) OF ROANOKE ss.

This instrument was acknowledged before me this 22nd day of Sept., 2006 by Authorized Signer –

Title of Optical Cable Corporation a Virginia corporation, on behalf of the corporation.

My commission expires:  
3/31/09

/s/ Cynthia Marie Tourville  
(Notary Public)

LOAN NUMBER	LOAN NAME	ACCT. NUMBER	AGREEMENT DATE	INITIALS
156833	Optical Cable Corporation	19398	09/22/06	MNM
NOTE AMOUNT	INDEX (w/Margin)	RATE	MATURITY DATE	LOAN PURPOSE
\$2,000,000.00	30 Day LIBOR plus 2.150%	7.54%	2/28/08	Commercial

**Creditor Use Only**

**PROMISSORY NOTE**  
(Commercial – Revolving Draw)

**DATE AND PARTIES.** The date of this Promissory Note (Note) is September 22, 2006. The parties and their addresses are:

**LENDER:**

**VALLEY BANK**  
36 W. Church Ave. S.W.  
Roanoke, Virginia 24011  
Telephone: (540) 342-2265

**BORROWER:**

**OPTICAL CABLE CORP**  
a Virginia Corporation  
5290 Concourse Drive  
Roanoke, Virginia 24019

**1. DEFINITIONS.** As used in this Note, the terms have the following meanings:

- A. Pronouns.** The pronouns “I”, “me” and “my” refer to every Borrower signing this Note, individually or together. “You” and “your” refers to the Loan’s lender.
- B. Note.** Note refers to this document, and any extensions, renewals, modifications and substitutions of this Note.
- C. Loan.** Loan refers to this transaction generally, including obligations and duties arising from the terms of all documents prepared or submitted for this transaction such as applications, security agreements, disclosures or notes, and this Note.
- D. Loan Documents.** Loan Documents refer to all the documents executed as a part of or in connection with the Loan.
- E. Property.** Property is any property, real, personal or intangible, that secures my performance of the obligations of this Loan.
- F. Percent.** Rates and rate change limitations are expressed as annualized percentages.

**2. PROMISE TO PAY.** For value received, I promise to pay you or your order, at your address, or at such other location as you may designate, the lesser of the aggregate unpaid amounts advanced from time to time under the terms of this Note or **\$2,000,000.00 (Principal)** plus interest from the date of disbursement, on the unpaid outstanding Principal balance until this Note is paid in full and Lender has no further obligations to make advances to you under this Loan.

I may borrow up to the Principal amount more than one time.

All advances made will be made subject to all other terms and conditions of this Loan.

**3. INTEREST.** Interest will accrue on the unpaid Principal balance of this Note at the rate of **7.54 percent (Interest Rate)** until October 1, 2006, after which time it may change as described in the Variable Rate subsection.

- A. Interest After Default.** If a default occurs under the terms of this Loan, including for failure to pay in full at maturity, you may increase the Interest Rate payable on the outstanding Principal balance of this Note. In such event, interest will accrue on the outstanding Principal balance at the Interest Rate in effect from time to time under the terms of this Loan, until paid in full.
- B. Maximum Interest Amount.** Any amount assessed or collected as interest under the terms of the Note will be limited to the maximum lawful amount of interest allowed by state or federal law, whichever is greater. Amounts collected in excess of the maximum lawful amount will be applied first to the unpaid Principal balance. Any remainder will be refunded to me.
- C. Statutory Authority.** The amount assessed or collected on this Note is authorized by the Virginia usury laws under Va. Code §§ 6.1-330.49 et. seq.
- D. Accrual.** Interest accrues using an Actual/360 days counting method.
- E. Variable Rate.** The Interest Rate may change during the term of this transaction.

**(1) Index.** Beginning with the first Change Date, the Interest Rate will be based on the following index: defined as the monthly average of interbank offered rates for dollar deposits in the London market based on quotations at the five major London banks and which is commonly known as the LIBOR rate (i.e. the London InterBank Offered Rate) as quoted and published in the Wall Street Journal from time to time.

The Current Index is the most recent index figure available on each Change Date. You do not guaranty by selecting this Index, or the margin, that the Interest Rate on this Note will be the same rate you charge on any other loans or class of loans you make to me or other borrowers. If this Index is no longer available, you will substitute a similar index. You will give me notice of your choice.

(2) Change Date. Each date on which the Interest Rate may change is called a Change Date. The Interest Rate may change October 1, 2006 and every 30 days thereafter.

(3) Calculation Of Change. On each Change Date you will calculate the Interest Rate, which will be the Current Index plus 2.150 percent. The result of this calculation will be rounded to the nearest .01 percent. Subject to any limitations, this will be the Interest Rate until the next Change Date. The new Interest Rate will become effective on each Change Date. The Interest Rate and other charges on this Note will never exceed the highest rate or charge allowed by law for this Note.

(4) Effect Of Variable Rate. A change in the Interest Rate will have the following effect on the payments: The amount of scheduled payments will change.

**4. REMEDIAL CHARGES.** In addition to interest or other finance charges, I agree that I will pay these additional fees based on my method and pattern of payment. Additional remedial charges may be described elsewhere in this Note.

**A. Late Charge.** If a payment is more than 7 days late, I will be charged 5.000 percent of the Unpaid Portion of Payment. I will pay this late charge promptly but only once for each late payment.

**B. Returned Check Charge.** I agree to pay a fee not to exceed \$29.00 for each check, negotiable order of withdrawal or draft I issue in connection with this Loan that is returned because it has been dishonored.

**5. GOVERNING AGREEMENT.** This Note is further governed by the Commercial Loan Agreement executed between you and me as part of this Loan, as modified, amended or supplemented. The Commercial Loan Agreement states the terms and conditions of this note, including the terms and conditions under which the maturity of this Note may be accelerated. When I sign this Note, I represent to you that I have reviewed and am in compliance with the terms contained in the Commercial Loan Agreement.

**6. PAYMENT.** All unpaid principal, accrued interest, costs and expenses are due and payable on February 28, 2008 provided that I shall pay this Note on demand with 60 days prior written notice of demand. Notwithstanding the foregoing, in the event the Company defaults hereunder or under any other Loan Document you may immediately declare the Loan due and payable in full, together with all other amounts owed hereunder. Upon the effective date of the demand the entire unpaid balance of Principal and accrued interest, long with any earned, and unpaid fees or charges, and the amount of any advances made on my behalf, will be due and owing. Until demand is made, accrued interest is due and payable in monthly payments on the 1st of each month beginning October 1, 2006, or the day following if the payment day is a holiday or is a non-business day for Bank. Unless paid sooner, all unpaid principal, accrued interest, costs and expenses are due and payable on demand. If the contract rate changes, any remaining payments may be a different amount. All amounts shall be paid in legal U.S. Currency. Any payment made with a check will constitute payment only when collected. Payments will be rounded to the nearest \$.01. With the final payment I also agree to pay any additional fees or charges owing and the amount of any advances you have made to others on my behalf. Payments scheduled to be paid on the 29th, 30th or 31st day of a month that contains no such day will, instead, be made on the last day of such month. Each payment I make on this Note will be applied first to interest that is due then to principal that is due, and finally to any charges that I owe other than principal and interest. If you and I agree to a different application of payments, we will describe our agreement on this Note. You may change how payments are applied in your sole discretion without notice to me. The actual amount of my final payment will depend on my payment record.

**7. PREPAYMENT.** I may prepay this Loan in full or in part at any time. Any partial prepayment will not excuse any later scheduled payments until I pay in full.

**8. LOAN PURPOSE.** The purpose of this Loan is to establish a Line Manager Line of Credit to support working capital.

**9. ADDITIONAL TERMS.** This note is cross collateralized and cross defaulted with note numbers 156809 & 156779.

**10. SECURITY.** This loan is secured by separate security instruments prepared together with this Note as follows:

<u>Document Name</u>	<u>Parties to Document</u>
Leases And Rents Assignment – 5290 North Concourse Drive Security Agreement - Optical Cable Corporation Deed of Trust – 5290 Concourse Drive	Optical Cable Corporation Optical Cable Corporation Optical Cable Corporation

**11. DUE ON SALE OR ENCUMBRANCE.** You may, at your option, declare the entire balance of this Note to be immediately due and payable upon the creation of, or contract for the creation of, any material lien or encumbrance of all or any material part of the Property. You agree that I may transfer or sell any part of my Property in the ordinary course of my business. This right is subject to the restrictions imposed by federal law (12 C.F.R. 591), as applicable.

**12. WAIVERS AND CONSENT.** To the extent not prohibited by law, I waive protest, presentment for payment, demand, notice of acceleration, notice of intent to accelerate and notice of dishonor.

**A. Additional Waivers By Borrower.** In addition, I, and any party to this Note and Loan, to the extent permitted by law, consent to certain actions you may take, and generally waive defenses that may be available based on these actions or based on the status of a party to this Note.

(1) You may renew or extend payments on this Note, regardless of the number of such renewals or extensions.

(2) You may release any Borrower, endorser, guarantor, surety, accommodation maker or any other co-signer.

(3) You may release, substitute or impair any Property securing this Note.

(4) You, or any institution participating in this Note, may invoke your right of set-off.

(5) You may enter into any sales, repurchases or participations of this Note to any person in any amounts and I waive notice of such sales, repurchases or participations.

(6) I agree that any of us signing this Note as a Borrower is authorized to modify the terms of this Note or any instrument securing, guarantying or relating to this Note.

**B. No Waiver By Lender.** Your course of dealing, or your forbearance from, or delay in, the exercise of any of your rights, remedies, privileges or right to insist upon my strict performance of any provisions contained in this Note, or any other Loan Document, shall not be construed as a waiver by you, unless any such waiver is in writing and is signed by you.

**13. COMMISSIONS.** I understand and agree that you (or your affiliate) will earn commissions or fees on any insurance products, and may earn such fees on other services that I buy through you or your affiliate.

**14. APPLICABLE LAW.** This Note is governed by the laws of Virginia, the United States of America, and to the extent required, by the laws of the jurisdiction where the Property is located, except to the extent such state laws are preempted by federal law.

**15. JOINT AND INDIVIDUAL LIABILITY AND SUCCESSORS.** My obligation to pay the Loan is independent of the obligation of any other person who has also agreed to pay it. You may sue me alone, or anyone else who is obligated on the Loan, or any number of us together, to collect the Loan. Extending the Loan or new obligations under the Loan, will not affect my duty under the Loan and I will still be obligated to pay the Loan. This Note shall inure to the benefit of and be enforceable by you and your successors and assigns and shall be binding upon and enforceable against me and my personal representatives, successors, heirs and assigns.

**16. AMENDMENT, INTEGRATION AND SEVERABILITY.** This Note may not be amended or modified by oral agreement. No amendment or modification of this Note is effective unless made in writing and executed by you and me. This Note and the other Loan Documents are the complete and final expression of the agreement. If any provision of this Note is unenforceable, then the unenforceable provision will be severed and the remaining provisions will still be enforceable.

**17. INTERPRETATION.** Whenever used, the singular includes the plural and the plural includes the singular. The section headings are for convenience only and are not to be used to interpret or define the terms of this Note.

**18. NOTICE, FINANCIAL REPORTS AND ADDITIONAL DOCUMENTS.** Unless otherwise required by law, any notice will be given by delivering it or mailing it by first class mail to the appropriate party's address listed in the DATE AND PARTIES section, or to any other address designated in writing. Notice to one Borrower will be deemed to be notice to all Borrowers. I will inform you in writing of any change in my name, address or other application information. I agree to sign, deliver, and file any additional documents or certifications that you may consider necessary to perfect, continue, and preserve my obligations under this Loan and to confirm your lien status on any Property. Time is of the essence.

**19. CREDIT INFORMATION.** I agree to supply you with whatever information you reasonably feel you need to decide whether to continue this Loan. You will make requests for this information without undue frequency and will give me reasonable time in which to supply the information.

**20. ERRORS AND OMISSIONS.** I agree, if requested by you, to fully cooperate in the correction, if necessary, in the reasonable discretion of you of any and all loan closing documents so that all documents accurately describe the loan between you and me. I agree to assume all costs including by way of illustration and not limitation, actual expenses, legal fees and marketing losses for failing to reasonably comply with your requests within thirty (30) days.

**21. SIGNATURES.** By signing under seal, I agree to the terms contained in this Note. I also acknowledge receipt of a copy of this Note.

**BORROWER:**

Optical Cable Corporation

By /s/ Tracy G. Smith (Seal)

Name: Tracy G. Smith

Title: VP & CFO

**ACKNOWLEDGMENT (REQUIRED FOR CONFESSION OF JUDGMENT):  
(Business or Entity)**

COMMONWEALTH OF VIRGINIA, COUNTY (OR CITY) OF ROANOKE ss.

This instrument was acknowledged before me this 22nd day of Sept., 2006 by Authorized Signer – Title of Optical Cable Corporation a Virginia corporation, on behalf of the corporation.

My commission expires:  
3/31/09

/s/ Cynthia Marie Tourville  
(Notary Public)



Space Above This Line For Recording Data

Parcel Identification Number: 037.07-01-05.02-0000, 037.07-01-15.01-0000, 037.07-01-15.00- 0000

This document was prepared by M. Nelson Metheney, Valley Bank, 36 W. Church Avenue, S.W., Roanoke, Virginia 24011

**THIS IS A CREDIT LINE DEED OF TRUST**  
(With Future Advance Clause)

**DATE AND PARTIES.** The date of this Deed Of Trust (Security Instrument) is September 22, 2006. The parties and their addresses are:

**GRANTOR:**

**Optical Cable Corporation**  
A Virginia Corporation  
5290 Concourse Drive  
Roanoke, Virginia 24019

**TRUSTEE:**

**John T. MCCALED**  
36 W. Church Ave  
Roanoke, Virginia 24011

**Catherine J HARTMAN**  
36 W. Church Ave  
Roanoke , Virginia 24011

**LENDER:**

**VALLEY BANK**  
Organized and existing under the laws of Virginia  
36 W. Church Ave. S.W.  
Roanoke, Virginia 24011

**1. CREDIT LINE DEED OF TRUST.** THIS IS A CREDIT LINE DEED OF TRUST within the meaning of Section 55-58.2 of the Code of Virginia (1950), as amended. For purposes of such section, (i) the name of the noteholder secured by this Security Instrument is VALLEY BANK, (ii) the address at which communications may be mailed or delivered to the noteholder is 36 W. Church Ave. S.W., Roanoke, Virginia 24011, and (iii) the maximum aggregate principal amount to be secured is \$8,100,000.00.

**2. CONVEYANCE.** For good and valuable consideration, the receipt and sufficiency of which is acknowledged, and to secure the Secured Debts and Grantor's performance under this Security Instrument, Grantor irrevocably grants, conveys and sells to Trustee, in trust for the benefit of Lender, with power of sale, the following described property:

See attached Exhibit "A"

The property is located in Roanoke County at 5290 Concourse Drive, Roanoke, Virginia 24019.

Together with all rights, easements, appurtenances, royalties, mineral rights, oil and gas rights, all water and riparian rights, wells, ditches and water stock, crops, timber, all diversion payments or third

party payments made to crop producers and all existing and future improvements, structures, fixtures, and replacements that may now, or at any time in the future, be part of the real estate described (all referred to as Property). This Security Instrument will remain in effect until the Secured Debts and all underlying agreements have been terminated in writing by Lender.

**3. MAXIMUM OBLIGATION LIMIT.** The total principal amount secured by this Security Instrument at any one time will not exceed \$8,100,000.00. This limitation of amount does not include interest and other fees and charges validly made pursuant to this Security Instrument. Also, this limitation does not apply to advances made under the terms of this Security Instrument to protect Lender's security and to perform any of the covenants contained in this Security Instrument.

**4. SECURED DEBTS.** The term "Secured Debts" includes and this Security Instrument will secure each of the following:

**A. Specific Debts.** The following debts and all extensions, renewals, refinancings, modifications and replacements. A promissory note or other agreement, No. 156779, dated September 22, 2006, from Grantor to Lender, with a loan amount of \$6,500,000.00, with an interest rate of 7.5 percent per year until October 1, 2007, then with an interest rate of 7.500 percent per year and maturing on October 1, 2011. Promissory note #156809, dated September 22, 2006 in the name of Optical Cable Corporation in the amount of \$5,000,000. Promissory note #156833, dated September 22, 2006 in the name of Optical Cable Corporation, in the amount of \$2,000,000. One or more of the debts secured by this Security Instrument contains a future advance provision.

**B. All Debts.** All present and future debts from Grantor to Lender, even if this Security Instrument is not specifically referenced, or if the future debt is unrelated to or of a different type than this debt. If more than one person signs this Security Instrument, each agrees that it will secure debts incurred either individually or with others who may not sign this Security Instrument. Nothing in this Security Instrument constitutes a commitment to make additional or future loans or advances. Any such commitment must be in writing. In the event that Lender fails to provide any required notice of the right of rescission, Lender waives any subsequent security interest in the Grantor's principal dwelling that is created by this Security Instrument. This Security Instrument will not secure any debt for which a non-possessory, non-purchase money security interest is created in "household goods" in connection with a "consumer loan," as those terms are defined by federal law governing unfair and deceptive credit practices. This Security Instrument will not secure any debt for which a security interest is created in "margin stock" and Lender does not obtain a "statement of purpose," as defined and required by federal law governing securities.

**C. Sums Advanced.** All sums advanced and expenses incurred by Lender under the terms of this Security Instrument.

**5. PAYMENTS.** Grantor agrees that all payments under the Secured Debts will be paid when due and in accordance with the terms of the Secured Debts and this Security Instrument.

**6. WARRANTY OF TITLE.** Grantor warrants that Grantor is or will be lawfully seized of the estate conveyed by this Security Instrument and has the right to irrevocably grant, convey and sell the Property to Trustee, in trust, with power of sale. Grantor also warrants that the Property is unencumbered, except for encumbrances of record.

**7. PRIOR SECURITY INTERESTS.** With regard to any other mortgage, deed of trust, security agreement or other lien document that created a prior security interest or encumbrance on the Property, Grantor agrees:

**A.** To make all payments when due and to perform or comply with all covenants.

**B.** To promptly deliver to Lender any notices that Grantor receives from the holder.

**C.** Not to allow any modification or extension of, nor to request any future advances under any note or agreement secured by the lien document without Lender's prior written consent.

**8. CLAIMS AGAINST TITLE.** Grantor will pay all taxes, assessments, liens, encumbrances, lease payments, ground rents, utilities, and other charges relating to the Property when due, except for immaterial liens related to claims being contested by Grantor. Lender may require Grantor to provide to Lender copies of all notices

that such amounts are due and the receipts evidencing Grantor's payment. Grantor will defend title to the Property against any claims that would impair the lien of this Security Instrument. Grantor agrees to assign to Lender, as requested by Lender, any rights, claims or defenses Grantor may have against parties who supply labor or materials to maintain or improve the Property.

**9. DUE ON SALE OR ENCUMBRANCE.** Lender may, at its option, declare the entire balance of the Secured Debt to be immediately due and payable upon the creation of, or contract for the creation of, any lien, encumbrance, transfer or sale of all or any part of the Property, except for immaterial liens related to claims being contested by Grantor. This right is subject to the restrictions imposed by federal law (12 C.F.R. 591), as applicable.

**10. WARRANTIES AND REPRESENTATIONS.** Grantor makes to Lender the following warranties and representations which will continue as long as this Security Instrument is in effect:

**A. Power.** Grantor is duly organized, and validly existing and in good standing in all jurisdictions in which Grantor operates. Grantor has the power and authority to enter into this transaction and to carry on Grantor's business or activity as it is now being conducted and, as applicable, is qualified to do so in each jurisdiction in which Grantor operates.

**B. Authority.** The execution, delivery and performance of this Security Instrument and the obligation evidenced by this Security Instrument are within Grantor's powers, have been duly authorized, have received all necessary governmental approval, will not violate any provision of law, or order of court or governmental agency, and will not violate any agreement to which Grantor is a party or to which Grantor is or any of Grantor's property is subject.

**C. Name and Place of Business.** Other than previously disclosed in writing to Lender, Grantor has not changed Grantor's name or principal place of business within the last 5 years and has not used any other trade or fictitious name. Without Lender's prior written consent, Grantor does not and will not use any other name and will preserve Grantor's existing name, trade names and franchises.

**11. PROPERTY CONDITION, ALTERATIONS AND INSPECTION.** Grantor will keep the Property in good condition and make all repairs that are reasonably necessary. Grantor will not commit or allow any waste, impairment, or deterioration of the Property. Grantor will keep the Property free of noxious weeds and grasses. Grantor agrees that the nature of the occupancy and use will not substantially change without Lender's prior written consent. Grantor will not permit any change in any license, restrictive covenant or easement without Lender's prior written consent. Grantor will notify Lender of all demands, proceedings, claims, and actions against Grantor, and of any loss or damage to the Property.

No portion of the Property will be removed, demolished or materially altered without Lender's prior written consent except that Grantor has the right to remove items of personal property comprising a part of the Property that become worn or obsolete, provided that such personal property is replaced with other personal property at least equal in value to the replaced personal property, free from any title retention device, security agreement or other encumbrance. Such replacement of personal property will be deemed subject to the security interest created by this Security Instrument. Grantor will not partition or subdivide the Property without Lender's prior written consent.

Lender or Lender's agents may, at Lender's option, enter the Property at any reasonable time for the purpose of inspecting the Property. Lender will give Grantor notice at the time of or before an inspection specifying a reasonable purpose for the inspection. Any inspection of the Property will be entirely for Lender's benefit and Grantor will in no way rely on Lender's inspection.

**12. AUTHORITY TO PERFORM.** If Grantor fails to perform any duty or any of the covenants contained in this Security Instrument, Lender may, without notice, perform or cause them to be performed. Grantor appoints Lender as attorney in fact to sign Grantor's name or pay any amount necessary for performance. Lender's right to perform for Grantor will not create an obligation to perform, and Lender's failure to perform will not preclude Lender from exercising any of Lender's other rights under the law or this Security Instrument. If any construction on the Property is discontinued or not carried on in a reasonable manner, Lender may take all steps necessary to protect Lender's security interest in the Property, including completion of the construction.

**13. DEFAULT.** Grantor will be in default if any of the following occur:

**A. Payments.** Grantor fails to make a payment in full within five days of when due.

**B. Insolvency or Bankruptcy.** The death, dissolution or insolvency of, appointment of a receiver by or on behalf of, application of any debtor relief law, the assignment for the benefit of creditors by or on behalf of, the voluntary or involuntary termination of existence by, or the commencement of any proceeding under any present or future federal or state insolvency, bankruptcy, reorganization, composition or debtor relief law by or against Grantor, Borrower, or any co-signer, endorser, surety or guarantor of this Security Instrument or any other obligations Borrower has with Lender.

**C. Business Termination.** Grantor merges, dissolves, reorganizes, ends its business or existence, or a partner or majority owner dies or is declared legally incompetent.

**D. Failure to Perform.** Grantor fails to perform any condition or to keep any promise or covenant of this Security Instrument.

**E. Other Documents.** A default occurs under the terms of any other document relating to the Secured Debts.

**F. Other Agreements.** Grantor is in default on any other debt or agreement Grantor has with Lender.

**G. Misrepresentation.** Grantor makes any verbal or written statement or provides any financial information that is untrue, inaccurate, or conceals a material fact at the time it is made or provided.

**H. Judgment.** Grantor fails to satisfy or appeal any judgment in excess of \$50,000 against Grantor.

**I. Forfeiture.** The Property is used in a manner or for a purpose that threatens confiscation by a legal authority.

**J. Name Change.** Grantor changes Grantor's name or assumes an additional name without notifying Lender before making such a change.

**K. Property Transfer.** Grantor transfers all or a substantial part of Grantor's money or property. This condition of default, as it relates to the transfer of the Property, is subject to the restrictions Contained in the DUE ON SALE section.

**L. Property Value.** Lender determines in good faith that the value of the Property has materially declined or is materially impaired.

**M. Material Change.** Without first notifying Lender, there is a material change in Grantor's business, including ownership, management, and financial conditions.

**N. Insecurity.** Lender determines in good faith that a material adverse change has occurred in Grantor's financial condition from the conditions set forth in Grantor's most recent financial statement before the date of this Security Instrument or that the prospect for payment or performance of the Secured Debts is materially impaired for any reason.

**14. REMEDIES.** On or after default, Lender may use any and all remedies Lender has under state or federal law or in any document relating to the Secured Debts. Any amounts advanced on Grantor's behalf will be immediately due and may be added to the balance owing under the Secured Debts. Lender may make a claim for any and all insurance benefits or refunds that may be available on Grantor's default.

Subject to any right to cure, required time schedules or any other notice rights Grantor may have under federal and state law, Lender may make all or any part of the amount owing by the terms of the Secured Debts immediately due and foreclose this Security Instrument in a manner provided by law upon the occurrence of a default or anytime thereafter. In addition to these remedies, Lender has, without limitation, the power to direct the Trustee to execute the trust created hereby and in so doing exercise all of the powers under applicable law and as set forth in Va. Code Section 55-59 and 55-59.1 through 55-59.4, as in effect on the date of this Security Instrument.

If there is a default, Trustee will, in addition to any other permitted remedy, at the request of the Lender, advertise and sell the Property as a whole or in separate parcels at public auction to the highest bidder for cash. Trustee will give notice of sale including the time, terms and place of sale and a description of the Property to be sold as required by the applicable law in effect at the time of the proposed sale.

Advertisement required: Advertisement shall be sufficient if published in a newspaper having a general circulation in the County or City where the Property or some part thereof is located either (a) once a week for two weeks, or (b) once a day for three days, which may be consecutive days.

Upon sale of the Property, Trustee shall apply the proceeds in the order prescribed by law. Lender may purchase the Property.

Upon any sale of the Property, Trustee will make and deliver a special or limited warranty deed that conveys the property sold to the purchaser or purchasers. Under this special or limited warranty deed, Trustee will covenant that Trustee has not caused or allowed a lien or an encumbrance to burden the Property and that Trustee will specially warrant and defend the Property's title of the purchaser or purchasers at the sale against all lawful claims and demand of all persons claiming by, through or under Trustee. The recitals in any deed of conveyance will be prima facie evidence of the facts set forth therein.

All remedies are distinct, cumulative and not exclusive, and the Lender is entitled to all remedies provided at law or equity, whether or not expressly set forth. The acceptance by Lender of any sum in payment or partial payment on the Secured Debts after the balance is due or is accelerated or after foreclosure proceedings are filed will not constitute a waiver of Lender's right to require full and complete cure of any existing default. By not exercising any remedy, Lender does not waive Lender's right to later consider the event a default if it continues or happens again.

**15. SECTION 55-60 OF THE CODE OF VIRGINIA.** This Security Instrument will be construed to impose and confer upon the parties hereto, and the beneficiaries hereunder, all duties, rights and obligations prescribed in Section 55-60 of the Code of Virginia (1950), as amended, and in effect on the date of this Security Instrument, and the following provisions of that section are incorporated in this Security Instrument by short form reference:

- A. Exemptions waived.
- B. Subject to all upon default.
- C. Renewal, extension or reinstatement permitted.
- D. Any Trustee may act.
- E. Substitution of Trustees permitted.

**16. COLLECTION EXPENSES AND ATTORNEYS' FEES.** On or after Default, to the extent permitted by law, Grantor agrees to pay all expenses of collection, enforcement or protection of Lender's rights and remedies under this Security Instrument or any other document relating to the Secured Debts. Grantor agrees to pay expenses for Lender to inspect and preserve the Property and for any recordation costs of releasing the Property from this Security Instrument. Expenses include (unless prohibited by law) reasonable attorneys' fees, court costs, and other legal expenses. These expenses are due and payable immediately. If not paid immediately, these expenses will bear interest from the date of payment until paid in full at the highest interest rate in effect as provided for in the terms of the Secured Debts. In addition, to the extent permitted by the United States Bankruptcy Code, Grantor agrees to pay the reasonable attorneys' fees incurred by Lender to protect Lender's rights and interests in connection with any bankruptcy proceedings initiated by or against Grantor.

**17. ENVIRONMENTAL LAWS AND HAZARDOUS SUBSTANCES.** As used in this section, (1) Environmental Law means, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA, 42 U.S.C. 9601 et seq.), all other federal, state and local laws, regulations, ordinances, court orders, attorney general opinions or interpretive letters concerning the public health, safety, welfare, environment or a hazardous substance; and (2) Hazardous Substance means any toxic, radioactive or hazardous material, waste, pollutant or contaminant which has

characteristics which render the substance dangerous or potentially dangerous to the public health, safety, welfare or environment. The term includes, without limitation, any substances defined as "hazardous material," "toxic substance," "hazardous waste," "hazardous substance," or "regulated substance" under any Environmental Law.

Grantor represents, warrants and agrees that:

- A.** Except as previously disclosed and acknowledged in writing to Lender, no Hazardous Substance has been, is, or will be located, transported, manufactured, treated, refined, or handled by any person on, under or about the Property, except in the ordinary course of business and in strict compliance with all applicable Environmental Law.
- B.** Except as previously disclosed and acknowledged in writing to Lender, Grantor has not and will not cause, contribute to, or permit the release of any Hazardous Substance on the Property.
- C.** Grantor will immediately notify Lender if (1) a release or threatened release of Hazardous Substance occurs on, under or about the Property or migrates or threatens to migrate from nearby property; or (2) there is a violation of any Environmental Law concerning the Property. In such an event, Grantor will take all necessary remedial action in accordance with Environmental Law.
- D.** Except as previously disclosed and acknowledged in writing to Lender, Grantor has no knowledge of or reason to believe there is any pending or threatened investigation, claim, or proceeding of any kind relating to (1) any Hazardous Substance located on, under or about the Property; or (2) any violation by Grantor or any tenant of any Environmental Law. Grantor will immediately notify Lender in writing as soon as Grantor has reason to believe there is any such pending or threatened investigation, claim, or proceeding. In such an event, Lender has the right, but not the obligation, to participate in any such proceeding including the right to receive copies of any documents relating to such proceedings.
- E.** Except as previously disclosed and acknowledged in writing to Lender, Grantor and every tenant have been, are and will remain in full compliance with any applicable Environmental Law.
- F.** Except as previously disclosed and acknowledged in writing to Lender, there are no underground storage tanks, private dumps or open wells located on or under the Property and no such tank, dump or well will be added unless Lender first consents in writing.
- G.** Grantor will regularly inspect the Property, monitor the activities and operations on the Property, and confirm that all permits, licenses or approvals required by any applicable Environmental Law are obtained and complied with.
- H.** Grantor will permit, or cause any tenant to permit, Lender or Lender's agent to enter and inspect the Property and review all records at any reasonable time to determine (1) the existence, location and nature of any Hazardous Substance on, under or about the Property; (2) the existence, location, nature, and magnitude of any Hazardous Substance that has been released on, under or about the Property; or (3) whether or not Grantor and any tenant are in compliance with applicable Environmental Law.
- I.** Upon Lender's request with a reasonable basis and at any time, Grantor agrees, at Grantor's expense, to engage a qualified environmental engineer to prepare an environmental audit of the Property and to submit the results of such audit to Lender. The choice of the environmental engineer who will perform such audit is subject to Lender's approval.
- J.** Lender has the right, but not the obligation, to perform any of Grantor's obligations under this section at Grantor's expense.
- K.** As a consequence of any breach of any representation, warranty or promise made in this section, (1) Grantor will indemnify and hold Lender and Lender's successors or assigns harmless from and against all losses, claims, demands, liabilities, damages, cleanup, response and remediation costs, penalties and expenses, including without limitation all costs of litigation and attorneys' fees, which Lender and Lender's successors or assigns may sustain; and (2) at Lender's discretion, Lender may release this Security Instrument and in return Grantor will provide Lender with collateral of at least equal value to the Property without prejudice to any of Lender's rights under this Security Instrument.

L. Notwithstanding any of the language contained in this Security Instrument to the contrary, the terms of this section will survive any foreclosure or satisfaction of this Security Instrument regardless of any passage of title to Lender or any disposition by Lender of any or all of the Property. Any claims and defenses to the contrary are hereby waived.

**18. CONDEMNATION.** Grantor will give Lender prompt notice of any pending or threatened action by private or public entities to purchase or take any or all of the Property through condemnation, eminent domain, or any other means. Grantor authorizes Lender to intervene in Grantor's name in any of the above described actions or claims. Grantor assigns to Lender the proceeds of any award or claim for damages connected with a condemnation or other taking of all or any part of the Property. Such proceeds will be considered payments and will be applied as provided in this Security Instrument. This assignment of proceeds is subject to the terms of any prior mortgage, deed of trust, security agreement or other lien document.

**19. INSURANCE.** Grantor agrees to keep the Property insured against the risks reasonably associated with the Property. Grantor will maintain this insurance in the amounts Lender reasonably requires. This insurance will last until the Property is released from this Security Instrument. What Lender requires pursuant to the preceding two sentences can change during the term of the Secured Debts. Grantor may choose the insurance company, subject to Lender's approval, which will not be unreasonably withheld.

All insurance policies and renewals will include a standard "mortgage clause" and, where applicable, "loss payee clause." If required by Lender, Grantor agrees to maintain comprehensive general liability insurance and rental loss or business interruption insurance in amounts and under policies acceptable to Lender. The comprehensive general liability insurance must name Lender as an additional insured. The rental loss or business interruption insurance must be in an amount equal to at least coverage of one year's debt service, and required escrow account deposits (if agreed to separately in writing).

Grantor will give Lender and the insurance company immediate notice of any loss. All insurance proceeds will be applied to restoration or repair of the Property or to the Secured Debts, at Lender's option. If Lender acquires the Property in damaged condition, Grantor's rights to any insurance policies and proceeds will pass to Lender to the extent of the Secured Debts.

Grantor will immediately notify Lender of cancellation or termination of insurance. If Grantor fails to keep the Property insured, Lender may obtain insurance to protect Lender's interest in the Property and Grantor will pay for the insurance on Lender's demand. Lender may demand that Grantor pay for the insurance all at once, or Lender may add the insurance premiums to the balance of the Secured Debts and charge interest on it at the rate that applies to the Secured Debts. This insurance may include coverages not originally required of Grantor, may be written by a company other than one Grantor would choose, and may be written at a higher rate than Grantor could obtain if Grantor purchased the insurance. Grantor acknowledges and agrees that Lender or one of Lender's affiliates may receive commissions on the purchase of this insurance.

**20. ESCROW FOR TAXES AND INSURANCE.** Grantor will not be required to pay to Lender funds for taxes and insurance in escrow.

**21. CO-SIGNERS.** If Grantor signs this Security Instrument but is not otherwise obligated to pay the Secured Debts, Grantor does so only to convey Grantor's interest in the Property to secure payment of the Secured Debts and Grantor does not agree by signing this Security Instrument to be personally liable on the Secured Debts. If this Security Instrument secures a guaranty between Lender and Grantor, Grantor agrees to waive any rights that may prevent Lender from bringing any action or claim against Grantor or any party indebted under the obligation. These rights may include, but are not limited to, any anti-deficiency or one-action laws.

**22. SUCCESSOR TRUSTEE.** Lender, at Lender's option, may from time to time remove Trustee and appoint a successor or successors to any trustee without any other formality than the designation in writing. The successor or any successors to any trustee, without conveyance of the Property, will succeed to all the title, power and duties conferred upon trustee by this Security Instrument and applicable law.

**23. WAIVERS.** Except to the extent prohibited by law, Grantor waives the benefit of the homestead exemption as to this obligation and any rights of appraisal and reinstatement.

GRANTOR HEREBY EXPRESSLY WAIVES AND RELEASES ANY REQUIREMENT OR OBLIGATION THAT THE LENDER OR THE TRUSTEE PRESENT EVIDENCE OR OTHERWISE PROCEED BEFORE ANY COURT, CLERK, OR OTHER JUDICIAL OR QUASI-JUDICIAL BODY BEFORE EXERCISE OF THE POWERS OF SALE CONTAINED IN THIS SECURITY INSTRUMENT AND IN SECTION 55-59 AND SECTIONS 55-59.1 THROUGH 55-59.4 OF THE CODE OF VIRGINIA (1950), AS AMENDED.

**24. APPLICABLE LAW.** This Security Instrument is governed by the laws of Virginia, the United States of America, and to the extent required, by the laws of the jurisdiction where the Property is located, except to the extent such state laws are preempted by federal law.

**25. JOINT AND INDIVIDUAL LIABILITY AND SUCCESSORS.** Each Grantor's obligations under this Security Instrument are independent of the obligations of any other Grantor. Lender may sue each Grantor individually or together with any other Grantor. Lender may release any part of the Property and Grantor will still be obligated under this Security Instrument for the remaining Property. Grantor agrees that Lender and any party to this Security Instrument may extend, modify or make any change in the terms of this Security Instrument or any evidence of debt without Grantor's consent. Such a change will not release Grantor from the terms of this Security Instrument. The duties and benefits of this Security Instrument will bind and benefit the successors and assigns of Lender and Grantor.

**26. AMENDMENT, INTEGRATION AND SEVERABILITY.** This Security Instrument may not be amended or modified by oral agreement. No amendment or modification of this Security Instrument is effective unless made in writing and executed by Grantor and Lender. This Security Instrument and any other documents relating to the Secured Debts are the complete and final expression of the agreement. If any provision of this Security Instrument is unenforceable, then the unenforceable provision will be severed and the remaining provisions will still be enforceable.

**27. INTERPRETATION.** Whenever used, the singular includes the plural and the plural includes the singular. The section headings are for convenience only and are not to be used to interpret or define the terms of this Security Instrument.

**28. NOTICE, FINANCIAL REPORTS, ADDITIONAL DOCUMENTS AND RECORDING TAXES.** Unless otherwise required by law, any notice will be given by delivering it or mailing it by first class mail to the appropriate party's address listed in the DATE AND PARTIES section, or to any other address designated in writing. Notice to one Grantor will be deemed to be notice to all Grantors. Grantor will inform Lender in writing of any change in Grantor's name, address or other application information. Grantor will provide Lender any financial statements or information Lender requests. All financial statements and information Grantor gives Lender will be correct and complete. Grantor agrees to pay all expenses, charges and taxes in connection with the preparation and recording of this Security Instrument. Grantor agrees to sign, deliver, and file any additional documents or certifications that Lender may consider necessary to perfect, continue, and preserve Grantor's obligations under this Security Instrument and to confirm Lender's lien status on any Property, and Grantor agrees to pay all expenses, charges and taxes in connection with the preparation and recording thereof. Time is of the essence.

**SIGNATURES.** By signing under seal, Grantor agrees to the terms and covenants contained in this Security Instrument. Grantor also acknowledges receipt of a copy of this Security Instrument.

**GRANTOR:**

Optical Cable Corporation

By /s/ Tracy G. Smith (Seal)  
Tracy G. Smith, Vice President and CFO



**ACKNOWLEDGMENT.**

**(Business or Entity)**

\_\_\_\_\_ OF \_\_\_\_\_, \_\_\_\_\_ OF \_\_\_\_\_ ss.

This instrument was acknowledged before me this \_\_ day of \_\_\_\_\_, \_\_\_\_\_ by Tracy Smith - Vice President/CFO of Optical Cable Corporation a Virginia corporation, on behalf of the corporation.

My commission expires:

/s/ Cynthia Marie Tourville  
(Notary Public)

<b>LOAN NUMBER</b> 156779	<b>LOAN NAME</b> Optical Cable Corporation	<b>ACCT. NUMBER</b> 19398	<b>NOTE DATE</b> 09/22/06	<b>INITIALS</b> MNM
<b>NOTE AMOUNT</b> \$6,500,000.00	<b>INDEX (w/Margin)</b> First Phase - Not Applicable Second Phase - Not Applicable	<b>RATE</b> First Phase - 7.5% Second Phase - 7.5%	<b>MATURITY DATE</b> 10/01/11	<b>LOAN PURPOSE</b> Commercial

**Creditor Use Only****PROMISSORY NOTE**

(Commercial - Draw)

**DATE AND PARTIES.** The date of this Promissory Note (Note) is September 22, 2006. The parties and their addresses are:

**LENDER:****VALLEY BANK**

36 W. Church Ave. S.W.  
Roanoke, Virginia 24011  
Telephone: (540) 342-2265

**BORROWER:****OPTICAL CABLE CORPORATION**

a Virginia Corporation  
5290 Concourse Drive  
Roanoke, Virginia 24019

**1. DEFINITIONS.** As used in this Note, the terms have the following meanings:

- A. Pronouns.** The pronouns "I," "me," and "my" refer to each Borrower signing this Note, individually and together. "You" and "Your" refer to the Lender.
- B. Note.** Note refers to this document, and any extensions, renewals, modifications and substitutions of this Note.
- C. Loan.** Loan refers to this transaction generally, including obligations and duties arising from the terms of all documents prepared or submitted for this transaction such as applications, security agreements, disclosures or notes, and this Note.
- D. Loan Documents.** Loan Documents refer to all the documents executed as a part of or in connection with the Loan.
- E. Property.** Property is any property, real, personal or intangible, that secures my performance of the obligations of this Loan.
- F. Percent.** Rates and rate change limitations are expressed as annualized percentages.

**2. PROMISE TO PAY.** For value received, I promise to pay you or your order, at your address, or at such other location as you may designate, amounts advanced from time to time under the terms of this Note up to the maximum total principal balance of **\$6,500,000.00 (Principal)**, plus interest from the date of disbursement, on the unpaid outstanding Principal balance until this Note is paid in full and Lender has no further obligations to make advances to you under this Loan.

All advances made will be made subject to all other terms and conditions of this Loan.

**3. INTEREST.** Interest will accrue on the unpaid Principal balance of this Note during the first phase of the Loan at the rate of **7.5 percent (Interest Rate)** until October 1, 2007. After which time, interest will accrue on the unpaid Principal balance during the second phase of the Loan at a rate of 7.5 percent.

- A. Interest After Default.** If a default occurs under the terms of this Loan, including for failure to pay in full at maturity, you may increase the Interest Rate payable on the outstanding Principal balance of this Note. In such event, interest will accrue on the outstanding Principal balance at the Interest Rate in effect from time to time under the terms of this Loan, until paid in full.
- B. Maximum Interest Amount.** Any amount assessed or collected as interest under the terms of this Note will be limited to the maximum lawful amount of interest allowed by state or federal law, whichever is greater. Amounts collected in excess of the maximum lawful amount will be applied first to the unpaid Principal balance. Any remainder will be refunded to me.
- C. Statutory Authority.** The amount assessed or collected on this Note is authorized by the Virginia usury laws under Va. Code §§ 6.1-330.49 et. seq.
- D. Accrual.** Interest accrues using an Actual/360 days counting method.

**4. ADDITIONAL CHARGES.** As additional consideration, I agree to pay, or have paid, these additional fees and charges.

**A. Nonrefundable Fees and Charges.** The following fees are earned when collected and will not be refunded if I prepay this Note before the scheduled maturity date.

**Loan Origination.** A(n) Loan Origination fee of \$32,500.00 payable from separate funds on or before today's date.

**Flood Certification.** A(n) Flood Certification fee of \$25.00 payable from separate funds on or before today's date.

**5. REMEDIAL CHARGES.** In addition to interest or other finance charges, I agree that I will pay these additional fees based on my method and pattern of payment. Additional remedial charges may be described elsewhere in this Note.

**A. Late Charge.** If a payment is more than 7 days late, I will be charged **5.000** percent of the Unpaid Portion of Payment. I will pay this late charge promptly but only once for each late payment.

**B. Returned Check Charge.** I agree to pay a fee not to exceed \$29.00 for each check, negotiable order of withdrawal or draft I issue in connection with this Loan that is returned because it has been dishonored.

**C. Trustee Fee.** A(n) Trustee Fee equal to 5.000 percent of the Balance of the Loan.

**6. GOVERNING AGREEMENT.** This Note is further governed by the Commercial Loan Agreement executed between you and me as a part of this Loan, as modified, amended or supplemented. The Commercial Loan Agreement states the terms and conditions of this Note, including the terms and conditions under which the maturity of this Note may be accelerated. When I sign this Note, I represent to you that I have reviewed and am in compliance with the terms contained in the Commercial Loan Agreement.

**7. PAYMENT.** I agree to pay this Note in **60** installment payments. During the first phase of the Loan I will make **12** payments of accrued interest beginning November 1, 2006, and then on the 1st day of each month thereafter, until October 1, 2007.

Then, I agree to make **48** installment payments during the second phase of the Loan. The second phase of this Note is amortized over **300** payments. I will make **47** payments of **\$48,501.60** beginning on November 1, 2007, and on the 1st day of each month thereafter. A single "balloon payment" of the entire unpaid balance of Principal and interest will be due October 1, 2011.

Payments will be rounded to the nearest \$.01. With the final payment I also agree to pay any additional fees or charges owing and the amount of any advances you have made to others on my behalf. Payments scheduled to be paid on the 29th, 30th or 31st day of a month that contains no such day will, instead, be made on the last day of such month.

Each payment I make on this Note will be applied first to interest that is due then to principal that is due, and finally to any charges that I owe other than principal and interest. If you and I agree to a different application of payments, we will describe our agreement on this Note. You may change how payments are applied in your sole discretion without notice to me. The actual amount of my final payment will depend on my payment record.

**8. PREPAYMENT.** I may prepay this Loan in full or in part at any time. Any partial prepayment will not excuse any later scheduled payments until I pay in full.

**9. LOAN PURPOSE.** The purpose of this Loan is to fund future acquisitions and investments.

**10. ADDITIONAL TERMS.** This note is cross collateralized and cross defaulted with note numbers 156809 & 156833.

**11. SECURITY.** This Loan is secured by separate security instruments prepared together with this Note as follows:

<u>Document Name</u>	<u>Parties to Document</u>
Leases And Rents Assignment - 5290 Concourse Drive	Optical Cable Corporation
Security Agreement - Optical Cable Corporation	Optical Cable Corporation
Deed Of Trust - 5290 Concourse Drive	Optical Cable Corporation

**12. DUE ON SALE OR ENCUMBRANCE.** You may, at your option, declare the entire balance of this Note to be immediately due and payable upon the creation of, or contract for the creation of, any lien or encumbrance of all or any part of the Property. You agree that I may transfer or sell any part of my Property in the ordinary course of my business. This right is subject to the restrictions imposed by federal law (12 C.F.R. 591), as applicable.

**13. WAIVERS AND CONSENT.** To the extent not prohibited by law, I waive protest, presentment for payment, demand, notice of acceleration, notice of intent to accelerate and notice of dishonor.

**A. Additional Waivers By Borrower.** In addition, I, and any party to this Note and Loan, to the extent permitted by law, consent to certain actions you may take, and generally waive defenses that may be available based on these actions or based on the status of a party to this Note.

(1) You may renew or extend payments on this Note, regardless of the number of such renewals or extensions.

(2) You may release any Borrower, endorser, guarantor, surety, accommodation maker or any other co-signer.

(3) You may release, substitute or impair any Property securing this Note.

(4) You, or any institution participating in this Note, may invoke your right of set-off.

(5) You may enter into any sales, repurchases or participations of this Note to any person in any amounts and I waive notice of such sales, repurchases or participations.

(6) I agree that any of us signing this Note as a Borrower is authorized to modify the terms of this Note or any instrument securing, guarantying or relating to this Note.

**B. No Waiver By Lender.** Your course of dealing, or your forbearance from, or delay in, the exercise of any of your rights, remedies, privileges or right to insist upon my strict performance of any provisions contained in this Note, or any other Loan Document, shall not be construed as a waiver by you, unless any such waiver is in writing and is signed by you.

**14. COMMISSIONS.** I understand and agree that you (or your affiliate) will earn commissions or fees on any insurance products, and may earn such fees on other services that I buy through you or your affiliate.

**15. APPLICABLE LAW.** This Note is governed by the laws of Virginia, the United States of America, and to the extent required, by the laws of the jurisdiction where the Property is located, except to the extent such state laws are preempted by federal law.

**16. JOINT AND INDIVIDUAL LIABILITY AND SUCCESSORS.** My obligation to pay the Loan is independent of the obligation of any other person who has also agreed to pay it. You may sue me alone, or anyone else who is obligated on the Loan, or any number of us together, to collect the Loan. Extending the Loan or new obligations under the Loan, will not affect my duty under the Loan and I will still be obligated to pay the Loan. This Note shall inure to the benefit of and be enforceable by you and your successors and assigns and shall be binding upon and enforceable against me and my personal representatives, successors, heirs and assigns.

**17. AMENDMENT, INTEGRATION AND SEVERABILITY.** This Note may not be amended or modified by oral agreement. No amendment or modification of this Note is effective unless made in writing and executed by you and me. This Note and the other Loan Documents are the complete and final expression of the agreement. If any provision of this Note is unenforceable, then the unenforceable provision will be severed and the remaining provisions will still be enforceable.

**18. INTERPRETATION.** Whenever used, the singular includes the plural and the plural includes the singular. The section headings are for convenience only and are not to be used to interpret or define the terms of this Note.

**19. NOTICE, FINANCIAL REPORTS AND ADDITIONAL DOCUMENTS.** Unless otherwise required by law, any notice will be given by delivering it or mailing it by first class mail to the appropriate party's address listed in the DATE AND PARTIES section, or to any other address designated in writing. Notice to one Borrower will be deemed to be notice to all Borrowers. I will inform you in writing of any change in my name, address or other application information. I agree to sign, deliver, and file any additional documents or certifications that you may consider necessary to perfect, continue, and preserve my obligations under this Loan and to confirm your lien status on any Property. Time is of the essence.

**20. CREDIT INFORMATION.** I agree to supply you with whatever information you reasonably request. You will make requests for this information without undue frequency, and will give me reasonable time in which to supply the information.

**21. ERRORS AND OMISSIONS.** I agree, if requested by you, to fully cooperate in the correction, if necessary, in the reasonable discretion of you of any and all loan closing documents so that all documents accurately describe the loan between you and me. I agree to assume all costs including by way of illustration and not limitation, actual expenses, legal fees and marketing losses for failing to reasonably comply with your requests within thirty (30) days.

**22. SIGNATURES.** By signing under seal, I agree to the terms contained in this Note. I also acknowledge receipt of a copy of this Note.

**BORROWER:**

Optical Cable Corporation

By /s/ Tracy G. Smith (Seal)  
Tracy G. Smith , Vice President and CFO

**ACKNOWLEDGMENT (REQUIRED FOR CONFESSION OF JUDGMENT):**

**(Business or Entity)**

COMMONWEALTH OF \_\_\_\_\_, COUNTY (OR CITY) OF \_\_\_\_\_ ss.

This instrument was acknowledged before me this \_\_ day of \_\_\_\_\_, \_\_\_\_\_ by Tracy Smith - Vice President/CFO of Optical Cable Corporation a Virginia corporation, on behalf of the corporation.

My commission expires:

/s/ Cynthia Marie Tourville  
(Notary Public)

LOAN NUMBER	LOAN NAME	ACCT. NUMBER	AGREEMENT DATE	INITIALS
165779	Optical Cable Corporation	19398	09/22/06	MNM
NOTE AMOUNT	INDEX (w/Margin)	RATE	MATURITY DATE	LOAN PURPOSE
\$6,500,000.00	First Phase – Not Applicable	First Phase - 7.5%	10/01/11	Commercial
	Second Phase – Not Applicable	Second Phase - 7.5%		

**Creditor Use Only**

**COMMERCIAL LOAN AGREEMENT**

Draw Loan

**DATE AND PARTIES.** The date of this Commercial Loan Agreement (Agreement) is September 22, 2006. The parties and their addresses are as follows:

**LENDER:**

**VALLEY BANK**  
36 W. Church Ave. S.W.  
Roanoke, Virginia 24011

**BORROWER:**

**OPTICAL CABLE CORPORATION**  
a Virginia Corporation  
5290 Concourse Drive  
Roanoke, Virginia 24019

**1. DEFINITIONS.** For the purposes of this Agreement, the following terms have the following meanings.

**A. Accounting Terms.** In this Agreement, any accounting terms that are not specifically defined will have their customary meanings under generally accepted accounting principles.

**B. Insiders.** Insiders include those defined as insiders by the United States Bankruptcy Code, as amended; or to the extent left undefined, include without limitation any officer, director, partner, or any immediate family member of any of the foregoing, or any person or entity which, directly or indirectly, controls, is controlled by or is under common control with it.

**C. Loan.** The Loan refers to this transaction generally, including obligations and duties arising from the terms of all documents prepared or submitted for this transaction.

**D. Loan Documents.** Loan Documents refer to all the documents executed as a part of or in connection with the Loan.

**E. Pronouns.** The pronouns “the Company” or “Optical Cable Corporation” refer to the Borrower signing this Agreement. “You” and “your” refers to the Loan’s lender.

**F. Property.** Property is any property, real, personal or intangible, that secures the Company’s performance of the obligations of this Loan.

**2. ADVANCES.** Advances under this Agreement are made according to the following terms and conditions.

**A. Multiple Advances.** In accordance with the terms of this Agreement and other Loan Documents, you will provide me with a draw note and the maximum total principal balance will not exceed \$6,500,000.00 (Principal).

**B. Requests for Advances.** The Company’s requests are a representation that the Company is in compliance with all the Loan Documents. When required by you for a particular method of advance, the Company’s requests for an advance must specify the requested amount and the date and be accompanied with any agreements, documents, and instruments that you require for the Loan. Any payment by you of any check, share draft or other charge may, at your option, constitute an advance on the Loan to the Company. All advances will be made in United States dollars. The Company will indemnify you and hold you harmless for your reliance on any request for advances that you reasonably believe to be genuine. The only persons authorized to request advances are set forth in Schedule A to this Loan Agreement. The Company may revise Schedule A from time to time. Such revisions will be signed by the Chief Executive Officer and the Chief Financial Officer of the Company. Requests for advances may be made by authorized persons in the form of fax, email or electronic sweep.

**C. Advance Limitations.** In addition to any other Loan conditions, requests for, and access to, advances are subject to the following limitations.

**(1) Obligatory Advances.** You will make all Loan advances subject to this Agreement’s terms and conditions.

**(2) Advance Amount.** Subject to the terms and conditions contained in this Agreement, advances will be made in exactly the amounts requested by the Company.

(3) **Cut-Off Time.** Requests for an advance received before 02:00 PM will be made on any day that you are open for business, on the day for which the advance is requested.

(4) **Disbursement of Advances.** On the Company's fulfillment of this Agreement's terms and conditions, you will disburse the advance in any manner as you and the Company agree.

(5) **Credit Limit.** The Company understands that you will not ordinarily grant a request for an advance that would cause the unpaid principal of my Loan to be greater than the Principal limit. You may, at your option, grant such a request without obligating yourselves to do so in the future. The Company will pay any over-advances in addition to its regularly scheduled payments. The Company will repay any over-advance by repaying you the amount of the over-advance in full within 10 days after the over-advance occurs.

(6) **Records.** Your records will be conclusive evidence as to the amount of advances, the Loan's unpaid principal balances and the accrued interest.

**D. Conditions.** The Company will satisfy all of the following conditions before you either issue any promissory notes or make any advances under this Agreement.

(1) **No Default.** There has not been a default under this Agreement or any other Loan Documents nor would a default result from making the Loan or any advance.

(2) **Information.** The Company believes you have received all documents, information, certifications and warranties as you may require, all properly executed, if appropriate, on forms acceptable to you. This includes, but is not limited to, the documents and other items listed in the Loan Checklist Report which is hereby incorporated by reference into this Agreement.

(3) **Inspections.** The Company believes you have made all inspections that you consider necessary and are satisfied with this inspection.

(4) **Conditions and Covenants.** The Company will have performed and complied with all conditions required for an advance and all covenants in this Agreement and any other Loan Documents.

(5) **Warranties and Representations.** The warranties and representations by the Company contained in this Agreement are true and correct at the time of making the requested advance.

(6) **Financial Statements.** The Company's most recent financial statements and other financial reports, delivered to you, are current, complete, true and accurate in all material respects and fairly represent the Company's financial condition in all materials respects.

(7) **Bankruptcy Proceedings.** No proceeding under the United States Bankruptcy Code has been commenced by or against me or any of my affiliates.

**3. MATURITY DATE.** I agree to fully repay the Loan by October 1, 2011.

**4. WARRANTIES AND REPRESENTATIONS.** The Company makes to you the following warranties and representations which will continue as long as this Loan is in effect, except when this Agreement provides otherwise.

**A. Power.** The Company is duly organized, and validly existing and in good standing in all jurisdictions in which it operates. The Company has the power and authority to enter into this transaction and to carry on its business or activity as it is now being conducted and, as applicable, is qualified to do so in each jurisdiction in which I operate.

**B. Authority.** The execution, delivery and performance of this Loan and the obligation evidenced by the Note are within the Company's powers, have been duly authorized, have received all necessary governmental approval, will not violate any provision of law, or order of court or governmental agency, and will not violate any agreement to which the Company is a party or to which the Company is or any of its property is subject.

**C. Name and Place of Business.** Other than previously disclosed in writing to you I have not changed my name or principal place of business within the last 10 years and have not used any other trade or fictitious name. Without your prior written consent, I do not and will not use any other name and will preserve my existing name, trade names and franchises.

**D. Hazardous Substances.** Except as I previously disclosed in writing and you acknowledge in writing, no Hazardous Substance, underground tanks, private dumps or open wells are currently located at, on, in, under or about the Property.

**E. Use of Property.** After diligent inquiry, I do not know or have reason to know that any Hazardous Substance has been discharged, leached or disposed of, in violation of any Environmental Law, from the property onto, over or into any other property, or from any other property onto, over or into the property.

**F. Environmental Laws.** I have no knowledge or reason to believe that there is any pending or threatened investigation, claim, judgment or order, violation, lien, or other notice under any Environmental Law that concerns me or the property. The property and any activities on the property are in full compliance with all Environmental Law.

**G. Loan Purpose.** The purpose of this Loan is to fund future acquisitions and investments.

**H. No Other Liens.** I own or lease all property that I need to conduct my business and activities. I have good and marketable title to all property that I own or lease. All of my Property is free and clear of all liens, security interests, encumbrances and other adverse claims and interests, except those disclosed to you or those you consent to in writing.

**I. Compliance With Laws.** I am not materially violating any laws, regulations, rules, orders, judgments or decrees applicable to me or my property, except for those which I am challenging in good faith through proper proceedings after providing appropriate reserves in accordance with generally accepted accounting principles to fully pay the claim and its challenge should I lose.

**J. Legal Dispute.** There are no pending or threatened lawsuits, arbitrations or other proceedings against the Company or the Company's property that singly or together may materially and adversely affect the Company's property, operations, financial condition, or business, other than any potential litigation which has been disclosed to you in writing.

**K. Adverse Agreements.** I am not a party to, nor am I bound by, any agreement that is now or is likely to become materially adverse to my business, Property or operations.

**L. Other Claims.** There are no outstanding claims or rights that would conflict with the execution, delivery or performance by me of the terms and conditions of this Agreement or the other Loan Documents. No outstanding claims or rights exist that may result in a lien on the Property, the Property's proceeds and the proceeds of proceeds, except liens that were disclosed to and agreed to by you in writing.

**M. Solvency.** I am able to pay my debts as they mature, my assets exceed my liabilities and I have sufficient capital for my current and planned business and other activities. I will not become insolvent by the execution or performance of this Loan.

**5. FINANCIAL STATEMENTS.** I will prepare and maintain my financial records using consistently applied generally accepted accounting principles then in effect. I will provide you with financial information in a form that you accept and under the following terms.

**A. Certification.** I represent and warrant that any financial statements that I provide you fairly represents my financial condition for the stated periods, is current, complete, true and accurate in all material respects, includes all of my direct or contingent liabilities (to the extent required by generally accepted accounting principles) and there has been no material adverse change in my financial condition, operations or business since the date the financial information was prepared.

**B. Frequency.** Each year, the Company will provide to you its audited annual financial statements and any written reports prepared by the Company's independent accountants prepared in connection with the audit as soon as available or at least within 90 days after the close of the Company's fiscal year.

(1) **Interim Financial Reports.** Each quarter, the Company will provide to you unaudited financial statements and any written reports prepared by the Company's independent accountants, as soon as available or at least within 45 days after the close of this business period. Any interim financial statements that I provide you will be audited statements.

**D. SEC Reports.** I will provide you with true and correct copies of all reports, notices or statements that I provide to the Securities and Exchange Commission, any securities exchange or my stockholders, owners, or the holders of any material indebtedness as soon as available or at least within 10 days after issuance, to the extent not available on the SEC website.

**E. Requested Information.** I will provide you with any other information about my operations, financial affairs and condition within 15 days after your reasonable request.

**F. Additional Financial Statements Term.** The quarterly, company prepared, Accounts Receivable Agings and the annual, company prepared, Accounts Payable Agings will be required of Optical Cable Corporation. Optical Cable Corporation will also provide you with budgets and forecasts approved by the Board of Directors, tax returns (both Federal and state) upon your request.

**6. COVENANTS.** Until the Loan and all related debts, liabilities and obligations are paid and discharged, I will comply with the following terms, unless you waive compliance in writing.

**A. Participation.** I consent to you participating or syndicating the Loan and sharing any information that you decide is necessary about me and the Loan with the other participants or syndicators.

**B. Inspection.** Following your written request, I will immediately pay for all one-time and recurring out-of-pocket costs that are related to the inspection of my records, business or Property that secures the Loan. Upon reasonable notice, I will permit you or your agents to enter any of my premises and any location where my Property is located during regular business hours to do the following.

(1) You may inspect, audit, check, review and obtain copies from my books, records, journals, orders, receipts, and any correspondence and other business related data.

(2) Upon the Company's default of this Agreement or any other Loan Documents, you may discuss my affairs, finances and business with any one who provides you with evidence that they are a creditor of mine, the sufficiency of which will be subject to your sole discretion.

(3) You may inspect my Property, audit for the use and disposition of the Property's proceeds and proceeds of proceeds; or do whatever you decide is necessary to preserve and protect the Property and your interest in the Property.

After prior notice to me, you may discuss my financial condition and business operations with my independent accountants, if any, or my chief financial officer and a representative of the Company may be present during these discussions. As long as the Loan is outstanding, I will direct all of my accountants and auditors to permit you to examine my records in their possession and to make copies of these records. You will use your best efforts to maintain the confidentiality of the information you or your agents obtain, except you may provide your regulator and your independent accountants, if any, with required information about my financial condition, operation and business or that of any parent, subsidiaries or affiliates of the Company. Provided the Company is not in default, you agree that your inspection of the Company's records, business or Property shall be limited to once per calendar year.

**C. Business Requirements.** I will preserve and maintain my present existence and good standing in the jurisdiction where I am organized and all of my rights, privileges and franchises. I will do all that is needed or required to continue my business or activities as presently conducted, by obtaining licenses, permits and bonds everywhere I engage in business or activities or own, lease or locate my property. I will obtain your prior written consent before I cease my business or before I engage in any new line of business that is materially different from my present business or new businesses presently contemplated.

**D. Compliance with Laws.** I will not materially violate any laws, regulations, rules, orders, judgments or decrees applicable to me or my Property, except for those which I challenge in good faith through proper proceedings after providing appropriate reserves to fully pay the claim and its appeal should I lose. Laws include without limitation the Federal Fair Labor Standards Act requirements for producing goods, the federal Employee Retirement Income Security Act of 1974's requirements for the establishment, funding and management of qualified deferred compensation plans for employees, health and safety laws, environmental laws, tax laws, licensing and permit laws. On your request, I will provide you with written evidence that I have fully



and timely paid my taxes, assessments and other governmental charges levied or imposed on me, my income or profits and my property. Taxes include without limitation sales taxes, use taxes, personal property taxes, documentary stamp taxes, recordation taxes, franchise taxes, income taxes, withholding taxes, FICA taxes and unemployment taxes. I will adequately provide for the payment of these taxes, assessments and other charges that have accrued but are not yet due and payable.

**E. New Organizations.** I will obtain your written consent and any necessary changes to the Loan Documents before I organize or participate in the organization of any entity, merge into or consolidate with any one, permit any one else to merge into me, acquire all or substantially all of the assets of any one else or otherwise materially change my legal structure, management, ownership or financial condition.

**F. Dealings with Insiders.** I will not purchase, acquire or lease any property or services from, or sell, provide or lease any property or services to, or permit any outstanding loans or credit extensions to, or otherwise deal with, any Insiders except as required under contracts existing at the time I applied for the Loan and approved by you or as this Agreement otherwise permits and except to the extent that such dealings with Insiders are on customary business terms at least as favorable to the Company as would be a similar transaction with a non-Insider. I will not change or breach these contracts existing at Loan application so as to cause an acceleration of or an increase in any payments due. This provision does not apply to any dealings with the Company identified to you in writing.

**G. Other Debts.** I will pay when due any and all other debts owed or guaranteed by me and will faithfully perform, or comply with all the conditions and obligations imposed on me concerning the debt or guaranty.

**H. Other Liabilities.** I will not incur, assume or permit any debt evidenced by notes, bonds or similar obligations, except: debt in existence on the date of this Agreement and fully disclosed to you; debt subordinated in payment to you on conditions and terms acceptable to you; accounts payable incurred in the ordinary course of my business and paid under customary trade terms or contested in good faith with approved reserves under generally accepted accounting principles.

**I. Notice to You.** I will promptly notify you of any material change in my financial condition, of the occurrence of a default under the terms of this Agreement or any other Loan Document, or a default by me under any agreement between me and any third party which materially and adversely affects my property, operations, financial condition or business.

**J. Certification of No Default.** On your request, my chief financial officer or my independent accountant will provide you with a written certification that to the best of their knowledge no event of default exists under the terms of this Agreement or the other Loan Documents, and that there exists no other action, condition or event which with the giving of notice or lapse of time or both would constitute a default. As requested, my chief financial officer will also provide you with computations demonstrating compliance with any financial covenants and ratios contained in this Agreement. If an action, condition or event of default does exist, the certificate must accurately and fully disclose the extent and nature of this action, condition or event and state what must be done to correct it.

**K. Use of Loan Proceeds.** I will not permit the loan proceeds to be used to purchase, carry, reduce, or retire any loan originally incurred to purchase or carry any margin stock or otherwise cause the Loan to violate Federal Reserve Board Regulations U or X, or Section 8 of the Securities and Exchange Act of 1934 and its regulations, as amended.

**L. Dispose of No Assets.** Without your prior written consent or as the Loan Documents permit, I will not sell, lease, assign, transfer, dispose of or otherwise distribute all or substantially all of my assets to any person other than in the ordinary course of business for the assets' depreciated book value or more.

**M. No Other Liens.** I will not create, permit or suffer any lien or encumbrance upon any of my properties for or by anyone, other than you, except for: nonconsensual liens imposed by law arising out of the ordinary course of business on obligations that are not overdue or which I am contesting in good faith after making appropriate reserves; valid purchase money security interests on personal property; or any other liens specifically agreed to by you in writing.

**N. Guaranties.** I will not guaranty or become liable in any way as surety, endorser (other than as endorser of negotiable instruments in the ordinary course of business) or accommodation endorser or otherwise for the debt or obligations of any other person or entity, except to you or as you otherwise specifically agree in writing.

**O. No Default under Other Agreements.** I will not allow to occur, or to continue unremedied, any act, event or condition which constitutes a material default, or which, with the passage of time or giving of notice, or both, would constitute a material default under any material agreement, document, instrument or undertaking to which I am a party or by which I may be bound.

**P. Legal Disputes.** I will promptly notify you in writing of any threatened or pending lawsuit, arbitration or other proceeding against me or any of my property, not identified in my financial statements, or that singly or together with other proceedings may materially and adversely affect my property, operations, financial condition or business. I will use my best efforts to bring about a favorable and speedy result of any of these lawsuits, arbitrations or other proceedings.

**Q. Other Notices.** I will immediately provide you with any information that may materially and adversely affect my ability to perform this Agreement and of its anticipated effect.

**R. No Change in Capital.** I will not release, redeem, retire, purchase or otherwise acquire, directly or indirectly, any of my capital stock or other equity security or partnership interest, or make any change in my capital structure, except to the extent required by any agreements signed prior to this Agreement and disclosed to you or with your prior written consent.

**S. Loan Obligations.** I will make full and timely payment of all principal and interest obligations, and comply with the other terms and agreements contained in this Agreement and in the other Loan Documents.

**T. Insurance.** I will obtain and maintain insurance with insurers, in amounts and coverages that are acceptable to you and customary with industry practice. This may include without limitation insurance policies for public liability, fire, hazard and extended risk, workers compensation, and, at your request, business interruption and/or rent loss insurance. At your request, I will deliver to you certified copies of all of these insurance policies, binders or certificates. I will obtain and maintain a mortgagee or lender loss payee endorsement for you when these endorsements are available. I will immediately notify you of cancellation or

termination of insurance. I will require all insurance policies to provide you with at least 10 days prior written notice to you of cancellation or modification. I consent to you using or disclosing information relative to any contract of insurance required by the Loan for the purpose of replacing this insurance. I also authorize my insurer and you to exchange all relevant information related to any contract of insurance required by any document executed as part of this Loan.

**U. Property Maintenance.** I will keep all tangible and intangible property that I consider necessary or useful in my business in good working condition by making all needed repairs, replacements and improvements and by making all rental, lease or other payments due on this property.

**V. Property Loss.** I will immediately notify you, and the insurance company when appropriate, of any material casualty, loss or depreciation to the Property or to my other property that affects my business.

**W. Accounts Receivable Collection.** I will collect and otherwise enforce all of my unpaid Accounts Receivable at my cost and expense, until you end my authority to do so, which you may do at any time to protect your best interests. Notwithstanding the foregoing, you agree that you will not end its authority to collect the Company's unpaid Accounts Receivables until the Company is in default of this Agreement or any other loan Documents. I will not sell, assign or otherwise dispose of any Accounts Receivable without your written consent.

**X. Reserves.** You may set aside and reserve Loan proceeds for Loan interest, fees and expenses, taxes, and insurance. I grant you a security interest in the reserves. No interest will accrue on any reserve Loan proceeds. Disbursement of reserves is disbursement of the Loan's proceeds. At my request, you will disburse the reserves for the purpose they were set aside for, as long as I am not in default under this Agreement. You may directly pay these reserved items, reimburse me for payments I made, or reduce the reserves and increase the Loan proceeds available for disbursement.

**Y. Additional Taxes.** I will pay all filing and recording costs and fees, including any recordation, documentary or transfer taxes or stamps, that are required to be paid with respect to this Loan and any Loan Documents.

**7. DEFAULT.** I will be in default if any of the following occur:

**A. Payments.** I fail to make a payment in full within 5 days of when due.

**B. Insolvency or Bankruptcy.** The death, dissolution or insolvency of, appointment of a receiver by or on behalf of, application of any debtor relief law, the assignment for the benefit of creditors by or on behalf of, the voluntary or involuntary termination of existence by, or the commencement of any proceeding under any present or future federal or state insolvency, bankruptcy, reorganization, composition or debtor relief law by or against me or any co-signer, endorser, surety or guarantor of this Agreement or any other obligations I have with you.

**C. Business Termination.** I merge, dissolve, reorganize, end my business or existence, or a partner or majority owner dies or is declared legally incompetent.

**D. Failure to Perform.** I fail to perform any condition or to keep any promise or covenant of this Agreement.

**E. Other Documents.** A default occurs under the terms of any other Loan Document.

**F. Other Agreements.** I am in default on any other debt or agreement I have with you.

**G. Misrepresentation.** I make any verbal or written statement or provide any financial information that is untrue, inaccurate, or conceals a material fact at the time it is made or provided.

**H. Judgment.** I fail to satisfy or appeal any judgment against me.

**I. Forfeiture.** The Property is used in a manner or for a purpose that threatens confiscation by a legal authority.

**J. Name Change.** I change my name or assume an additional name without notifying you before making such a change.

**K. Property Transfer.** I transfer all or a substantial part of my money or property.

**L. Property Value.** You determine in good faith that the value of the Property has declined or is impaired.

**M. Material Change.** Without first notifying you, there is a material change in my business, including ownership, management, and financial conditions.

**N. Insecurity.** You determine in good faith that a material adverse change has occurred in my financial condition from the conditions set forth in my most recent financial statement before the date of this Agreement or that the prospect for payment or performance of the Loan is impaired for any reason.

**8. REMEDIES.** After I default, and after you give any legally required notice and opportunity to cure the default, you may at your option do any one or more of the following.

**A. Acceleration.** You may make all or any part of the amount owing by the terms of the Loan immediately due. If I am a debtor in a bankruptcy petition or in an application filed under section 5(a)(3) of the Securities Investor Protection Act, the Loan is automatically accelerated and immediately due and payable without notice or demand upon filing of the petition or application.

**B. Sources.** You may use any and all remedies you have under state or federal law or in any Loan Document.

**C. Insurance Benefits.** You may make a claim for any and all insurance benefits or refunds that may be available on my default.

**D. Payments Made On My Behalf.** Amounts advanced on my behalf will be immediately due and may be added to the balance owing under the terms of the Loan, and accrue interest at the highest post-maturity interest rate.

**E. Termination.** You may terminate my right to obtain advances and may refuse to make any further extensions of credit.

**F. Set-Off.** You may use the right of set-off. This means you may set-off any amount due and payable under the terms of the Loan against any right I have to receive money from you. My right to receive money from you includes any deposit or share account balance I have with you; any money owed to me on an item presented to you or in your possession for collection or exchange; and any repurchase agreement or other non-deposit obligation. "Any amount due and payable under the terms of the Loan" means the total amount to which you are entitled to demand payment under the terms of the Loan at the time you set-off.

Subject to any other written contract, if my right to receive money from you is also owned by someone who has not agreed to pay the Loan, your right of set-off will apply to my interest in the obligation and to any other amounts I could withdraw on my sole request or endorsement. Your right of set-off does not apply to an account or other obligation where my rights arise only in a representative capacity. It also does not apply to any Individual Retirement Account or other tax-deferred retirement account. You will not be liable for the dishonor of any check when the dishonor occurs because you set-off against any of my accounts. I agree to hold you harmless from any such claims arising as a result of your exercise of your right of set-off.

**G. Waiver.** Except as otherwise required by law, by choosing any one or more of these remedies you do not give up your right to use any other remedy. You do not waive a default if you choose not to use a remedy. By electing not to use any remedy, you do not waive your right to later consider the event a default and to use any remedies if the default continues or occurs again.

**9. COLLECTION EXPENSES AND ATTORNEYS' FEES.** On or after Default, to the extent permitted by law, I agree to pay all expenses of collection, enforcement or protection of your rights and remedies under this Agreement or any other Loan Document. Expenses include (unless prohibited by law) reasonable attorneys' fees, court costs, and other legal expenses. These expenses are due and payable immediately. If not paid immediately, these expenses will bear interest from the date of payment until paid in full at the highest interest rate in effect as provided for in the terms of this Loan. All fees and expenses will be secured by the Property I have granted to you, if any. In addition, to the extent permitted by the United States Bankruptcy Code, I agree to pay the reasonable attorneys' fees incurred by you to protect your rights and interests in connection with any bankruptcy proceedings initiated by or against me.

**10. APPLICABLE LAW.** This Agreement is governed by the laws of Virginia, the United States of America, and to the extent required, by the laws of the jurisdiction where the Property is located

**11. JOINT AND INDIVIDUAL LIABILITY AND SUCCESSORS.** My obligation to pay the Loan is independent of the obligation of any other person who has also agreed to pay it. You may sue me alone, or anyone else who is obligated on the Loan, or any number of us together, to collect the Loan. Extending the Loan or new obligations under the Loan, will not affect my duty under the Loan and I will still be obligated to pay the Loan. You may assign all or part of your rights or duties under this Agreement or the Loan Documents without my consent. If you assign this Agreement, all of my covenants, agreements, representations and warranties contained in this Agreement or the Loan Documents will benefit your successors and assigns. I may not assign this Agreement or any of my rights under it without your prior written consent. The duties of the Loan will bind my successors and assigns.

**12. AMENDMENT, INTEGRATION AND SEVERABILITY.** This Agreement may not be amended or modified by oral agreement. No amendment or modification of this Agreement is effective unless made in writing and executed by you and me. This Agreement and the other Loan Documents are the complete and final expression of the understanding between you and me. If any provision of this Agreement is unenforceable, then the unenforceable provision will be severed and the remaining provisions will still be enforceable.

**13. INTERPRETATION.** Whenever used, the singular includes the plural and the plural includes the singular. The section headings are for convenience only and are not to be used to interpret or define the terms of this Agreement.

**14. NOTICE, FINANCIAL REPORTS AND ADDITIONAL DOCUMENTS.** Unless otherwise required by law, any notice will be given by delivering it or mailing it by first class mail to the appropriate party's address listed in the DATE AND PARTIES section, or to any other address designated in writing. Notice to one Borrower will be deemed to be notice to all Borrowers. I will inform you in writing of any change in my name, address or other application information. I will provide you any financial statement or information you request. All financial statements and information I give you will be correct and complete. I agree to sign, deliver, and file any additional documents or certifications that you may consider necessary to perfect, continue, and preserve my obligations under this Loan and to confirm your lien status on any Property. Time is of the essence.

**15. CROSS-DEFAULT.** A default under this Agreement or any of the Loan Documents shall be deemed a default under (i) the Commercial Loan Agreement and loan documents executed in connection therewith by the Company dated even date herewith in connection with the \$2,000,000 loan made by you to the Company and (ii) the Commercial Loan Agreement and loan documents executed in connection therewith dated even date herewith in connection with the \$5,000,000 loan made by you to the Company.

**16. SIGNATURES.** By signing under seal, I agree to the terms contained in this Agreement. I also acknowledge receipt of a copy of this Agreement.

**BORROWER:**

Optical Cable Corporation

By /s/ Tracy G. Smith (Seal)  
Tracy G. Smith, Vice President and CFO

**OPTICAL CABLE CORPORATION**

Annual Report

2006

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

	Years ended October 31,				
	2006	2005	2004	2003	2002
<b>Statement of Income Information:</b>					
Net sales	\$45,330	\$45,899	\$43,218	\$41,114	\$42,598
Cost of goods sold	29,908	28,067	26,515	26,505	27,607
Gross profit	15,422	17,832	16,703	14,609	14,991
Selling, general and administrative expenses	14,900	16,026	15,457	13,309	13,603
Shareholder litigation settlement expense (1)	—	—	—	871	997
Loss on impairment of machinery and equipment (2)	—	—	—	117	—
Income from operations	522	1,806	1,246	312	391
Other income (expense), net:					
Interest expense, net	(10)	(21)	(113)	(159)	(184)
Other, net	(9)	37	(19)	39	9
Income before income taxes	503	1,822	1,114	192	216
Income tax expense (benefit)	152	650	364	(123)	(68)
Net income	<u>\$ 351</u>	<u>\$ 1,172</u>	<u>\$ 750</u>	<u>\$ 315</u>	<u>\$ 284</u>
Net income per share:					
Basic and diluted	<u>\$ 0.06</u>	<u>\$ 0.20</u>	<u>\$ 0.13</u>	<u>\$ 0.05</u>	<u>\$ 0.04</u>
Weighted average shares:					
Basic	<u>5,954</u>	<u>5,776</u>	<u>5,587</u>	<u>5,736</u>	<u>6,929</u>
Diluted	<u>5,966</u>	<u>5,800</u>	<u>5,618</u>	<u>5,744</u>	<u>6,929</u>
<b>Balance Sheet Information:</b>					
Cash and cash equivalents	\$ 555	\$ 3,290	\$ 4,342	\$ 2,337	\$ 747
Working capital	14,441	15,159	15,360	14,277	15,480
Total assets	34,791	34,944	32,113	30,185	32,674
Bank debt	991	—	—	—	—
Total shareholders' equity	30,435	29,345	27,675	26,634	28,204

- (1) The Company recorded a charge during fiscal year 2003 in the amount of \$870,549, representing the costs incurred during the year as a result of the settlement of a consolidated shareholder class action lawsuit arising from the actions of the Company's former chief executive officer. Of the total charge during 2003, a noncash expense of \$862,250 resulted from the variable accounting treatment, required by U.S. generally accepted accounting principles, related to warrants to purchase 250,000 shares of the Company's common stock issued as part of the settlement. Variable accounting treatment required the Company to recognize an expense as the price per share of the Company's common stock increased. The Company recorded a charge during fiscal year 2002 in the amount of \$997,112, representing the estimated cost of the settlement of the consolidated shareholder class action lawsuit and related professional fees incurred, net of insurance proceeds. Of the total charge recorded in 2002, a noncash expense of \$320,344, resulted from the variable accounting treatment related to the warrants. See note 7 of the notes to the financial statements for further information on the warrants issued in connection with the litigation settlement and the accounting treatment of the warrants.
- (2) The Company recorded a charge during fiscal year 2003 in the amount of \$117,337 due to a loss on impairment of machinery and equipment in connection with an automation upgrade to the Company's production lines.

Dear Shareholders:

### **A Transition Year—With a Strong Finish**

After significantly increasing earnings for several years, from 4 cents per share in fiscal year 2002 to 20 cents per share in fiscal year 2005, we anticipated another year of substantial earnings growth for Optical Cable in 2006. Instead, fiscal year 2006 was a transition year for us, as we continued to implement an aggressive strategy to reposition Optical Cable and prepare our business for future growth.

We finished fiscal year 2006 with a strong fourth quarter, posting net sales of \$12.6 million and earnings of 13 cents per share during our final quarter—Optical Cable's best quarterly results since the telecom industry downturn of 2001-02. However, due to disruptions early in the year caused by necessary upgrades to our processes and systems and due to challenges in certain of our specialty markets, our financial results for fiscal year 2006 included a 1.2% decrease in net sales and earnings of 6 cents per share.

Though fiscal year 2006 results did not meet our expectations, we made great progress in executing our strategic plan during the year. As a result, we are confident that we enter 2007 better positioned to improve our financial and operational performance and to create significant value for Optical Cable's shareholders.

### **Investing for the Future**

We took aggressive action in fiscal year 2006 to enhance Optical Cable's prospects for continued growth and value creation. One element of our strategy includes making significant upgrades to our processes and systems to increase plant efficiency, improve customer service and enhance the scalability of our business. In the process of repositioning any business, disruptions often occur, and Optical Cable experienced disruptions during the first half of fiscal year 2006 that impacted our financial results.

Despite our careful planning, certain components of these planned upgrades, particularly those in connection with our new ERP system, temporarily affected our manufacturing efficiency and lead times. As demonstrated by our strong fourth quarter results, we believe we identified and corrected a number of the underlying issues.

We believe the improvements we have made to our processes and systems, and the upgrades we have made to our facilities and capabilities, made Optical Cable a stronger company, better positioned to deliver sustainable revenue and earnings growth to our shareholders. We will continue to make improvements and upgrades necessary to support our goals and to execute our strategic plan.



## **Growth in Commercial Markets With Challenges in Certain Specialty Markets**

Our strategy continues to include leveraging our core products and service strengths in targeted markets, particularly those well-suited for our fiber optic cable products.

During fiscal year 2006, we grew net sales in our commercial markets both within the United States and internationally. Total net sales outside of the United States were quite strong, growing 52% in 2006 compared to 2005. However, total net sales in fiscal year 2006 decreased 1.2% to \$45.3 million as a result of weaknesses in some of our specialty markets, particularly the military market where we experienced a substantial decrease in sales during the year.

The volatility of quarterly and yearly demand in certain of our markets—like that experienced during 2006 in our military markets—can be caused by various factors and will remain a challenge for Optical Cable. But, with our strong position in our targeted markets, we are confident Optical Cable can generate solid results for our shareholders.

## **Management's Interests Are Aligned With Shareholders'**

Every member of Optical Cable's management team is committed to delivering outstanding results to drive long-term shareholder value creation—and we emphasize this by linking Optical Cable's financial performance directly to management team compensation.

One way that Optical Cable aligns the interests of management with the interests of our shareholders is by making a substantial portion of the management team's annual bonus compensation contingent on the financial performance of Optical Cable during the year. Accordingly, because Optical Cable's management did not deliver on its financial performance objectives, no annual bonuses were paid to the management team for fiscal year 2006.

Additionally, Optical Cable has an *Equity Ownership and Retention Policy for Senior Staff* that helps ensure that the management team shares in the risks and rewards of Optical Cable's common shares, side by side with our shareholders.

Despite financial results that did not meet our goals, great progress was made during fiscal year 2006 as we continued successfully to execute our strategy and appropriately position Optical Cable for the future. Our talented and dedicated employees are Optical Cable's greatest asset, and while there is still much more work to be done, I am proud of what was achieved in fiscal year 2006.

## Looking Forward to 2007 and Beyond

As we begin fiscal year 2007, we will continue to execute the key elements of our strategic plan. We expect to make further investments in our facilities, processes, systems and capabilities, budgeting \$3 million in capital expenditures.

Our balance sheet remains solid, with little bank debt, even after capital expenditures and other investing activities in fiscal year 2006 totaling \$3.6 million. Our new credit facilities with Roanoke-based Valley Bank provide us with up to \$13.5 million in available credit. We are pleased with our financial strength and the substantial financial flexibility it provides.

We will continue to focus on growing sales in our commercial markets and in targeted specialty markets during 2007. However, we expect our financial results will likely vary from quarter to quarter during the year, due to fluctuations in the markets in which Optical Cable operates, changes in our product mix sold during any quarter, the timing of projects, customers' budgetary considerations, and seasonal factors. Notwithstanding these challenges, we expect to return to our pre-2006 pattern of growing earnings year after year, with annual net income results in fiscal year 2007 exceeding the results of not only fiscal year 2006, but fiscal year 2005 as well.

As planned, Optical Cable has made significant investments of time and money in certain strategic initiatives that are in various stages of completion. We believe that successfully completing these initiatives will improve Optical Cable's position in the marketplace. As is often the case with strategic investments, it may take us some time to realize the benefits of these initiatives. We believe, however, that ultimately these initiatives will enhance shareholder value.

In conclusion, we are confident that we have the right strategies in place to drive growth and profitability; and that the successful execution of our strategic plan to date—and the continued successful execution of that plan—will position Optical Cable to create long-term shareholder value.

Thank you for your continued interest in Optical Cable Corporation.

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.

Chairman of the Board,  
President and Chief Executive Officer

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

### Forward-Looking Information

This report may contain certain forward-looking information within the meaning of the federal securities laws. The forward-looking information may include, among other information, (i) statements concerning our outlook for the future, (ii) statements of belief, anticipation or expectation, (iii) future plans, strategies or anticipated events, and (iv) similar information and statements concerning matters that are not historical facts. Such forward-looking information is subject to risks and uncertainties that may cause actual events to differ materially from our expectations. Factors that could cause or contribute to such differences 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); our dependence on a single manufacturing facility; our ability to protect our proprietary manufacturing technology; market conditions influencing prices or pricing; our dependence on a limited number of suppliers; the loss of or conflict with one or more key suppliers or customers; an adverse outcome in litigation, claims and other actions, and potential litigation, claims and other actions against us; an adverse outcome in regulatory reviews and audits and potential regulatory reviews and audits; further adverse changes in laws and regulations associated with the extraterritorial income exclusion; 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 of competing technologies, including copper cable and wireless, relative to fiber optic cable; economic conditions that affect the telecommunications sector, certain technology sectors or the economy as a whole; terrorist attacks or acts of war, and any potential future military conflicts; changes in the level of military spending by the United States government; ability to retain key personnel; our ability to successfully implement planned changes to our information technology systems and manufacturing processes; the impact of changes in accounting policies, including those by the Securities and Exchange Commission and the Public Company Accounting Oversight Board; our ability to 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; 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, and/or making investments in or with, parties that compete with and/or have conflicts with customers of ours; adverse reactions by customers, vendors or other service providers to unsolicited proposals regarding the acquisition of us by another company; the additional costs of considering and possibly defending our position on such unsolicited proposals regarding the acquisition of us by another company; impact of weather or natural disasters in the areas of the world in which we operate and market our products; changes in market demand, exchange rates, productivity, or market and economic conditions in the areas of the world in which we operate and market our products, and our success in managing the risks involved in the foregoing.

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

Dollar amounts presented in the following discussion have been rounded to the nearest hundred thousand, unless the amounts are less than one million, in which case the amounts have been rounded to the nearest thousand.

### Overview

After a challenging start to our 2006 fiscal year, we ended the year on a very positive note. During the fourth quarter, our net sales reached \$12.6 million and our net income was \$0.13 per basic and diluted common share—both financial measures greater than any previous quarter since the telecommunications downturn in 2001. We believe net income results we achieved during the fourth quarter of fiscal year 2006 are generally indicative of our ability to leverage the investments we have made to improve our facilities, processes, systems and personnel to deliver greater shareholder returns.

Despite the increase in net sales toward the end of the year, net sales for fiscal year 2006 as a whole decreased slightly when compared to fiscal year 2005. During fiscal year 2006, we experienced substantial growth in international net sales, as well as net sales increases in our general commercial markets, however, these gains only partially offset net sales decreases in certain targeted specialty markets due to demand fluctuations. We reported net income in fiscal year 2006 of \$351,000, or \$0.06 per basic and diluted common share, compared to net income of \$1,172,000, or \$0.20 per basic and diluted common share, in fiscal year 2005.

We are a leading manufacturer of fiber optic cables primarily sold into the enterprise market, and the premier manufacturer of military ground tactical fiber optic cable for the U.S. military.

Founded in 1983, Optical Cable Corporation pioneered 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. Our current broad product offering is built on the evolution of these fundamental technologies, and is designed to provide end-users with fiber optic cables that are easy and economical to install, provide a high degree of reliability and offer outstanding performance characteristics.

We sell our products worldwide for uses ranging from commercial and campus installations to customized products for specialty applications and harsh environments, including military applications. We manufacture our high quality fiber optic cables at our ISO 9001:2000 registered and MIL-STD-790F certified facility located in Roanoke, Virginia.

Our tight buffered fiber optic cables are used for high bandwidth transmission of data, video and audio communications. The enterprise market into which we sell includes local area network and premises markets. Our fiber optic cables are well-suited for use in various other short- to moderate-distance applications as well.

We sell our products internationally and domestically through our sales force to our customers, which include major distributors, regional distributors, various smaller distributors, original equipment manufacturers and value-added resellers. For the years ended October 31, 2006, 2005 and 2004, approximately 77%, 85% and 81%, respectively, of net sales were from customers located in the United States, while approximately 23%, 15% and 19%, respectively, of net sales were from customers located outside of the United States. Substantially all of our sales to customers outside of the United States are denominated in U.S. dollars. We believe the increase in the percentage of net sales to customers located outside of the United States in 2006 compared to 2005 and 2004 is primarily the result of certain organizational changes and increased sales efforts in certain international markets. We can experience fluctuations in the percentage of net sales to customers outside of the United States from period to period based on the timing of large orders, coupled with the impact of increases or decreases in sales to customers located in the United States.

Net sales consist of gross sales of products less discounts, refunds and returns. Revenue is recognized at the time of product shipment or delivery to the customer (including distributors) provided that the customer takes ownership and assumes risk of loss, based on shipping terms. In fiscal years 2006, 2005 and 2004, one major domestic distributor accounted for 15.7%, 15.4% and 16.0% of our net sales, respectively. Other than this distributor, no single customer accounted for more than 10% of our net sales in fiscal years 2006, 2005 or 2004.

A significant percentage of the selling price of our fiber optic cable is based on the cost of raw materials used. Single-mode fiber is less expensive than multimode fiber, and consequently single-mode fiber optic cables have a lower per unit selling price than comparable multimode fiber optic cables. We believe that while the long-haul, metropolitan, access and fiber-to-the-premises (FTTX) markets are predominantly the users of single-mode fiber optic cable, that increasingly, single-mode fiber optic cable is also being used for short- to moderate-distance installations where higher bandwidth is required. However, any trend toward the use of single-mode fiber optic cables in such short- to moderate-distance installations may be slowed to the extent that 50 micron 10 gigabit multimode fiber optic cables are used to satisfy current bandwidth demands. To the extent that our sales mix shifts toward single-mode cables, we will have to increase the volume of product sold to maintain our current level of net sales.

Cable containing multimode fiber is generally used for communications over shorter distances where the higher bandwidth capacity and the higher transmission equipment cost of single-mode fiber is not required. Cable containing single-mode fiber is generally used for communications over longer distances and where higher bandwidth capacity is required.

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.

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

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

## Results of Operations

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

	Fiscal Years Ended October 31,		Percent Change	Fiscal Years Ended October 31,		Percent Change
	2006	2005		2005	2004	
Net sales	\$45,300,000	\$45,900,000	(1.2)%	\$45,900,000	\$43,200,000	6.2%
Gross profit	15,400,000	17,800,000	(13.5)	17,800,000	16,700,000	6.8
SG&A expenses	14,900,000	16,000,000	(7.0)	16,000,000	15,500,000	3.7
Net income	351,000	1,172,000	(70.1)	1,172,000	750,000	56.2

### Net Sales

Net sales decreased 1.2% to \$45.3 million in fiscal year 2006 from \$45.9 million in fiscal year 2005. Net sales in the U.S. for fiscal year 2006 decreased 10.7% to \$34.8 million compared to \$39.0 million last year, while net sales outside the U.S. increased 52.0% to \$10.5 million compared to \$6.9 million last year. Quarterly net sales ranged from \$9.9 million during the first quarter of 2006 to \$12.6 million during the fourth quarter of 2006. We experienced an increase in net sales in our commercial market compared to last year, but this increase was more than offset by decreases in net sales for certain of our specialty markets. Overall, net sales to customers outside the United States showed substantial strength during fiscal 2006 compared to last year, while net sales to customers in the United States decreased due to lower sales in certain specialty markets. We believe these product sales patterns are a result of a number of factors including market demand fluctuations, the timing of projects and other factors affecting product demand in certain specialty markets, and relatively consistent growth in our commercial market. Further, we believe that certain of our specialty markets may be more susceptible to fluctuations quarter to quarter due to project timing and other factors affecting demand in such specialty markets. However, the net sales increase we achieved during the fourth quarter of fiscal year 2006 was a result of strength in our commercial markets rather than our specialty markets.

Also during fiscal 2006, we continued the implementation of business process and system upgrades in connection with our new ERP system and certain other initiatives. Those changes, to some extent, adversely impacted our production efficiency as we began the transition to new systems and processes—particularly during the first six months of fiscal year 2006. As expected, we experienced what we believe to be a temporary increase in manufacturing lead times, which likely contributed to lower net sales during the first half of fiscal 2006. During the third and fourth quarters of fiscal 2006, we had identified and corrected a number of the issues that previously impacted our manufacturing lead times and manufacturing efficiencies. We believe our process and system changes ultimately will improve the scalability of our systems (and therefore our ability to better handle increased production volume), improve our plant efficiency, and improve our customer service.

Additionally, we believe our net sales have generally been impacted by seasonality factors wherein 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. Since fiscal year 2001, we have seen that this pattern may be substantially altered by the timing of larger projects or other economic factors impacting our industry or impacting the industries of our customers and end-users. As a result, while we believe seasonality may be a factor that impacts our quarterly net sales results, we are not able to reliably predict net sales based on seasonality because these other factors

can also substantially impact our net sales patterns during the year. We believe net sales trends so far during the first quarter of fiscal year 2007 indicate that quarter will be impacted by seasonality factors.

Net sales increased 6.2% to \$45.9 million in fiscal year 2005 from \$43.2 million in fiscal year 2004. Net sales in the U.S. for fiscal year 2005 grew 10.7%, to \$39.0 million compared to \$35.2 million, while net sales outside the U.S. decreased 13.5% to \$6.9 million compared to \$8.0 million last year. While net sales in the U.S. grew as expected, net sales outside the U.S. fell short due to a number of factors, including the fact that due to budgetary constraints, one large customer outside of the U.S. did not purchase fiber optic cable from us at the same level as in prior years. Quarterly net sales ranged from \$11.1 million during the first quarter of 2005 to \$11.8 million during the fourth quarter of 2005. We believe our market segment initiatives and other ongoing initiatives contributed to the overall increase in net sales when comparing fiscal year 2005 to fiscal year 2004.

#### *Gross Profit*

Gross profit decreased 13.5% to \$15.4 million in fiscal year 2006 from \$17.8 million in 2005. Gross profit margin, or gross profit as a percentage of net sales, decreased to 34.0% for fiscal year 2006 compared to 38.9% for 2005. Quarterly gross profit margins during fiscal year 2006 were 33.4%, 30.3%, 34.3% and 37.6% during the first, second, third and fourth quarters, respectively.

We believe a number of factors contributed to the decrease in the gross profit margin during fiscal year 2006 compared to fiscal year 2005. We believe the decrease in the gross profit margin during the year resulted in part from the sale of a mix of products with lower margins. We experienced an increase in net sales in our commercial market (with relatively lower gross profit margins) compared to last year. This increase in our commercial market, however, was more than offset by a decrease in net sales for certain of our specialty markets (with relatively higher gross profit margins). Product mix can vary as a result of changes in sales of products with different fiber types and fiber counts, and changes in sales to various markets that require different product types. Our gross profit margin percentages are heavily dependent upon product mix and may deviate from expectations based on both anticipated and unanticipated changes in product mix. We believe the product sales pattern during fiscal 2006 are a result of a number of factors including the timing of projects and other factors affecting product demand in certain specialty markets, and relatively consistent growth in our commercial market.

Additionally, during the first half of 2006, we experienced what we believe to be a temporary decrease in manufacturing efficiencies in part resulting from the continuing implementation of process and system changes in connection with our new ERP system and other initiatives, which likely contributed to lower gross profit margins during the first half of 2006. The improvement in our gross profit margin in the last half of 2006 compared to the first half of 2006 is supportive of the fact that by the end of the second quarter, we had identified and corrected a number of issues that previously impacted our manufacturing lead times and manufacturing efficiencies. We continued to closely monitor the impact of revisions to our processes throughout the third and fourth quarters. We believe that our process and system changes ultimately will improve the scalability of our systems (and therefore our ability to better handle increased production volume), improve our plant efficiency, and improve our customer service.

We believe the improvement in gross profit margins during fiscal year 2006—particularly in the fourth quarter—is a result of improved manufacturing efficiencies as discussed above, rather than an increase in the sale of a mix of products with relatively higher margins.

Gross profit increased 6.8% to \$17.8 million in fiscal year 2005 from \$16.7 million in 2004. Gross profit margin, or gross profit as a percentage of net sales, increased slightly to 38.9% for fiscal year 2005 from 38.6% for 2004.

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

SG&A expenses decreased 7.0% to \$14.9 million in fiscal year 2006 from \$16.0 million in 2005. SG&A expenses as a percentage of net sales were 32.9% in fiscal year 2006 compared to 34.9% in 2005. The lower percentage in fiscal year 2006 reflects the fact that net sales for the period decreased 1.2% compared to 2005, while SG&A expenses decreased 7.0% compared to 2005. The largest element of the net decrease in SG&A expenses during 2006 compared to 2005 was compensation costs, in particular, decreases in employee incentives due to the fact that the financial results during fiscal year 2006 were less favorable than planned. Decreases in

marketing expenses and travel and entertainment also contributed to the decrease in SG&A expenses. Further contributing to the decreases in SG&A expenses were decreases in qualification and certification fees that were incurred in fiscal year 2005 that were not incurred in fiscal year 2006. The decreases in these SG&A expenses were slightly offset by increases in professional and legal expenses, mostly resulting from expenses totaling \$152,000 incurred in response to an unsolicited and contingent proposal from Superior Essex, Inc. to purchase all of our outstanding shares of common stock for \$6.00 per share, expenses resulting from the adoption of SFAS 123(R) totaling \$183,568 related to stock options granted before July 2002, and increased shipping and handling expenses.

During fiscal year 2006, we received an unsolicited and contingent proposal from Superior Essex, Inc. to purchase all of our outstanding shares of common stock for \$6.00 per share. This proposal was first received by the Company on August 1, 2006 and was considered by the Board of Directors of the Company and rejected. The Company's Board of Directors carefully considered and unanimously determined that the proposal: was financially inadequate; was inconsistent with, and could in fact interfere with, our existing initiatives and business plan; and that attempting to negotiate with Superior Essex, Inc. at that time was not in the best interest of our shareholders.

SG&A expenses increased 3.7% to \$16.0 million in fiscal year 2005 from \$15.5 million in 2004. SG&A expenses as a percentage of net sales were 34.9% in fiscal year 2005 compared to 35.8% in 2004. The lower percentage in fiscal year 2005 reflects the fact that net sales for the period increased 6.2% compared to 2004, while SG&A expenses only increased 3.7% compared to 2004. The largest element of the net increase in SG&A expenses during 2005 compared to 2004 was compensation costs, in particular, increases in sales commissions. Increases in other compensation costs also contributed to the increase in SG&A expenses, including the costs of restricted stock grants to certain employees intended to drive future growth. Further contributing to the increase in SG&A expenses were the costs incurred in connection with our achievement of two significant milestones in our continuing pursuit of excellence as a long-time supplier of rugged military fiber optic cables for the U.S. and allied militaries. Specifically, we became certified by the U.S. Department of Defense as a fully qualified supplier of MIL-PRF-85045/8A military ground tactical fiber optical cable, meeting all military requirements. Our manufacturing facility was also certified by the U.S. Department of Defense as a MIL-STD-790F facility during the year, one of the most respected certifications in the defense industry. Increases in legal and professional fees also contributed to the increase in SG&A expenses in fiscal 2005.

#### *Other Income (Expense), Net*

We recognized other expense, net in fiscal year 2006 of \$19,000 compared to other income, net of \$17,000 in fiscal year 2005. Other expense, net is comprised of interest income, interest expense and other miscellaneous items.

We recognized other income, net in fiscal year 2005 of \$17,000 compared to other expense, net of \$132,000 in fiscal year 2004. The change was primarily due to a decrease in interest expense related to our credit facility. Although we did not need to use our credit facility during fiscal years 2005 or 2004, we recognized interest expense during 2004 and during the first two quarters of 2005 related to the amortization of the deferred financing costs associated with obtaining and amending our credit facility.

#### *Income Before Income Taxes*

Income before income taxes was \$503,000 in fiscal year 2006 compared to income before income taxes of \$1.8 million in 2005. This decrease was primarily due to the decrease in gross profit of \$2.4 million, partially offset by a decrease in SG&A expenses of \$1.1 million.

Income before income taxes was \$1.8 million in fiscal year 2005 compared to income before income taxes of \$1.1 million in 2004. This increase was primarily due to the increase in gross profit of \$1.1 million, partially offset by an increase in SG&A expenses of \$569,000.

#### *Income Tax Expense*

Income tax expense totaled \$152,000 in fiscal year 2006 compared to income tax expense of \$650,000 in 2005. Our effective tax rate for fiscal year 2006 was 30.3%, compared to an effective tax rate of 35.7% during fiscal year 2005. Generally, fluctuations in our effective tax rates are primarily due to the amount and timing of various tax deductions and benefits, including our Extraterritorial



Income Exclusion (“EIE”), which exempts from federal income taxation a portion of the net profit realized from sales outside the United States of products manufactured in the United States. The EIE is calculated by a complex analysis of all export sales and profits for the year. Fluctuations in the ratio of export sales and profitability to total sales and profitability create changes in the EIE. Additionally, the EIE benefit continues to be phased out as a result of The American Jobs Creation Act of 2004 (the “Jobs Act”). The Jobs Act generally repeals the EIE regime for transactions after December 31, 2004. The Jobs Act continues to extend EIE benefits at a reduced rate for two additional years, and continues EIE benefits indefinitely for transactions pursuant to a binding contract in effect on September 17, 2003. As passed, the Jobs Act provides transition relief by allowing taxpayers to retain a portion of their otherwise-applicable EIE benefits: 100% for transactions during calendar year 2004, 80% for transactions during calendar year 2005 and 60% for transactions during calendar year 2006. At the same time, the Jobs Act allows for a new deduction based on qualified domestic production activities.

Although the EIE continued to be phased out in 2006, we realized a greater benefit from the EIE in 2006 as a result of the increase in net sales to customers outside of the United States during 2006. The beneficial impact of the new deduction also favorably impacted our effective tax rate in 2006 when compared to 2005.

Income tax expense totaled \$650,000 in fiscal year 2005 compared to income tax expense of \$364,000 in 2004. Our effective tax rate for fiscal year 2005 was 35.7% compared to an effective tax rate of 32.7% for fiscal year 2004.

#### *Net Income*

Net income decreased 70.1% to \$351,000 in fiscal year 2006 compared to \$1.2 million in 2005. This decrease was primarily due to the factors previously described as contributing to the decrease in income before income taxes, partially offset by a decrease in income tax expense of \$498,000 in 2006 compared to 2005.

Net income increased 56.2% to \$1.2 million in fiscal year 2005 compared to \$750,000 in 2004. This increase was primarily due to the factors previously described as contributing to the increase in income before income taxes, partially offset by an increase in income tax expense of \$286,000 in 2005 compared to 2004.

#### **Financial Condition**

Total assets decreased \$153,000, or less than one half of one percent, to \$34.8 million at October 31, 2006, from \$34.9 million at October 31, 2005. This decrease was primarily due to a \$2.7 million decrease in cash. Further detail regarding the decrease in cash is provided in our discussion of “Liquidity and Capital Resources.” The decrease in cash was partially offset by a \$1.4 million increase in note receivable and an \$871,000 increase in property and equipment, net. Note receivable has increased as a result of increased advances made by us to a start-up connector company, described further in the “Liquidity and Capital Resources” section herein. Increases in property and equipment, net are in accordance with our plan for capital expenditures for the year.

Total liabilities decreased \$1.2 million, or 22.2%, to \$4.4 million at October 31, 2006 from \$5.6 million at October 31, 2005. This decrease was primarily due to a \$1.3 million decrease in accrued compensation and payroll taxes and a \$975,000 decrease in accounts payable and accrued expenses, partially offset by a \$991,000 increase in note payable to our bank under our line of credit. The decrease in accrued compensation and payroll taxes at October 31, 2006 compared to October 31, 2005, resulted from the payment of certain incentive compensation related to fiscal year 2005 during fiscal year 2006, and from the fact that we did not accrue certain employee incentive compensation during fiscal year 2006 because our financial results for fiscal year 2006 were less favorable than planned. The decrease in accounts payable and accrued expenses were primarily due to the timing of payments made on trade accounts payable around year end.

Total shareholders’ equity at October 31, 2006 increased \$1.1 million, or 3.7% during fiscal year 2006. The increase resulted from net income retained of \$351,000, share-based compensation totaling \$733,000, and proceeds from the exercise of warrants to purchase common stock totaling \$6,500.

#### **Liquidity and Capital Resources**

Our primary capital needs during 2006 have been to fund working capital requirements, capital expenditures, and advances to a start-up connector company described further herein. Our primary source of capital for these purposes has been existing cash and our bank

line of credit. As of October 31, 2006, we had an outstanding loan balance of \$991,000 under our bank line of credit. We had no outstanding balance under our bank line of credit at October 31, 2005.

Our cash totaled \$555,000 as of October 31, 2006, a decrease of \$2.7 million, compared to \$3.3 million as of October 31, 2005. The decrease in cash for the fiscal year ended October 31, 2006, primarily resulted from payments made for operating expenses during the period as well as capital expenditures made during fiscal year 2006 and the advances to a start-up connector company under a note receivable (described further herein).

On October 31, 2006, we had working capital of \$14.4 million, compared to \$15.2 million as of October 31, 2005. The ratio of current assets to current liabilities as of October 31, 2006, was 4.4 to 1 compared to 3.7 to 1 as of October 31, 2005. The decrease in working capital during fiscal year 2006 was primarily caused by the \$2.7 million decrease in cash and the \$991,000 increase in note payable to our bank, partially offset by a \$2.3 million decrease in accounts payable and accrued expenses, including accrued compensation and payroll taxes.

Net cash used in operating activities was \$58,000 in fiscal year 2006, compared to net cash provided by operating activities of \$2.1 million in 2005 and \$3.2 million in fiscal year 2004. Net cash used in operating activities during fiscal year 2006 primarily resulted from certain adjustments to reconcile net income to net cash used in operating activities, including depreciation and amortization of \$1.4 million and share-based compensation expense of \$733,000, offset by a decrease in accrued compensation and payroll taxes totaling \$1.3 million and a decrease in accounts payable and accrued expenses totaling \$858,000. Share-based compensation expense increased compared to last year as a result of the adoption of SFAS 123(R) and the January 28, 2006 restricted stock grant while accrued compensation decreased compared to last year as a result of decreases in employee incentives due to the fact that the financial results during fiscal year 2006 were less favorable than planned. Net cash provided by operating activities during fiscal year 2005 primarily resulted from net income of \$1.2 million and certain adjustments to reconcile net income to net cash provided by operating activities, including depreciation and amortization of \$1.3 million and share-based compensation expense of \$477,000. Additionally, an increase in accounts payable and accrued expenses of \$526,000 and an increase in income taxes payable of \$386,000 contributed to net cash provided by operating activities. All of the aforementioned factors positively affecting cash provided by operating activities were partially offset by an increase in inventories of \$2.2 million. Net cash provided by operating activities during fiscal year 2004 primarily resulted from net income of \$750,000 and certain adjustments to reconcile net income to net cash provided by operating activities, including depreciation and amortization of \$1.0 million, deferred income tax expense of \$378,000 and share-based compensation expense of \$271,000. Additionally, a decrease in income taxes refundable of \$262,000, and an increase in accrued compensation and payroll taxes of \$942,000 contributed to net cash provided by operating activities. All of the aforementioned factors positively affecting cash provided by operating activities were partially offset by an increase in trade accounts receivable of \$544,000 and a decrease in accounts payable and accrued expenses and other liabilities of \$207,000.

Net cash used in investing activities totaled \$3.6 million in fiscal year 2006, compared to \$3.2 million in 2005. Net cash used in investing activities during fiscal years 2006 and 2005 resulted primarily from purchases of property and equipment, deposits for the purchase of property and equipment and advances made to a start-up company described further herein.

On April 22, 2005, we agreed to extend a loan to a start-up connector company, (the "Borrower"), specializing in the design, manufacture and sale of connectors and cable assemblies for certain niche markets. The Borrower offers complementary products to our product offering and is still in the development stage. As a development stage company, the Borrower currently has limited revenues and assets and is incurring net losses. As of October 31, 2006, total assets of the Borrower, based on unaudited financial information, was equivalent to approximately 4% of our total assets. Total revenues of the Borrower, based on unaudited financial information, was equivalent to approximately 5% of our net sales for fiscal year 2006.

This loan, and the related transactions described further herein, is part of a strategy designed to provide us with an option to expand our product line offering in certain market niches in which we currently sell our fiber optic cable products and to preserve channels to market for our existing product line offering in those market niches over the longer term.

The loan agreement, as amended through October 31, 2006, provides that the maximum aggregate principal amount that may be advanced to the Borrower is \$2.5 million. Through October 31, 2006 and 2005, we had advanced a total of \$2.2 million (including accrued interest and accounts receivable from product sales) and \$815,000, respectively, to the Borrower. The note receivable is collateralized by all of the Borrower's tangible and intangible property and bears interest at six percent (6%) per annum. Two of the founders of the Borrower have also guaranteed amounts up to two-thirds of the principal balance outstanding on the note receivable plus two-thirds of any accrued interest related to the note receivable. In connection with the loan, we were issued a warrant by the Borrower which, as amended, gives us the right to purchase a fifty-six percent (56%) equity interest in the Borrower on a fully diluted, as converted basis, for a purchase price of \$1.5 million. In addition, we were granted the right to purchase all other outstanding equity of the Borrower at various times from 2009 through 2012, at a fixed multiple of trailing earnings before interest and taxes (EBIT), conditioned upon our exercise of the warrant or the Borrower's failure to repay the loan when due. Subsequent to October 31, 2006, an amendment was made to the loan agreement and related agreements that increased the maximum aggregate principal amount that may be advanced to the Borrower to \$2.8 million. This most recent amendment also extends the maturity date of the note receivable and the expiration date of the warrant to July 31, 2008. The Board of Directors has also authorized an additional \$500,000 in advances, for a total of \$3.3 million. Should we choose to advance any additional amounts, as approved by the Board, further amendment would be required to the documents. The note receivable is callable by us at any time. Our rights under the warrant terminate if the warrant is not exercised prior to the expiration date. Subsequent to October 31, 2006, we made additional advances to the Borrower totaling \$350,000.

Net cash used in investing activities totaled \$1.3 million in fiscal year 2004 and resulted entirely from purchases of property and equipment.

Net cash provided by financing activities was \$878,000 in fiscal year 2006 and \$20,000 in fiscal years 2005 and 2004. Net cash provided by financing activities in fiscal year 2006 resulted from proceeds from a note payable to our bank under our line of credit and proceeds received from the exercise of warrants, partially offset by payments for financing costs associated with amending and restating our former credit facility and obtaining our new credit facilities. Net cash provided by financing activities in fiscal years 2005 and 2004 resulted entirely from proceeds received from the exercise of warrants to purchase our common stock.

On September 25, 2006, we closed on revolving credit facilities with Valley Bank. The credit facilities with Valley Bank provide a working capital line of credit (the "Working Capital Facility"), a machinery and equipment line of credit (the "Machinery and Equipment Facility") and a real estate term loan (the "Real Estate Loan"), and together replaced our former credit facility with Wachovia Bank, National Association ("Wachovia"). The Working Capital Facility, the Machinery and Equipment Facility and the Real Estate Loan together provide us with an aggregate maximum of \$13.5 million in available credit, less any borrowings. As of October 31, 2006, the Company had approximately \$12.5 million unused and available.

The Working Capital Facility provides up to \$5 million for our working capital needs and bears interest at LIBOR plus 2.15%, which equates to a facility rate of 7.47% as of October 31, 2006. The Working Capital Facility provides a lower interest rate option if we maintain specified depository limits with Valley Bank. We can borrow up to 85% of our eligible accounts receivable under the Working Capital Facility. As of October 31, 2006, the Company had \$990,724 outstanding under the Working Capital Facility.

The Machinery and Equipment Facility provides up to \$2 million for machinery and equipment purchases and also bears interest at LIBOR plus 2.15%, which equates to a facility rate of 7.47% as of October 31, 2006. Both the Machinery and Equipment Facility and the Working Capital Facility are secured by our accounts receivable, inventory, furniture, fixtures and equipment and proceeds and are payable on demand with 60 days prior written notice, provided that we are not in default. If not sooner demanded, the Working Capital Facility and the Machinery and Equipment Facility expire on February 28, 2008. As of October 31, 2006, the Company had no outstanding borrowings under the Machinery and Equipment Facility.

We may also borrow up to \$6.5 million under the terms of the Real Estate Loan. The advances under the Real Estate Loan may be made at any time within one year of closing. Furthermore, to the extent we have borrowings under the Real Estate Loan, principal and interest payments will be calculated monthly, based on a 25 year amortization. The unpaid balance, if any, on any advances under the Real Estate Loan will be due October 1, 2011. Payments on the Real Estate Loan will be for interest only for the period from

November 1, 2006 through October 1, 2007. Thereafter, through October 1, 2011 payments of both principal and interest will be due monthly. The Real Estate Loan bears interest at a fixed rate of 7.50% for 5 years and is secured by a first deed of trust on our real property. As of October 31, 2006, the Company had no outstanding borrowings under the Real Estate Loan.

Prior to September 25, 2006, we had a revolving credit facility with Wachovia. The initial term of the Wachovia loan agreement expired in April 2005 and was automatically extended through April 2006 pursuant to the terms of the original agreement. Effective March 31, 2006, an agreement was reached with Wachovia to amend and restate the terms of the financing, extending the Wachovia loan agreement until April 17, 2008. However, we terminated our credit facility with Wachovia early in conjunction with the closing of our new credit facilities with Valley Bank. The Wachovia credit facility bore interest at one-half of one percent (0.50%) per annum above the prime rate.

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

We issued warrants to purchase 250,000 shares of our common stock at an exercise price per share of \$4.88 as part of a consolidated class action lawsuit settlement agreement reached in September 2002. The warrants are exercisable for five years and will expire October 24, 2007. We have registered the shares issuable upon the exercise of the warrants under the Securities Act of 1933, as amended.

A prior distributor for us filed for protection from its creditors under bankruptcy laws in January 2001. We recognized recoveries totaling \$20,000 from the bankrupt estate of this prior distributor during the year ended October 31, 2006 and may recover additional amounts in the future. Subsequent recoveries, if any, from the bankrupt estate of the distributor will be recognized when payment is received, in accordance with U.S. generally accepted accounting principles.

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

### **Seasonality**

Historically, net sales are relatively lower in the first half of each fiscal year and relatively higher in the second half of each fiscal year, which we believe may be partially due to construction cycles and budgetary considerations of our customers. For example, an average of approximately 45% of our net sales occurred during the first half of the fiscal year and an average of approximately 55% of our net sales occurred during the second half of the fiscal year for fiscal years 1996 through 2006, excluding fiscal years 2001 and 2002. Fiscal years 2001 and 2002 are excluded because we believe net sales did not follow this pattern due to overall economic conditions in the industry.

We believe our net sales have generally been impacted by seasonality factors where 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. Since fiscal year 2001, we have seen that this pattern may be substantially altered by the timing of larger projects or other economic factors impacting our industry or impacting the industries of our customers and end-users. As a result, while we believe seasonality may be a factor that impacts our quarterly net sales results, we are not able to reliably predict net sales based on seasonality because these other factors can also substantially impact our net sales patterns during the year.

### **Contractual Obligations and Commitments**

The table below sets forth a summary of our contractual obligations and commitments as of October 31, 2006 that will impact our future liquidity:

Contractual Obligations and Commitments	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Note payable to bank	\$991,000	991,000	—	—	—
Total	\$991,000	991,000	—	—	—

As of October 31, 2006, we have no other disclosable contractual obligations and commitments that will significantly impact our future liquidity.

### Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based on the financial statements and accompanying notes that have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these 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 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 financial statements provides a summary of our significant accounting policies. The following are areas requiring significant judgments and estimates due to uncertainties as of the reporting date: revenue recognition, trade accounts receivable and the allowance for doubtful accounts, inventories, long-lived assets, and commitments and contingencies.

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

#### Revenue Recognition

Management views revenue recognition as a critical accounting estimate since we must estimate an allowance for sales returns for the reporting period. This allowance reduces net sales for the period and is based on our analysis and judgment of historical trends, identified returns and the potential for additional returns.

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

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

#### Inventories

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

### *Long-lived Assets*

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

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

### *Commitments and Contingencies*

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

### **Quantitative and Qualitative Disclosures About Market Risk**

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of October 31, 2006, our financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk.

### **Future Accounting Considerations**

In May 2005, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 154, Accounting Changes and Error Corrections which replaces APB Opinion No. 20 Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principal unless it is not practicable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted by us in the first quarter of fiscal 2007. Although we will continue to evaluate the application of SFAS No. 154, we do not currently believe adoption will have a material impact on the Company's results of operations, financial position or liquidity.

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments*, ("SFAS 155"), an amendment of SFAS 133 and 140. This Statement resolves certain issues addressed in the implementation of SFAS 133 concerning beneficial interests in securitized financial assets. SFAS 155 permits fair value measurement for any hybrid financial instrument that contains an embedded derivative, clarifies which interest-only strips and principal-only strips are not subject to the requirement of SFAS 133, establishes a requirement to evaluate interests in securitized financial assets, clarifies the concentrations of credit risk, and eliminates the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument. The statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The adoption of the Statement is not expected to have a material impact on our results of operations, financial position or liquidity.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets — An Amendment of FASB Statement No. 140* ("SFAS 156"). SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value.

SFAS 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of the Statement is not expected to have any impact on our results of operations, financial position or liquidity as we do not have servicing assets or servicing liabilities at this time.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Although we will continue to evaluate the application of FIN 48, we do not currently believe adoption of this interpretation will have a material impact on our results of operations, financial position or liquidity.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"), which clarifies the definition of fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact of SFAS No. 157.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, (SFAS 158) an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS No. 158 requires recognition of the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. SFAS No. 158 also requires measurement of the funded status of a plan as of the date of the statement of financial position. SFAS No. 158 is effective for recognition of the funded status of the benefit plans for fiscal years ending after December 15, 2006 and is effective for the measurement date provisions for fiscal years ending after December 15, 2008. The adoption of the Statement is not expected to have any impact on our results of operations, financial position or liquidity as we do not have a defined benefit pension plan or other postretirement plans.

In September 2006, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 are effective for financial statements issued for fiscal years beginning after November 15, 2006. The adoption of this interpretation is not expected to have a material impact on our results of operations, financial position or liquidity.

As of December 31, 2006, 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.

#### **Disagreements with Accountants**

We did not have any disagreements with our accountants on any accounting or financial disclosure made during our fiscal year ended October 31, 2006.

**Balance Sheets**  
October 31, 2006 and 2005

	October 31,	
	2006	2005
<b>Assets</b>		
Current assets:		
Cash	\$ 555,272	\$ 3,290,133
Trade accounts receivable, net of allowance for doubtful accounts of \$238,455 in 2006 and \$454,550 in 2005	8,296,996	8,174,384
Other receivables	115,824	158,340
Inventories	8,614,871	8,706,081
Prepaid expenses and other assets	545,057	384,773
Deferred income taxes	619,047	44,839
Total current assets	18,747,067	20,758,550
Property and equipment, net	13,650,007	12,779,152
Note receivable	2,244,182	814,859
Other assets, net	149,853	232,840
Deferred income taxes	—	358,700
Total assets	\$ 34,791,109	\$ 34,944,101
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,999,536	\$ 2,974,694
Accrued compensation and payroll taxes	761,585	2,099,156
Income taxes payable	553,989	525,340
Note payable to bank	990,724	—
Total current liabilities	4,305,834	5,599,190
Deferred income taxes - noncurrent	50,335	—
Total liabilities	4,356,169	5,599,190
Shareholders' equity:		
Preferred stock, no par value, authorized 1,000,000 shares; none issued and outstanding	—	—
Common stock, no par value, authorized 50,000,000 shares; issued and outstanding 6,008,016 shares in 2006 and 5,800,975 shares in 2005	2,670,343	1,930,944
Retained earnings	27,764,597	27,413,967
Total shareholders' equity	30,434,940	29,344,911
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 34,791,109	\$ 34,944,101

See accompanying notes to financial statements.



**Statements of Income**  
Years ended October 31, 2006, 2005 and 2004

	Years ended October 31,		
	2006	2005	2004
Net sales	\$45,330,397	\$45,898,547	\$43,218,190
Cost of goods sold	29,908,252	28,066,840	26,515,113
Gross profit	15,422,145	17,831,707	16,703,077
Selling, general and administrative expenses	14,900,094	16,026,075	15,457,144
Income from operations	522,051	1,805,632	1,245,933
Other income (expense), net:			
Interest income	38,324	33,942	23,793
Interest expense	(48,449)	(54,663)	(136,527)
Other, net	(9,123)	37,270	(19,181)
Other income (expense), net	(19,248)	16,549	(131,915)
Income before income taxes	502,803	1,822,181	1,114,018
Income tax expense	152,173	650,284	363,946
Net income	<u>\$ 350,630</u>	<u>\$ 1,171,897</u>	<u>\$ 750,072</u>
Net income per share:			
Basic and diluted	<u>\$ 0.06</u>	<u>\$ 0.20</u>	<u>\$ 0.13</u>

See accompanying notes to financial statements.

**Statements of Shareholders' Equity**  
Years ended October 31, 2006, 2005 and 2004

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>		
Balances at October 31, 2003	5,459,005	\$ 1,142,006	\$ 25,491,998	\$ 26,634,004
Share-based compensation	145,022	271,352	—	271,352
Exercise of warrants (\$4.88 per share)	4,096	19,993	—	19,993
Net income	—	—	750,072	750,072
Balances at October 31, 2004	5,608,123	1,433,351	26,242,070	27,675,421
Share-based compensation	188,717	477,412	—	477,412
Exercise of warrants (\$4.88 per share)	4,135	20,181	—	20,181
Net income	—	—	1,171,897	1,171,897
Balances at October 31, 2005	5,800,975	1,930,944	27,413,967	29,344,911
Share-based compensation	205,701	732,861	—	732,861
Exercise of warrants (\$4.88 per share)	1,340	6,538	—	6,538
Net income	—	—	350,630	350,630
Balances at October 31, 2006	<u>6,008,016</u>	<u>\$ 2,670,343</u>	<u>\$ 27,764,597</u>	<u>\$ 30,434,940</u>

See accompanying notes to financial statements.

**Statements of Cash Flows**  
Years ended October 31, 2006, 2005 and 2004

	Years ended October 31,		
	2006	2005	2004
<b>Cash flows from operating activities:</b>			
Net income	\$ 350,630	\$ 1,171,897	\$ 750,072
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,400,498	1,286,706	1,049,808
Bad debt expense (recovery)	(89,116)	8,728	22,029
Deferred income tax expense (benefit)	(165,173)	384,803	378,145
Share-based compensation expense	732,861	477,412	271,352
Gain on sale of machinery and equipment	—	(10,450)	—
(Increase) decrease in:			
Trade accounts receivable	(298,276)	27,054	(543,914)
Income taxes refundable	—	—	262,427
Other receivables	42,516	(74,470)	99,730
Due from employees, including current and former officers	—	—	25,167
Inventories	91,210	(2,157,319)	75,730
Prepaid expenses	(67,222)	81,121	(25,339)
Accrued interest on note receivable	(36,393)	—	—
Other assets, net	147,629	(165,065)	—
Increase (decrease) in:			
Accounts payable and accrued expenses	(858,077)	525,868	(206,772)
Accrued compensation and payroll taxes	(1,337,571)	144,477	941,723
Income taxes payable	28,649	385,734	139,606
Net cash provided by (used in) operating activities	<u>(57,835)</u>	<u>2,086,496</u>	<u>3,239,764</u>
<b>Cash flows from investing activities:</b>			
Purchase of and deposits for the purchase of property and equipment	(2,290,372)	(2,363,950)	(1,255,060)
Proceeds from sale of property and equipment	—	10,450	—
Investment in other assets	(136,376)	—	—
Note receivable	(1,128,150)	(805,000)	—
Net cash used in investing activities	<u>(3,554,898)</u>	<u>(3,158,500)</u>	<u>(1,255,060)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from note payable to bank, net	990,724	—	—
Payments for financing costs	(119,390)	—	—
Proceeds from exercise of warrants	6,538	20,181	19,993
Net cash provided by financing activities	<u>877,872</u>	<u>20,181</u>	<u>19,993</u>
Net increase (decrease) in cash and cash equivalents	(2,734,861)	(1,051,823)	2,004,697
Cash and cash equivalents at beginning of year	3,290,133	4,341,956	2,337,259
Cash and cash equivalents at end of year	<u>\$ 555,272</u>	<u>\$ 3,290,133</u>	<u>\$ 4,341,956</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash payments for interest	<u>\$ 10,425</u>	<u>\$ —</u>	<u>\$ 1,776</u>
Income taxes paid (refunded), net	<u>\$ 288,697</u>	<u>\$ (120,253)</u>	<u>\$ (416,232)</u>
<b>Noncash investing and financing activities:</b>			
Capital expenditures accrued in accounts payable	<u>\$ 117,081</u>	<u>\$ 105,625</u>	<u>\$ 10,046</u>

See accompanying notes to financial statements.

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

**(a) Description of Business**

Optical Cable Corporation (the "Company") is a leading manufacturer of fiber optic cables primarily sold into the enterprise market.

Founded in 1983, Optical Cable Corporation pioneered 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. The Company's current broad product offering is built on the evolution of these fundamental technologies, and is designed to provide end-users with fiber optic cables that are easy and economical to install, provide a high degree of reliability and offer outstanding performance characteristics.

The Company's fiber optic cables are sold worldwide. Also see note 10.

**(b) Cash and Cash Equivalents**

The Company maintained its primary cash accounts at two commercial banks during fiscal year 2006 and one commercial bank during fiscal year 2005. Accounts in both banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. As of October 31, 2006 and 2005, the Company had bank deposits in excess of \$100,000 totaling \$454,972 and \$3,133,691, respectively.

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. As of October 31, 2006 and 2005, the Company had no cash equivalents.

**(c) Trade Accounts Receivable and Allowance for Doubtful Accounts**

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

**(d) Inventories**

Inventories of raw materials and production supplies are stated at the lower of cost (specific identification for optical fibers and first-in, first-out for other raw materials and production supplies) or market. Inventories of work in process and finished goods are stated at average cost, which includes raw materials, direct labor and manufacturing overhead. Also see note 3.

**(e) Capitalized costs of potential acquisitions**

The Company capitalizes costs associated with potential acquisitions until such time negotiations are abandoned or successfully completed. As of October 31, 2006, the Company included capitalized costs of a potential acquisition totaling \$136,376 in other assets, net.

**(f) Property and Equipment**

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

External direct costs of materials and services consumed in developing or obtaining internal use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to an internal use computer software project, to the extent of the time spent directly on the project; and interest costs incurred when developing computer software for internal use are capitalized. Capitalized software development costs were approximately \$1.2 million and \$615,000 as of October 31, 2006 and 2005, respectively.

**(g) Revenue Recognition**

Revenue is recognized at the time of product shipment or delivery to the customer, and the customer takes ownership and assumes risk of loss based on shipping terms.

**(h) Shipping and Handling Costs**

Shipping and handling costs include the costs incurred to physically move finished goods from the Company's warehouse to the customers' designated location and the costs to store, move and prepare the finished goods for shipment. All amounts billed to a customer in a sale transaction related to shipping and handling are classified as sales revenue. Shipping and handling costs of approximately \$1,980,000, \$1,772,000, and \$1,743,000 are included in selling, general and administrative expenses for the years ended October 31, 2006, 2005 and 2004, respectively.

**(i) Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Also see note 11.

**(j) Impairment or Disposal of Long-Lived Assets**

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

**(k) Stock Option Plan and Other Share-Based Compensation**

Effective November 1, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share Based Payment*, ("SFAS 123(R)") and related interpretations, using the modified prospective method.

SFAS 123(R) requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant-date fair value of those awards. Using the modified prospective method of adopting SFAS 123(R), the Company began recognizing compensation expense for the remaining unvested portions of stock option awards granted prior to November 1, 2005. All such stock option awards were made prior to July 2002.

Prior to November 1, 2005, the Company had adopted the prospective method of transition for a voluntary change to the fair value based method of accounting for share-based employee compensation as allowed under SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*. The prospective method required the Company to apply the recognition provisions to all employee awards granted, modified, or settled after the beginning of the fiscal year in which the recognition provisions were first applied. During fiscal year 2006, the Company did not grant, modify or settle any employee stock options or other awards with the exception of the granting of restricted shares on January 28, 2006, June 8, 2006 and July 19, 2006 described more fully in note 9.

For stock options granted prior to the adoption of SFAS 123(R) on November 1, 2005, the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123(R) to its stock option awards (all of which were made prior to July 2002) would have been as follows for the periods presented:

	<u>Years ended October 31,</u>	
	<u>2005</u>	<u>2004</u>
Net income as reported	\$1,171,897	\$750,072
Less total share-based employee compensation expense determined under the fair value based method, net of related tax effects	509,735	572,594
Pro forma net income	<u>\$ 662,162</u>	<u>\$177,478</u>
Net income per share:		
Basic and diluted:		
As reported	\$ 0.20	\$ 0.13
Pro forma	<u>\$ 0.11</u>	<u>\$ 0.03</u>

**(l) Net Income Per Share**

Basic net income per share excludes dilution and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income 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 of the Company. Also see note 13.

**(m) Commitments and Contingencies**

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

**(n) Use of Estimates**

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

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

A summary of changes in the allowance for doubtful accounts for trade accounts receivable for the years ended October 31, 2006, 2005 and 2004 follows:

	Years ended October 31,		
	2006	2005	2004
Balance at beginning of year	\$ 454,550	\$464,963	\$462,981
Bad debt expense (recovery)	(89,116)	8,728	22,029
Losses charged to allowance	(150,240)	(22,229)	(27,629)
Recoveries added to allowance	23,261	3,088	7,582
Balance at end of year	<u>\$ 238,455</u>	<u>\$454,550</u>	<u>\$464,963</u>

A prior distributor for the Company filed for protection from its creditors under bankruptcy laws in January 2001. The Company recognized recoveries totaling \$20,400 from the bankrupt estate of this prior distributor during the year ended October 31, 2006 and may recover additional amounts in the future. Subsequent recoveries, if any, from the bankrupt estate of the distributor will be recognized when payment is received, in accordance with U.S. generally accepted accounting principles.

**(3) Inventories**

Inventories as of October 31, 2006 and 2005 consist of the following:

	October 31,	
	2006	2005
Finished goods	\$ 3,604,021	\$ 3,435,050
Work in process	1,583,952	1,669,801
Raw materials	3,248,907	3,528,446
Production supplies	177,991	72,784
	<u>\$ 8,614,871</u>	<u>\$ 8,706,081</u>

**(4) Note Receivable**

On April 22, 2005, the Company agreed to extend a loan to a start-up connector company (the "Borrower"), specializing in the design, manufacture and sale of connectors and cable assemblies for certain niche markets. The Borrower offers complementary products to the Company's product offering and is still in the development stage. As a development stage company, the Borrower currently has limited revenues and assets and is incurring net losses. As of October 31, 2006, total assets of the Borrower, based on unaudited financial information, was equivalent to approximately 4% of the Company's total assets. Total revenue of the Borrower, based on unaudited financial information, was equivalent to approximately 5% of the Company's net sales for fiscal year 2006.

This loan, and the related transactions described further herein, were part of a strategy designed to provide the Company with an option to expand its product line offering in certain market niches in which the Company currently sells its fiber optic cable products and to preserve channels to market for the Company's existing product line offering in those market niches over the longer term.

The loan agreement, as amended through October 31, 2006, provides that the maximum aggregate principal amount that may be advanced to the Borrower is \$2,500,000. Through October 31, 2006 and 2005, the Company had advanced a total of \$2,244,182, net (including accrued interest and accounts receivable from product sales) and \$814,859, respectively, to the Borrower. The note receivable is collateralized by all of the Borrower's tangible and intangible property and bears interest at six percent (6%) per annum. Two of the founders of the Borrower have also personally guaranteed amounts up to two-thirds of the principal

balance outstanding on the note receivable plus two-thirds of any accrued interest related to the note receivable. In connection with the loan, the Company was issued a warrant by the Borrower which, as amended, gives the Company the right to purchase a fifty-six percent (56%) equity interest in the Borrower on a fully diluted, as converted basis, for a purchase price of \$1,500,000. In addition, the Company was granted the right to purchase all other outstanding equity of the Borrower at various times from 2009 through 2012, at a fixed multiple of trailing earnings before interest and taxes (EBIT), conditioned upon the Company's exercise of the warrant or the Borrower's failure to repay the loan when due. Subsequent to October 31, 2006, an amendment was made to the loan agreement and related agreements that increased the maximum aggregate principal amount that may be advanced to the Borrower to \$2,800,000. This most recent amendment also extends the maturity date of the note receivable and the expiration date of the warrant to July 31, 2008. The Board of Directors has also authorized an additional \$500,000 in advances, for a total of \$3,300,000. Should the Company choose to advance any additional amounts, as approved by the Board, further amendment would be required to the documents. The note receivable is callable by the Company at any time. The Company's rights under the warrant terminate if the warrant is not exercised prior to the expiration date. Subsequent to October 31, 2006, the Company made additional advances to the Borrower totaling \$350,000.

The Company sold fiber optic cables to the Borrower totaling \$231,685 and \$43,880 during fiscal years 2006 and 2005, respectively. The Company has included \$264,779 related to the sale of product to the Borrower in note receivable in the accompanying balance sheet as of October 31, 2006, and \$43,880 in trade accounts receivable, net in the accompanying balance sheet as of October 31, 2005.

The Company recorded interest income related to the loan totaling \$32,874 and \$13,381 during fiscal years 2006 and 2005, respectively, all of which is included in note receivable in the accompanying balance sheet as of October 31, 2006.

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

Property and equipment, net as of October 31, 2006 and 2005 consists of the following:

	October 31,	
	2006	2005
Land	\$ 2,745,327	\$ 2,745,327
Building and improvements	7,056,256	6,958,703
Machinery and equipment	12,309,413	11,807,140
Furniture and fixtures	886,111	855,410
Construction in progress	1,945,729	1,134,954
Total property and equipment, at cost	24,942,836	23,501,534
Less accumulated amortization and depreciation	(11,292,829)	(10,722,382)
Property and equipment, net	<u>\$ 13,650,007</u>	<u>\$ 12,779,152</u>

**(6) Product Warranties**

The Company generally warrants its products against certain manufacturing and other defects in material and workmanship. These product warranties are provided for specific periods of time and are applicable assuming the product has not been subjected to misuse, improper installation, negligence or shipping damage. As of October 31, 2006 and 2005, the Company's accrual for estimated product warranty claims totaled \$75,000 and \$100,000, respectively, and is included in accounts payable and accrued expenses. Warranty claims expense includes the costs to investigate claims and potential claims, and the costs to replace and/or repair product pursuant to claims, which in certain cases can include claims not deemed valid by the Company. The accrued product warranty costs are based primarily on historical experience of actual warranty claims and costs as well as current information with respect to potential warranty claims and costs. Warranty claims expense for the years ended October 31, 2006, 2005 and 2004 totaled \$198,869, \$241,043 and \$227,780, respectively. The following table summarizes the changes in the Company's accrual for product warranties during the fiscal years ended October 31, 2006 and 2005:



	Years ended October 31,	
	2006	2005
Balance at beginning of year	\$ 100,000	\$ 150,000
Liabilities accrued for warranties issued during the year	205,868	228,652
Warranty claims paid during the period	(223,869)	(291,043)
Changes in liability for pre-existing warranties during the year	(6,999)	12,391
Balance at end of year	<u>\$ 75,000</u>	<u>\$ 100,000</u>

**(7) Warrants**

During fiscal year 2003, the Company issued 250,000 warrants to class members defined in a consolidated class action lawsuit by the claims administrator for the class members in connection with shareholder litigation arising from actions of the Company's former chief executive officer. The warrants were issued in accordance with a settlement agreement approved by the United States District Court for the Western District of Virginia on September 23, 2002. Each warrant entitles the holder to purchase one share of the Company's common stock at an exercise price of \$4.88 per share. The warrants will expire October 24, 2007. The total number of warrants to be issued in accordance with the settlement agreement, 250,000 warrants, has been issued by the Company.

Warrant activity for the years ended October 31, 2006, 2005 and 2004 is as follows:

	Number of shares
Balance at October 31, 2003	243,777
Exercised	(4,096)
Forfeited	(1)
Balance at October 31, 2004	239,680
Exercised	(4,135)
Balance at October 31, 2005	235,545
Exercised	(1,340)
Balance at October 31, 2006	<u>234,205</u>

**(8) Note Payable to Bank**

*New Credit Facility*

On September 25, 2006, the Company closed on revolving credit facilities with Valley Bank. The credit facilities with Valley Bank provide a working capital line of credit (the "Working Capital Facility"), a machinery and equipment line of credit (the "Machinery and Equipment Facility") and a real estate term loan (the "Real Estate Loan"), and together replaced the Company's former credit facility with Wachovia Bank, National Association ("Wachovia"). The Working Capital Facility, the Machinery and Equipment Facility and the Real Estate Loan together provide the Company with an aggregate maximum of \$13.5 million in available credit, less any borrowings. As of October 31, 2006, the Company had approximately \$12.5 million unused and available.

The Working Capital Facility provides up to \$5 million for the Company's working capital needs and bears interest at LIBOR plus 2.15%, which equates to a facility rate of 7.47% as of October 31, 2006. The Working Capital Facility provides a lower interest rate option if the Company maintains specified depository limits with Valley Bank. The Company can borrow up to 85% of the Company's eligible accounts receivable under the Working Capital Facility. As of October 31, 2006, the Company had \$990,724 outstanding under the Working Capital Facility.

The Machinery and Equipment Facility provides up to \$2 million for machinery and equipment purchases and also bears interest at LIBOR plus 2.15%, which equates to a facility rate of 7.47% as of October 31, 2006. Both the Machinery and Equipment Facility and the Working Capital Facility are secured by the Company's accounts receivable, inventory, furniture, fixtures and equipment and proceeds and are payable on demand with 60 days prior written notice, provided that the Company is not in default. If not sooner demanded, the Working Capital Facility and the Machinery and Equipment Facility expire on February 28, 2008. As of October 31, 2006, the Company had no outstanding borrowings under the Machinery and Equipment Facility.

The Company may also borrow up to \$6.5 million under the terms of the Real Estate Loan. The advances under the Real Estate Loan may be made at any time within one year of closing. Furthermore, to the extent the Company has borrowings under the Real Estate Loan, principal and interest payments will be calculated monthly, based on a 25 year amortization. The unpaid balance, if any, on any advances under the Real Estate Loan will be due October 1, 2011. Payments on the Real Estate Loan will be for interest only for the period from November 1, 2006 through October 1, 2007. Thereafter, through October 1, 2011 payments of both principal and interest will be due monthly. The Real Estate Loan bears interest at a fixed rate of 7.50% for 5 years and is secured by a first deed of trust on the Company's real property. As of October 31, 2006, the Company had no outstanding borrowings under the Real Estate Loan.

In connection with obtaining the Valley Bank credit facilities, the Company incurred various costs. These financing costs, net of amortization, were deferred and are included in prepaid expenses and other assets on the balance sheet. The deferred financing costs associated with the new credit facilities with Valley Bank are being amortized to interest expense using the straight-line method, which approximates the effective interest method, over periods not greater than the minimum expected terms of the loan agreements. The deferred financing costs, net as of October 31, 2006 totaled \$93,062 and are included in prepaid expense and other assets on the accompanying balance sheet.

#### *Former Credit Facility*

Prior to September 25, 2006, the Company had a revolving credit facility with Wachovia. The initial term of the Wachovia loan agreement expired in April 2005 and was automatically extended through April 2006 pursuant to the terms of the original agreement. Effective March 31, 2006, the Company and Wachovia agreed to amend and restate the terms of the financing, extending the Wachovia loan agreement until April 17, 2008. However, the Company terminated its credit facility with Wachovia early in conjunction with the closing of the Company's new credit facilities with Valley Bank. The Wachovia credit facility bore interest at one-half of one percent (0.50%) per annum above the prime rate.

### **(9) Employee Benefits**

#### *Health Insurance Coverage*

The Company contracts for health insurance coverage for employees and their dependents through third-party administrators. During the years ended October 31, 2006, 2005 and 2004, total expense of \$1,468,466, \$1,339,540 and \$1,113,760, respectively, was incurred under the Company's insured health care program.

#### *401(k) Plan*

The Company maintains a 401(k) retirement savings plan for the benefit of its eligible employees. Substantially all of the Company's employees who meet certain service and age requirements are eligible to participate in the plan. Through December 31, 2003, Company matching contributions were two dollars for every one dollar contributed by an employee up to 4% of the employees' annual compensation. Effective January 1, 2004, the Company adopted a new plan document which provides that the Company's matching contributions will be discretionary. The Company made matching contributions to the plan that were expensed during the Company's fiscal year ended October 31, 2006 for the last two months of the plan year ended December 31, 2005 totaling \$137,017. No additional matching contributions were expensed or accrued by the Company

for the remainder of fiscal year ended October 31, 2006 because the Company's management determined the financial results during the year did not justify further matching contributions. The Company made or accrued matching contributions to the plan of \$761,275 and \$519,870 for the years ended October 31, 2005 and 2004, respectively.

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

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

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

In March of 2005, the Company adopted and the Company's shareholders approved the Optical Cable Corporation 2005 Stock Incentive Plan (the "2005 Plan"). The 2005 Plan is intended to be the successor of the 1996 Plan. The Company has authorized and reserved 1,000,000 shares of common stock for issuance pursuant to the 2005 Plan. As of October 31, 2006, there were 772,000 remaining shares available for grant under the 2005 Plan.

Share-based compensation expense (including the expense for both stock option awards granted prior to July 2002, and restricted stock grants) recognized under SFAS 123(R) in the statement of income for the year ended October 31, 2006 was \$763,611. The estimated fair value of the Company's share-based awards, less estimated forfeitures, is amortized over the awards' vesting period on a straight-line basis. The share-based compensation expense for the year ended October 31, 2006 included \$607,162 related to restricted stock grants that would have been included in the Company's statement of income under the provisions of Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure* ("SFAS 148"), which was previously adopted by the Company as of November 1, 2003.

As a result of adopting SFAS 123(R) and because SFAS 123(R) as finally adopted does not allow for complete prospective treatment of equity compensation as originally contemplated by SFAS 148, the Company's income before taxes for the year ended October 31, 2006 was decreased by \$183,568. The Company's net income for the year ended October 31, 2006 was decreased by \$117,484, related to stock options granted before July 2002. The Company's basic earnings per share was decreased by \$0.02 per share for the year ended October 31, 2006 as a result of SFAS 123(R) not allowing complete prospective treatment of equity compensation. The implementation of SFAS 123(R) did not significantly impact cash flows from operations for the year ended October 31, 2006.

Under the 1996 Plan, employees and outside contractors were issued options to purchase common stock, all of which were issued prior to July 2002. The exercise price equaled the market price of the Company's common stock on the date of grant. Options issued under the 1996 Plan generally vest incrementally over one to five years, and remain exercisable for ten years from the date of grant.

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

The fair value of options granted prior to November 1, 2005 was estimated using the Black-Scholes option pricing model and the assumptions noted in the table below. Expected volatility was based on historical volatility of the Company's stock over a period at least as long as the options' expected term. The expected term represents the period of time that the options granted are

expected to be outstanding based on the simplified method provided in Staff Accounting Bulletin No. 107 ("SAB 107"), which averages an award's weighted average vesting period and its contractual term for 'plain vanilla' share options. The risk-free rate is based on the available zero-coupon U.S. Treasury instruments with remaining terms equal to the expected term of the share options.

### Stock Options Assumptions

Volatility	80.88%
Dividend yields	—
Expected Term (in years)	3.96-6.31
Risk-free rate	5.14%-5.58%

Stock option activity for the years ended October 31, 2006, 2005 and 2004 is as follows:

	Number of shares	Weighted-average exercise price
Stock options outstanding at October 31, 2003	387,245	\$ 19.59
Forfeited	(45,593)	19.95
Stock options outstanding at October 31, 2004	341,652	19.54
Forfeited	(22,169)	16.68
Stock options outstanding at October 31, 2005	319,483	19.74
Forfeited	(83,894)	53.61
Stock options outstanding at October 31, 2006	<u>235,589</u>	\$ 7.68

Aggregate intrinsic value of options outstanding and options exercisable at October 31, 2006 was \$1,700 and \$1,530, respectively. Aggregate intrinsic value represents the positive difference between the Company's closing stock price on the last trading day of the fiscal period, which was \$4.98 as of October 31, 2006, and the exercise price multiplied by the number of options outstanding.

As of October 31, 2006, there was approximately \$76,000 of total unrecognized compensation cost related to unvested equity-based compensation awards in the form of stock options granted to employees prior to July 2002 under the 1996 Plan. That cost is expected to be recognized over the next two fiscal quarters. As of October 31, 2006, the maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based, market condition-based, and operational performance-based shares that the Company will have to recognize over a 3.3 year weighted-average period is \$1.8 million.

At October 31, 2006, the number, weighted-average exercise price and weighted-average remaining contractual life of outstanding options, and the number and weighted-average exercise price of options currently exercisable are as follows:

Range of exercise prices	Options outstanding			Options exercisable		
	Number of options	Weighted-average exercise price	Remaining contractual life (in years)	Number of options	Weighted-average exercise price	Remaining contractual life (in years)
\$4.64 - \$10.00	235,589	\$ 7.68	5.27	226,119	\$ 7.71	5.49

Included in total options outstanding as of October 31, 2006 were 5,939 options to non-employee sales representatives. The Company recorded a reduction in compensation expense of \$27,120 for the fiscal year ended October 31, 2006 and compensation expense of \$16,881 and \$363 related to these options for the fiscal years ended October 31, 2005 and 2004, respectively.

From time to time the Company has granted restricted stock awards under the 1996 Plan. A portion of the restricted stock awards granted under the 1996 Plan vest based on the passage of time and the remainder vest over time if certain performance criteria are met. The Company records compensation expense ratably over the vesting periods equal to the number of shares multiplied by the closing price of the Company's common stock on the date of grant. The Compensation Committee of the Board of Directors approved restricted stock awards in December 2004 and 2003 in the amount of 191,000 and 149,000 shares, respectively.

On January 28, 2006, restricted stock awards under the 2005 Plan totaling 220,000 shares were approved by the Compensation Committee of the Board of Directors of the Company. Of the restricted stock awards granted, 147,100 shares are service-based shares—129,850 shares of which vest quarterly over five years with the first vesting date occurring on April 30, 2006 and 17,250 shares of which vest annually over three years with the first vesting date occurring on January 31, 2007. Of the restricted stock awards granted, 55,650 shares are market condition-based shares generally eligible to vest over almost five years if the management team is able to provide total shareholder return (in terms of increase in share price plus dividends) at least 20% greater than the return of the Russell 2000<sup>®</sup> index. Greater shareholder returns can accelerate vesting of the market condition-based shares, but the shares cannot vest more quickly than over three years. The first vesting date of the market condition-based shares occurred on October 31, 2006. The remaining 17,250 shares of restricted stock awards granted are operational performance-based shares vesting over a two-year period beginning on January 31, 2007 based on the achievement of certain operational performance goals. Failure to meet the performance criteria required for vesting—whether for the market condition-based shares or for the operational performance-based shares—will result in a portion or all of the shares being forfeited. The Company recognizes expense on the service-based and market condition-based shares each quarter based on the actual number of shares vested during the quarter multiplied by the grant date fair value. The Company recognizes expense on the operational performance-based shares each quarter using an estimate of the shares expected to vest multiplied by the closing price of the Company's common stock of \$5.37 on the date of grant. U.S. generally accepted accounting principles requires that any previously recognized compensation cost shall not be reversed if the shares are forfeited as a result of not meeting the market condition.

On July 19, 2006, a restricted stock award under the 2005 Plan totaling 10,000 shares was approved by the Compensation Committee of the Board of Directors of the Company for a new employee. Of the restricted stock award granted, 7,000 shares are service-based shares which vest quarterly over five years with the first vesting date occurring on July 31, 2006, and 3,000 shares are market condition-based shares similar to the market condition-based shares granted on January 28, 2006.

The Company recorded total compensation expense related to its restricted stock awards totaling \$567,561, \$458,992 and \$240,479 during the fiscal years ended October 31, 2006, 2005 and 2004 respectively.

Restricted stock award activity during the fiscal year ended October 31, 2006 consisted of restricted share grants of 230,000 shares and 32,298 shares forfeited or withheld for taxes. Restricted stock award activity during the fiscal year ended October 31, 2005 consisted of a grant of 191,000 shares and 8,789 shares forfeited or withheld for taxes. Restricted stock award activity during the fiscal year ended October 31, 2004 consisted of a grant of 149,000 shares and 9,978 shares forfeited or withheld for taxes.

In March 2004, the Company adopted and the Company's shareholders approved the 2004 Non-employee Directors Stock Plan (the "Non-employee Directors Stock Plan"). In March 2005, the Company adopted and the Company's shareholders approved amendments to the Non-employee Directors Stock Plan. The Non-employee Directors Stock Plan authorizes the Board of Directors to pay all or a part of director fees, in the form of stock grants, to Board members who are not full-time employees of the Company. The Company has reserved 250,000 shares of common stock for issuance pursuant to awards under the Non-employee Directors Stock Plan. As of October 31, 2006, there were 229,000 remaining shares available for grant under the Non-employee Directors Stock Plan.

During the years ended October 31, 2006, 2005 and 2004, restricted stock awards under the Non-employee Directors Stock Plan totaling 8,000, 7,000 and 6,000 shares, respectively, were approved by the Board of Directors of the Company. The shares vested immediately upon grant, but could not be sold, transferred, pledged, or otherwise encumbered or disposed of until six months after the date of the grant. The Company recorded compensation expense equal to the number of shares multiplied by

the closing price of the Company's common stock on the date of grant. The Company recorded compensation expense totaling \$39,600, \$31,850 and \$30,510 during the years ended October 31, 2006, 2005 and 2004 respectively.

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

The Company has a single reportable segment for purposes of segment reporting. In addition, the Company's fiber optic cable products are similar in nature. Therefore, the Company has disclosed enterprise-wide information about geographic areas and major customers below.

The Company provides credit, in the normal course of business, to various commercial enterprises, governmental entities and not-for-profit organizations. Concentration of credit risk with respect to trade receivables is limited due to the Company's large number of customers. The Company also manages exposure to credit risk through credit approvals, credit limits and monitoring procedures. Management believes that credit risks as of October 31, 2006 and 2005 have been adequately provided for in the financial statements.

For the year ended October 31, 2006, 15.7%, or approximately \$7,092,000 of net sales were attributable to one major domestic distributor. No other single customer or distributor accounted for more than 10% of net sales for the year ended October 31, 2006. As of October 31, 2006, no single customer or distributor had an outstanding balance payable to the Company in excess of 5% of total shareholders' equity.

For the year ended October 31, 2005, 15.4%, or approximately \$7,076,000 of net sales were attributable to one major domestic distributor. No other single customer or distributor accounted for more than 10% of net sales for the year ended October 31, 2005. As of October 31, 2005, no single customer or distributor had an outstanding balance payable to the Company in excess of 5% of total shareholders' equity.

For the year ended October 31, 2004, 16.0%, or approximately \$6,931,000 of net sales were attributable to one major domestic distributor. No other single customer or distributor accounted for more than 10% of net sales for the year ended October 31, 2004. As of October 31, 2004, no single customer or distributor had an outstanding balance payable to the Company in excess of 5% of total shareholders' equity.

For the years ended October 31, 2006, 2005 and 2004, approximately 77%, 85% and 81%, respectively, of net sales were from customers located in the United States, while approximately 23%, 15% and 19%, respectively, were from customers outside of the United States. Net sales attributable to the United States and all other countries in total for the years ended October 31, 2006, 2005 and 2004 were as follows:

	Years ended October 31,		
	2006	2005	2004
United States	\$ 34,800,563	\$ 38,973,143	\$ 35,207,495
Outside the United States	10,529,834	6,925,404	8,010,695
Total net sales	<u>\$ 45,330,397</u>	<u>\$ 45,898,547</u>	<u>\$ 43,218,190</u>

No individual country outside the United States accounted for more than 10% of total net sales in fiscal years 2006, 2005 or 2004. In addition, none of the Company's long-lived assets are located outside the United States.

**(11) Income Taxes**

Income tax expense for the years ended October 31, 2006, 2005 and 2004 consists of:

<u>Fiscal year ended October 31, 2006</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
U.S. Federal	\$294,079	\$ (150,355)	\$143,724
State	23,267	(14,818)	8,449
<b>Totals</b>	<b>\$317,346</b>	<b>\$ (165,173)</b>	<b>\$152,173</b>
<u>Fiscal year ended October 31, 2005</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
U.S. Federal	\$234,408	\$ 352,285	\$586,693
State	31,073	32,518	63,591
<b>Totals</b>	<b>\$265,481</b>	<b>\$ 384,803</b>	<b>\$650,284</b>
<u>Fiscal year ended October 31, 2004</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
U.S. Federal	\$ (15,109)	\$ 347,113	\$332,004
State	910	31,032	31,942
<b>Totals</b>	<b>\$ (14,199)</b>	<b>\$ 378,145</b>	<b>\$363,946</b>

Reported income tax expense for the years ended October 31, 2006, 2005 and 2004 differs from the "expected" tax expense, computed by applying the U.S. Federal statutory income tax rate of 34% to income before income taxes as follows:

	<u>Years ended October 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
"Expected" tax expense	\$170,954	\$619,542	\$378,766
Increase (reduction) in income tax expense resulting from:			
Benefits from extraterritorial income exclusion	(86,620)	(61,200)	(91,781)
State income taxes, net of federal benefit	5,576	41,970	22,316
Other differences, net	62,263	49,972	54,645
Reported income tax expense	<u>\$152,173</u>	<u>\$650,284</u>	<u>\$363,946</u>

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and deferred tax liabilities as of October 31, 2006 and 2005 are presented below:

	October 31,	
	2006	2005
<b>Deferred tax assets:</b>		
Accounts receivable, due to allowances for doubtful accounts and sales returns	\$ 128,651	\$ 201,834
Inventories, due to allowance for damaged and slow-moving inventories and additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986	332,076	232,273
Net operating loss carryforward, including charitable contributions recharacterized as NOLs	—	10,851
Capital loss carryforward and unrealized net loss on trading securities	—	3,997,218
Fair value of warrants, deductible for tax purposes when exercised	419,613	419,613
Liabilities recorded for loss contingencies, deductible for tax purposes when paid	97,832	101,093
Share-based compensation expense	70,372	14,133
Other	29,913	595
Total gross deferred tax assets	<u>1,078,457</u>	<u>4,977,610</u>
Less valuation allowance	—	<u>(3,997,218)</u>
Net deferred tax assets	<u>1,078,457</u>	<u>980,392</u>
<b>Deferred tax liabilities:</b>		
Plant and equipment, due to differences in depreciation and Capital gain recognition	(491,581)	(511,379)
Other receivables, due to accrual for financial reporting purposes	(18,164)	(43,217)
Other	—	(22,257)
Total gross deferred tax liabilities	<u>(509,745)</u>	<u>(576,853)</u>
Net deferred tax asset	<u>\$ 568,712</u>	<u>\$ 403,539</u>

The Company's deferred tax asset relating to the capital loss carryforward generated by the sale of the Company's trading securities during the fiscal year ended October 31, 2001 expired unrealized on October 31, 2006. The Company had previously recorded a valuation allowance for the deferred tax asset relating to this capital loss carryforward in the amount of \$3,997,218. As a result of the expiration of the capital loss carryforward, both the related deferred tax asset and the valuation allowance have been written off as of October 31, 2006.

Based on the Company's historical and projected pretax earnings and other relevant factors, management believes that it is more likely than not that the Company's deferred tax assets at October 31, 2006 will be realized.

## (12) Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash, trade accounts receivable, other receivables, and accounts payable and accrued expenses, including accrued compensation and payroll taxes income taxes payable and note payable to bank, approximate fair value because of the short maturity of these instruments.



**(13) Net Income Per Share**

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

<u>Fiscal year ended October 31, 2006</u>	<u>Net income (numerator)</u>	<u>Shares (denominator)</u>	<u>Per share amount</u>
Basic net income per share	\$ 350,630	5,954,397	\$ 0.06
Effect of dilutive stock options and warrants	—	11,292	
Diluted net income per share	\$ 350,630	5,965,689	\$ 0.06
<u>Fiscal year ended October 31, 2005</u>	<u>Net income (numerator)</u>	<u>Shares (denominator)</u>	<u>Per share amount</u>
Basic net income per share	\$1,171,897	5,775,814	\$ 0.20
Effect of dilutive stock options and warrants	—	24,316	
Diluted net income per share	\$1,171,897	5,800,130	\$ 0.20
<u>Fiscal year ended October 31, 2004</u>	<u>Net income (numerator)</u>	<u>Shares (denominator)</u>	<u>Per share amount</u>
Basic net income per share	\$ 750,072	5,587,042	\$ 0.13
Effect of dilutive stock options and warrants	—	30,788	
Diluted net income per share	\$ 750,072	5,617,830	\$ 0.13

Stock options that could potentially dilute net income per share in the future that were not included in the computation of diluted net income per share (because to do so would have been antidilutive for the periods presented) totaled 230,589, 314,483 and 336,653 for the years ended October 31, 2006, 2005 and 2004, respectively.

**(14) Shareholders' Equity**

On November 2, 2001, the Board of Directors of the Company adopted a Shareholder Rights Plan (the "Rights Plan") and declared a dividend of one preferred share purchase right (a "Right") on each outstanding share of common stock. Under the terms of the Rights Plan, if a person or group who is deemed an Acquiring Person as defined in the Rights Plan acquires 15% (or other applicable percentage, as provided in the Rights Plan) or more of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of shares of common stock having a market value of twice such price. In addition, if the Company is acquired in a merger or other business transaction after a person or group who is deemed an Acquiring Person has acquired such percentage of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value of twice such price.

Upon the occurrence of certain events, each Right will entitle its holder to buy one one-thousandth of a Series A preferred share ("Preferred Share"), at an exercise price of \$200, subject to adjustment. Each Preferred Share will entitle its holder to 1,000 votes and will have an aggregate dividend rate of 1,000 times the amount, if any, paid to holders of common stock. The Rights will expire on November 2, 2011, unless the date is extended or unless the Rights are earlier redeemed or exchanged at the option of the Board of Directors for \$0.0001 per Right. Generally, each share of common stock issued after November 5, 2001 will have one Right attached. The adoption of the Rights Plan has no impact on the financial position or results of operations of the Company.

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

## (15) 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.

## (16) New Accounting Standards

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, ("SFAS 151"), *Inventory Costs – an amendment of ARB No. 43, Chapter 4*. SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and requires these costs be treated as current period charges. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS 151 did not have any significant effect on the Company's financial position, results of operations and liquidity.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123(R) ("SFAS 123(R)"), *Share-Based Payment*. SFAS 123(R) is a revision of FASB SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123(R) focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of SFAS 123(R), as amended by a rule adopted by the SEC on April 14, 2005, are effective for public entities that do not file as small business issuers as of the beginning of the fiscal year that begins after June 15, 2005. See note 9 for a description of the impact to the Company's financial position, results of operations and liquidity due to the adoption of SFAS 123(R).

In December 2004, the FASB issued FASB Staff Position No. 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004*, (the "Jobs Creation Act of 2004"). The Jobs Creation Act of 2004 introduces a special tax deduction on qualified production activities. FSP 109-1 concludes that this deduction should be accounted for as a special tax deduction in accordance with SFAS No. 109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction is reported in the same period in which the deduction is claimed in the Company's tax return. The adoption of FSP 109-1 did not have a material impact on our financial position, results of operations or liquidity.

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

The following is a summary of the unaudited quarterly results of operations for the years ended October 31, 2006 and 2005:

<b>Fiscal year ended October 31, 2006</b>	<b>Quarter ended</b>			
	<b>January 31</b>	<b>April 30</b>	<b>July 31</b>	<b>October 31</b>
Net sales	\$ 9,870,320	\$ 11,239,276	\$ 11,579,575	\$ 12,641,226
Gross profit	3,296,375	3,400,665	3,976,499	4,748,606
Income (loss) before income taxes	(342,281)	(482,158)	278,621	1,048,621
Net income (loss)	(219,513)	(309,210)	127,974	751,379
Basic and diluted net income (loss) per share	(0.04)	(0.05)	0.02	0.13

<b>Fiscal year ended October 31, 2005</b>	<b>Quarter ended</b>			
	<b>January 31</b>	<b>April 30</b>	<b>July 31</b>	<b>October 31</b>
Net sales	\$ 11,139,368	\$ 11,609,312	\$ 11,348,373	\$ 11,801,494
Gross profit	4,588,790	4,729,336	4,277,263	4,236,318
Income before income taxes	356,030	571,875	585,959	308,317
Net income	222,685	363,740	390,711	194,761
Basic and diluted net income per share	0.04	0.06	0.07	0.03

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders  
Optical Cable Corporation:

We have audited the accompanying balance sheets of Optical Cable Corporation as of October 31, 2006 and 2005, and the related statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended October 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Optical Cable Corporation as of October 31, 2006 and 2005, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, on November 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment".

/s/ KPMG LLP

Roanoke, Virginia  
January 25, 2007

Optical Cable Corporation

## Management's Statement of Responsibility

Management of the Company is responsible for the preparation and fair presentation of the financial statements and other financial information contained in this report. The accompanying financial statements were prepared in conformity with U.S. generally accepted accounting principles and include, as necessary, best estimates and judgments by management. Other financial information contained in this annual report is presented on a basis consistent with the financial statements unless otherwise indicated.

To ensure the integrity, objectivity and fairness of the information in these financial statements, management of the Company has established and maintains internal controls. The internal controls are designed to provide reasonable assurance that assets are safeguarded and transactions are executed, recorded and reported in accordance with management's intentions and authorizations and to comply with applicable laws and regulations. The internal control system includes an organizational structure that provides appropriate delegation of authority and segregation of duties and management review. To enhance the reliability of internal controls, management recruits and trains highly qualified personnel, and maintains sound risk management practices.

There are inherent limitations in any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

The accompanying financial statements have been audited by KPMG LLP, independent registered public accounting firm, in accordance with the standards of the Public Company Accounting Oversight Board (United States). In planning and performing its financial statement audit, KPMG LLP considered the Company's internal controls in order to determine the nature, timing and extent of its audit procedures for the purpose of expressing an opinion on the financial statements. An audit of the financial statements does not include examining the effectiveness of internal controls and does not provide assurance on internal controls. KPMG LLP reviews the results of its audit with both management and the Audit Committee of the Board of Directors (the "Audit Committee").

The Company's financial reporting and internal controls are under the general oversight of the Board of Directors, acting through the Audit Committee. The Audit Committee meets periodically with management and KPMG LLP, and KPMG LLP has direct and unrestricted access to the Audit Committee at all times. The Audit Committee determines that management is fulfilling its responsibilities and supports actions to identify, measure and control risks and augment internal controls.

/s/ Neil D. Wilkin, Jr.

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Neil D. Wilkin, Jr.

*President & Chief Executive Officer*

/s/ Tracy G. Smith

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Tracy G. Smith

*Vice President & Chief Financial Officer*

January 25, 2007

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# OPTICAL CABLE CORPORATION

## Corporate Information

### **Corporate Headquarters**

Optical Cable Corporation  
5290 Concourse Drive  
Roanoke, VA 24019

### **Legal Counsel**

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

and

McGuireWoods LLP  
One James Center  
901 East Cary Street  
Richmond, VA 23219

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

KPMG LLP  
10 South Jefferson Street  
Suite 1710  
Roanoke, VA 24011

### **Transfer Agent**

American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, NY 10038

### **Form 10-K Report**

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

### **Annual Meeting**

The 2007 annual meeting of shareholders will be held at 10:00 a.m. on Tuesday, March 27th, 2007, at the Hotel Roanoke & Conference Center, 110 Shenandoah Avenue, Roanoke, Virginia.

## Corporate Information

### Common Stock and Dividend Data

Our common stock is traded on the Nasdaq Global Market under the symbol OCCF. As of October 31, 2006 and December 31, 2006, there were approximately 5,800 and 5,600 shareholders of record, respectively. On January 18, 2007, our common stock closed at a price of \$4.61 per share.

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

<u>Fiscal year ended October 31, 2006</u>	<u>Range of Bid Prices</u>	
	<u>High</u>	<u>Low</u>
First Quarter	\$ 6.39	\$ 5.10
Second Quarter	\$ 6.48	\$ 4.46
Third Quarter	\$ 5.16	\$ 3.69
Fourth Quarter	\$ 5.83	\$ 3.41

  

<u>Fiscal year ended October 31, 2005</u>	<u>Range of Bid Prices</u>	
	<u>High</u>	<u>Low</u>
First Quarter	\$ 6.57	\$ 4.45
Second Quarter	\$ 5.46	\$ 4.26
Third Quarter	\$ 6.87	\$ 4.20
Fourth Quarter	\$ 7.44	\$ 5.36

We have not paid or declared any cash dividends on our common stock since our initial public offering in 1996 and do not expect to pay any cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business.

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## OPTICAL CABLE CORPORATION

### Corporate Information

#### **Executive Officers of Optical Cable Corporation**

Neil D. Wilkin, Jr.	Chairman of the Board, President and Chief Executive Officer
Luke J. Huybrechts	Senior Vice President of Operations
Tracy G. Smith	Vice President and Chief Financial Officer

#### **Board of Directors of Optical Cable Corporation**

Randall H. Frazier	President and Founder R. Frazier, Incorporated
John M. Holland	Principal and Founder Holland Technical Services
Luke J. Huybrechts	Senior Vice President of Operations Optical Cable Corporation
Craig H. Weber	Managing Partner Hollymeade Group, LLC
Neil D. Wilkin, Jr.	Chairman of the Board, President and Chief Executive Officer Optical Cable Corporation
John B. Williamson, III	Chairman of the Board, President and Chief Executive Officer RGC Resources, Inc.

Optical Cable Corporation



**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Optical Cable Corporation:

We consent to the incorporation by reference in Registration Statement No. 333-09433 on Form S-8, Registration Statement No. 333-103108 on Form S-3, Registration Statement No. 333-115575 on Form S-8, and Registration Statement No. 333-128163 on Form S-8 of Optical Cable Corporation of our report dated January 25, 2007, with respect to the balance sheets of Optical Cable Corporation as of October 31, 2006 and 2005, and the related statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended October 31, 2006, which report is incorporated by reference in the October 31, 2006 Annual Report on Form 10-K of Optical Cable Corporation. Our report refers to the Company's adoption of Statement of Financial Accounting Standards No. 123(R) "Share-Based Payment" on November 1, 2005.

/s/ KPMG LLP

Roanoke, Virginia  
January 25, 2007

## CERTIFICATION

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

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

Date: January 29, 2007

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.

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

## CERTIFICATION

I, Tracy G. Smith, certify that:

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

Date: January 29, 2007

/s/ Tracy G. Smith

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

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

In connection with the Annual Report of Optical Cable Corporation (the "Company") on Form 10-K for the year ended October 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of October 31, 2006, and for the period then ended.

/s/ Neil D. Wilkin, Jr.

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

January 29, 2007

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

In connection with the Annual Report of Optical Cable Corporation (the "Company") on Form 10-K for the year ended October 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of October 31, 2006, and for the period then ended.

/s/ Tracy G. Smith

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Tracy G. Smith  
Vice President and Chief Financial Officer

January 29, 2007