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

FORM 10-Q

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

For the quarterly period ended July 31, 2007

OR

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

For the transition period from _____ to _____

Commission file number 0-27022

OPTICAL CABLE CORPORATION

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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 Exchange Act). Yes No

As of September 5, 2007, 6,099,353 shares of the registrant's Common Stock, no par value, were outstanding.

OPTICAL CABLE CORPORATION
Form 10-Q Index
Nine Months Ended July 31, 2007

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

OPTICAL CABLE CORPORATION
Condensed Balance Sheets
(Unaudited)

	<u>July 31,</u> <u>2007</u>	<u>October 31,</u> <u>2006</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,432,277	\$ 555,272
Trade accounts receivable, net of allowance for doubtful accounts of \$239,134 at July 31, 2007 and \$238,455 at October 31, 2006	7,480,749	8,296,996
Other receivables	142,095	115,824
Inventories	7,270,241	8,614,871
Prepaid expenses and other assets	501,073	545,057
Deferred income taxes	634,545	619,047
Total current assets	<u>18,460,980</u>	<u>18,747,067</u>
Property and equipment, net	13,043,204	13,650,007
Note receivable	3,230,677	2,244,182
Other assets, net	50,979	149,853
Total assets	<u>\$34,785,840</u>	<u>\$34,791,109</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,945,894	\$ 1,999,536
Accrued compensation and payroll taxes	1,070,594	761,585
Income taxes payable	360,796	553,989
Note payable to bank	—	990,724
Total current liabilities	<u>3,377,284</u>	<u>4,305,834</u>
Deferred income taxes - noncurrent	490,196	50,335
Total liabilities	<u>3,867,480</u>	<u>4,356,169</u>
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 6,099,910 shares at July 31, 2007 and 6,008,016 at October 31, 2006	3,236,589	2,670,343
Retained earnings	27,681,771	27,764,597
Total shareholders' equity	<u>30,918,360</u>	<u>30,434,940</u>
Commitments and contingencies		
Total liabilities and shareholders' equity	<u>\$34,785,840</u>	<u>\$34,791,109</u>

See accompanying condensed notes to condensed financial statements.

OPTICAL CABLE CORPORATION
Condensed Statements of Operations
(Unaudited)

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2007	2006	2007	2006
Net sales	\$11,693,947	\$11,579,575	\$32,103,201	\$32,689,171
Cost of goods sold	6,992,450	7,603,076	20,356,681	22,015,632
Gross profit	4,701,497	3,976,499	11,746,520	10,673,539
Selling, general and administrative expenses	3,861,658	3,670,678	11,046,042	11,213,558
Income (loss) from operations	839,839	305,821	700,478	(540,019)
Other income (expense), net:				
Interest income	37,300	—	80,885	32,874
Interest expense	(24,450)	(26,690)	(78,773)	(32,155)
Other, net	—	(510)	1,917	(6,518)
Other income (expense), net	12,850	(27,200)	4,029	(5,799)
Income (loss) before income taxes	852,689	278,621	704,507	(545,818)
Income tax expense (benefit)	314,970	150,647	262,011	(145,069)
Net income (loss)	<u>\$ 537,719</u>	<u>\$ 127,974</u>	<u>\$ 442,496</u>	<u>\$ (400,749)</u>
Net income (loss) per share:				
Basic and diluted	<u>\$ 0.09</u>	<u>\$ 0.02</u>	<u>\$ 0.07</u>	<u>\$ (0.07)</u>

See accompanying condensed notes to condensed financial statements.

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

	Nine Months Ended July 31, 2007			
	Common Stock		Retained Earnings	Total Shareholders' Equity
	Shares	Amount		
Balances at October 31, 2006	6,008,016	\$2,670,343	\$27,764,597	\$30,434,940
Share-based compensation, net	189,659	559,370	—	559,370
Repurchase and retirement of common stock (at cost)	(99,174)	—	(525,322)	(525,322)
Exercise of warrants (\$4.88 per share)	1,409	6,876	—	6,876
Net income	—	—	442,496	442,496
Balances at July 31, 2007	<u>6,099,910</u>	<u>\$3,236,589</u>	<u>\$27,681,771</u>	<u>\$30,918,360</u>

See accompanying condensed notes to condensed financial statements.

OPTICAL CABLE CORPORATION
Condensed Statements of Cash Flows
(Unaudited)

	Nine Months Ended July 31,	
	2007	2006
Cash flows from operating activities:		
Net income (loss)	\$ 442,496	\$ (400,749)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,191,200	976,559
Bad debt expense (recovery)	15,118	(22,796)
Deferred income tax expense (benefit)	424,363	(386,581)
Share-based compensation expense	559,370	542,033
Loss on disposal of machinery and equipment	1,151	—
(Increase) decrease in:		
Trade accounts receivable	705,854	466,929
Other receivables	(26,271)	(16,933)
Inventories	1,344,630	(417,294)
Prepaid expenses and other assets	(33,107)	(97,870)
Accrued interest on note receivable	—	(36,393)
Other assets, net	143,953	147,628
Increase (decrease) in:		
Accounts payable and accrued expenses	(62,178)	(468,007)
Accrued compensation and payroll taxes	309,009	(1,176,067)
Income taxes payable	(193,193)	238,812
Net cash provided by (used in) operating activities	<u>4,822,395</u>	<u>(650,729)</u>
Cash flows from investing activities:		
Purchase of and deposits for the purchase of property and equipment	(545,000)	(1,857,574)
Investment in other assets	—	(128,823)
Note receivable	(891,220)	(780,650)
Net cash used in investing activities	<u>(1,436,220)</u>	<u>(2,767,047)</u>
Cash flows from financing activities:		
Proceeds from note payable to bank, net	—	148,965
Repayment of note payable to bank	(990,724)	—
Payments for financing costs	—	(23,590)
Repurchase of common stock	(525,322)	—
Proceeds from exercise of warrants	6,876	2,268
Net cash provided by (used in) financing activities	<u>(1,509,170)</u>	<u>127,643</u>
Net increase (decrease) in cash and cash equivalents	1,877,005	(3,290,133)
Cash and cash equivalents at beginning of period	555,272	3,290,133
Cash and cash equivalents at end of period	<u>\$ 2,432,277</u>	<u>\$ —</u>

See accompanying condensed notes to condensed financial statements.

OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Financial Statements
Three Months and Nine Months Ended July 31, 2007
(Unaudited)

(1) General

The accompanying unaudited condensed financial statements of Optical Cable Corporation (the “Company”) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ended July 31, 2007 are not necessarily indicative of the results for the fiscal year ending October 31, 2007 because the following items, among other things, may impact those results: changes in market conditions, seasonality, changes in technology, competitive conditions, ability of management to execute its business plans, as well as other variables and contingencies set forth as risks in the Company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2006 or as otherwise identified in other filings by the Company as risks possibly affecting future results. The unaudited condensed financial statements and condensed notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company’s annual financial statements and notes. For further information, refer to the financial statements and notes thereto included in the Company’s annual report on Form 10-K for the fiscal year ended October 31, 2006.

The Company has restated its previously filed condensed financial statements and other financial information as of and for the three month period ended January 31, 2007, and as of and for the three month and six month period ended April 30, 2007 to correct a data-entry error related to inventory. For further information on the restatement, see the respective Form 10-Q/As filed with the Securities and Exchange Commission (the “SEC”).

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

As of July 31, 2007, there were approximately 588,000 remaining shares available for grant under the Optical Cable Corporation 2005 Stock Incentive Plan (the “2005 Plan”).

Share-based compensation expense (including the expense for both stock option awards granted prior to July 2002, and restricted stock awards granted to both employees and non-employee members of the Company’s Board of Directors) recognized in the condensed statement of operations for the three months and nine months ended July 31, 2007 was as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
Share-based compensation expense	\$185,499	\$236,304	\$637,824	\$560,964
Less income tax benefit	66,780	85,069	229,617	201,947
Share-based compensation expense, net	<u>\$118,719</u>	<u>\$151,235</u>	<u>\$408,207</u>	<u>\$359,017</u>

Stock Option Awards

Employees and outside contractors were issued options to purchase common stock, all of which were issued prior to July 2002. Additionally, during 2002, non-employee members of the Company’s Board of Directors were granted options to purchase shares of the Company’s common stock. The exercise price equaled the market price of the Company’s common stock on the date of grant. Stock option activity during the nine months ended July 31, 2007 is as follows:

	Number of options	Weighted-average exercise price	Weighted-average remaining contractual term (in yrs)
Outstanding at October 31, 2006	235,589	\$ 7.68	5.27
Forfeited	(14,567)	\$ 7.20	—
Outstanding at July 31, 2007	<u>221,022</u>	\$ 7.72	4.52
Exercisable at July 31, 2007	<u>221,022</u>	\$ 7.72	4.52

OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Financial Statements
Three Months and Nine Months Ended July 31, 2007
(Unaudited)

Compensation cost related to stock options granted to employees and non-employees prior to July 2002 under the 1996 Plan was fully recognized in the second quarter of fiscal year 2007. Therefore, the Company did not record compensation expense related to its stock option awards during the three months ended July 31, 2007. Compensation cost related to stock option awards for the nine months ended July 31, 2007 totaled \$28,964. The Company recorded compensation expense related to its stock option awards totaling \$44,014 and \$107,432, respectively, during the three months and nine months ended July 31, 2006.

As of July 31, 2007, all compensation cost related to stock options previously granted has been recognized.

Restricted Stock Awards

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

On April 2, 2007, restricted stock awards under the 2005 Plan totaling 191,071 shares were approved by the Compensation Committee of the Board of Directors of the Company. Of the restricted stock awards granted, 95,540 shares are service-based shares which vest quarterly over four years with the first vesting date occurring on July 31, 2007; and 95,531 shares are operational performance-based shares vesting over approximately three years beginning on January 31, 2008 based on the achievement of certain operational performance goals.

Restricted stock award activity during the nine months ended July 31, 2007 consisted of restricted share grants of 204,835 shares, and 15,176 restricted shares forfeited or withheld for taxes.

The Company recorded compensation expense related to its restricted stock awards for employees and non-employee Directors totaling \$185,499 and \$608,860, respectively, during the three months and nine months ended July 31, 2007, and \$192,290 and \$453,532, respectively, during the three months and nine months ended July 31, 2006.

As of July 31, 2007, 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 3.2 year weighted-average period is \$2.2 million.

OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Financial Statements
Three Months and Nine Months Ended July 31, 2007
(Unaudited)

(3) Allowance for Doubtful Accounts for Trade Accounts Receivable

A summary of changes in the allowance for doubtful accounts for trade accounts receivable for the nine months ended July 31, 2007 and 2006 follows:

	Nine Months Ended July 31,	
	2007	2006
Balance at beginning of period	\$238,455	\$454,550
Bad debt expense (recovery)	15,118	(22,796)
Losses charged to allowance	(16,440)	(19,645)
Recoveries added to allowance	2,001	3,260
Balance at end of period	<u>\$239,134</u>	<u>\$415,369</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 the 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 this distributor will be recognized when payment is received, in accordance with U.S. generally accepted accounting principles.

(4) Inventories

Inventories as of July 31, 2007 and October 31, 2006 consisted of the following:

	July 31, 2007	October 31, 2006
Finished goods	\$2,568,025	\$3,604,021
Work in process	1,566,049	1,583,952
Raw materials	2,905,380	3,248,907
Production supplies	230,787	177,991
Total	<u>\$7,270,241</u>	<u>\$8,614,871</u>

(5) Note Receivable

On April 22, 2005, the Company agreed to extend a loan to a start-up connector company, Applied Optical Systems, Inc. (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 July 31, 2007, total assets of the Borrower, based on unaudited financial information, was equivalent to approximately 5.4% of the Company's total assets. Total revenue of the Borrower, based on unaudited financial information, was equivalent to approximately 7.8% and 7.2%, respectively, of the Company's net sales for the three month and the nine month periods ended July 31, 2007.

This loan, and the related transactions described further herein, is part of a strategy designed to provide the Company with the ability 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.

OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Financial Statements
Three Months and Nine Months Ended July 31, 2007
(Unaudited)

Through July 31, 2007, the Company had advanced a total of \$3,288,379, net (including some accrued interest and accounts receivable from certain product sales) to the Borrower. The note receivable, which matures July 31, 2008, 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. 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. The Company has not made any additional advances to the Borrower subsequent to July 31, 2007.

The Company sold fiber optic cables to the Borrower totaling \$13,388 and \$134,042 during the three and nine months ended July 31, 2007, respectively. During the three months ended July 31, 2007, the Borrower sold product to the Company totaling \$69,800. The Company has included \$95,275 related to the sale of product to the Borrower in note receivable in the accompanying condensed balance sheet as of July 31, 2007.

The Company recorded interest income related to the loan totaling \$32,874 during fiscal year 2006, all of which is included in note receivable in the accompanying condensed balance sheet as of July 31, 2007.

(6) Product Warranties

As of July 31, 2007 and October 31, 2006, the Company's accrual for estimated product warranty claims totaled \$65,000 and \$75,000, respectively, and is included in accounts payable and accrued expenses. Warranty claims expense, net of recoveries, for the three months and nine months ended July 31, 2007 totaled \$20,165 and \$56,908, respectively. Warranty claims expense for the three months and nine months ended July 31, 2006 totaled \$30,254 and \$97,353, respectively.

The following table summarizes the changes in the Company's accrual for product warranties during the nine months ended July 31, 2007 and 2006:

	Nine Months Ended July 31,	
	2007	2006
Balance at beginning of period	\$ 75,000	\$100,000
Liabilities accrued for warranties issued during the period	71,427	111,711
Warranty claims and costs paid during the period	(66,908)	(97,353)
Changes in liability for pre-existing warranties during the period	(14,519)	(14,358)
Balance at end of period	<u>\$ 65,000</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. Each warrant entitles the

OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Financial Statements
Three Months and Nine Months Ended July 31, 2007
(Unaudited)

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. There were 232,796 and 234,205 warrants outstanding as of July 31, 2007 and October 31, 2006, respectively.

(8) Note Payable to Bank

On September 25, 2006, the Company established 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"), which together replaced the Company's former credit facility with Wachovia Bank, National Association. 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 July 31, 2007, the Company had approximately \$12.1 million of unused and available credit, after considering borrowing base calculations. As of July 31, 2007, the Company had no outstanding borrowings under the Working Capital Facility, the Machinery and Equipment Facility or the Real Estate Loan.

If not sooner demanded, the Working Capital Facility and the Machinery and Equipment Facility expire on February 28, 2008. Of the \$13.5 million aggregate maximum availability, \$6.5 million relates to the Real Estate Loan. If no advances are made under the Real Estate Loan within one year of the Closing Date, or September 25, 2007, the Real Estate Loan will expire.

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 condensed 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.

(9) Net Income (Loss) Per Share

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

OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Financial Statements
Three Months and Nine Months Ended July 31, 2007
(Unaudited)

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

<u>Three Months Ended July 31, 2007</u>	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic net income per share	\$ 537,719	6,195,572	\$ 0.09
Effect of dilutive stock options and warrants	—	13,283	
Diluted net income per share	<u>\$ 537,719</u>	<u>6,208,855</u>	<u>\$ 0.09</u>
<u>Three Months Ended July 31, 2006</u>	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic net income per share	\$ 127,974	6,000,674	\$ 0.02
Effect of dilutive stock options and warrants	—	—	
Diluted net income per share	<u>\$ 127,974</u>	<u>6,000,674</u>	<u>\$ 0.02</u>
<u>Nine Months Ended July 31, 2007</u>	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic net income per share	\$ 442,496	6,090,291	\$ 0.07
Effect of dilutive stock options and warrants	—	9,606	
Diluted net income per share	<u>\$ 442,496</u>	<u>6,099,897</u>	<u>\$ 0.07</u>
<u>Nine Months Ended July 31, 2006</u>	<u>Net Loss (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic net loss per share	\$(400,749)	5,935,398	\$ (0.07)
Effect of dilutive stock options and warrants	—	—	
Diluted net loss per share	<u>\$(400,749)</u>	<u>5,935,398</u>	<u>\$ (0.07)</u>

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 216,023 for the three months and nine months ended July 31, 2007 and 475,670 and 235,590, respectively, for the three months and nine months ended July 31, 2006.

(10) Shareholders' Equity

On March 26, 2007, the Company's Board of Directors approved a plan to purchase and retire up to 300,100 shares of the Company's common stock, or approximately 5% of the shares then outstanding. The Company anticipates that the purchases will be made over a 12-month period, but there is no definite time period for repurchase. As of July 31, 2007, the Company had repurchased and retired 99,174 shares of its outstanding common stock. The repurchase of these shares and the costs associated with the repurchase, including brokerage and legal fees, totaled \$525,322. As a result, 6,099,910 shares of the Company's common stock were outstanding as of July 31, 2007.

(11) Segment Information and Business and Credit Concentrations

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

OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Financial Statements
Three Months and Nine Months Ended July 31, 2007
(Unaudited)

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 July 31, 2007 and October 31, 2006 have been adequately provided for in the condensed financial statements.

For the three months ended July 31, 2007 and 2006, 10.2% and 15.2% of net sales were attributable to one major domestic distributor. For the nine months ended July 31, 2007 and 2006, 11.3% and 15.8% of net sales were attributable to this distributor. No other single customer accounted for more than 10% of the Company's net sales for the three months ended July 31, 2007 or 2006 or the nine months ended July 31, 2007 or 2006. For the nine months ended July 31, 2007 and 2006, approximately 72% and 76%, respectively, of net sales were from customers located in the United States, while approximately 28% and 24%, respectively, were from customers outside of the United States.

(12) 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.

(13) New Accounting Standards

In June 2006, the Financial Accounting Standards Board ("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 the Company will continue to evaluate the application of FIN 48, management does not currently believe adoption of this interpretation will have a material impact on the Company's 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 under U.S. generally accepted accounting principles, 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. The Company is 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 158 requires recognition of the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of

OPTICAL CABLE CORPORATION
Condensed Notes to Condensed Financial Statements
Three Months and Nine Months Ended July 31, 2007
(Unaudited)

financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. SFAS 158 also requires measurement of the funded status of a plan as of the date of the statement of financial position. SFAS 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 the Company's results of operations, financial position or liquidity as the Company does not have a defined benefit pension plan or other postretirement plans.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 allows entities to measure eligible financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Statement will be effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 159.

As of September 5, 2007, there are no other new accounting standards issued, but not yet adopted by the Company, which are expected to be applicable to its financial position, operating results or financial statement disclosures.

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

Forward Looking Information

This Form 10-Q may contain certain forward-looking information within the meaning of the federal securities laws. The forward-looking information may include, among other information, (i) statements concerning our outlook for the future, (ii) statements of belief, anticipation or expectation, (iii) future plans, strategies or anticipated events, and (iv) similar information and statements concerning matters that are not historical facts. Such forward-looking information is subject to 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; 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 current or potential future military conflicts; changes in the level of military spending by the United States government; ability to retain key personnel; 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. We incorporate by reference those factors included in current reports on Form 8-K and in our annual reports on Form 10-K. We also incorporate by reference the disclosures set forth in Part II, Item 1A of this Form 10-Q.

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.

Summary of Company Performance for Third Quarter 2007

During the third quarter of our 2007 fiscal year, net sales increased when compared to the same period last year. Net sales increased 1.0% to \$11.7 million during the third quarter of fiscal 2007, up from \$11.6 million during the same period last year. Sequentially, net sales increased 5.0% during the third quarter when compared to the second quarter of fiscal 2007. Gross profit margin, or gross profit as a percentage of net sales, increased to 40.2% during the third quarter of fiscal 2007, compared to 34.3% during the same period last year. We reported net income of \$538,000 during the third quarter of fiscal 2007, compared to net income of \$127,974 for the comparable period last year.

For the nine months ended July 31, 2007, net sales decreased 1.8% to \$32.1 million compared to \$32.7 million for the same period last year. However, despite a slight decrease in sales, gross profit margin increased to 36.6% for the nine months ended July 31, 2007 compared to 32.7% for the same period last year. We reported net income of \$442,000 during the first nine months of fiscal year 2007 compared to a net loss of \$401,000 for the same period last year.

We believe that the benefits of the investments made in our systems, processes and facilities are being realized and that these investments have helped position us for future growth and increases in shareholder value. We have successfully transitioned from dual processing of certain transactions on separate systems to exclusively using our new enterprise resource planning (“ERP”) system. During the first nine months of fiscal year 2007, our manufacturing lead times decreased and our manufacturing efficiencies increased compared to the first nine months of fiscal year 2006. We experienced significant improvements in gross profit margins compared to the comparable period last year. We have also been able to reduce levels of certain inventories. We believe these improvements are in part the result of the successful implementation of the major portions of our new ERP system, as well as overcoming certain ERP implementation challenges.

Our focus for the last quarter of fiscal year 2007 continues to be on further increasing net sales. We believe our investments in systems, processes and facilities have made our business more scalable, positioning us to support increased net sales levels. We also expect our efforts on key strategic initiatives to continue during the remainder of fiscal year 2007.

Results of Operations

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

	Three Months Ended July 31,		Percent Change	Nine Months Ended July 31,		Percent Change
	2007	2006		2007	2006	
Net sales	11,694,000	11,580,000	1.0%	32,103,000	32,689,000	(1.8)%
Gross profit	4,701,000	3,976,000	18.2%	11,747,000	10,674,000	10.1%
SG&A expenses	3,862,000	3,671,000	5.2%	11,046,000	11,214,000	(1.5)%
Net income (loss)	538,000	128,000	320.2%	442,000	(401,000)	210.4%

Three Months Ended July 31, 2007 and 2006

Net Sales

Net sales increased 1.0% to \$11.7 million for the third quarter of fiscal year 2007 from \$11.6 million for the same period in 2006. Sequentially, net sales for the third quarter of fiscal 2007 increased compared to net sales of \$9.3 million and \$11.1 million during the first and second quarters of fiscal 2007, respectively.

The increase in net sales during the third quarter of fiscal year 2007 when compared to the same period last year was primarily attributable to an increase in our specialty markets compared to the same period last year. The increase in net sales in our specialty markets was partially offset by decreases in our commercial market.

We believe net sales results in the third quarter of fiscal year 2007 indicate that net sales were impacted by seasonality factors. Further detail regarding seasonality is provided in our discussion of “Seasonality”.

Gross Profit

Gross profit increased 18.2% to \$4.7 million for the third quarter of 2007 from \$4.0 million for the same period in 2006. Gross profit margin, or gross profit as a percentage of net sales, increased to 40.2% for the third quarter of 2007 from 34.3% for the third quarter of 2006. By comparison, gross profit margin increased when compared to gross profit margins of 32.1% and 36.5%, respectively, during the first and second quarters of 2007.

We believe that the benefits of the investments made in our systems, processes and facilities are being realized. During the third quarter of fiscal year 2007, our manufacturing efficiencies improved, and we experienced improved gross profit margins, when compared to the third quarter of fiscal year 2006. We believe these improvements are in part the result of the successful implementation of the major portions of our new ERP system, as well as overcoming certain ERP implementation challenges.

Selling, General, and Administrative Expenses

SG&A expenses increased 5.2% to \$3.9 million in the third quarter of fiscal year 2007 from \$3.7 million for the same period last year. SG&A expenses as a percentage of net sales were 33.0% in the third quarter of 2007 compared to 31.7% in the third quarter of 2006. The increase in SG&A expenses during the third quarter of fiscal year 2007 compared to the same period last year is primarily due to increased employee compensation costs. Compensation costs have increased when comparing the third quarter of fiscal 2007 to the comparable period in fiscal 2006 largely as a result of increases in amounts accrued for potential employee performance-based incentives based on our financial results during the third quarter of fiscal year 2007 compared to the same period last year.

Other Income (Expense), Net

We recognized other income, net in the third quarter of fiscal year 2007 of \$13,000 compared to other expense, net of \$27,000 in the third quarter of fiscal year 2007. Other expense, net is comprised of interest income, interest expense and other miscellaneous items which may fluctuate from period to period.

Income Before Income Taxes

We reported income before income taxes of \$853,000 for the third quarter of fiscal year 2007 compared to \$279,000 for the third quarter of fiscal year 2006. This change was primarily due to an increase in gross profit of \$725,000 in the third quarter of fiscal year 2007 compared to the same period in 2006, partially offset by an increase in SG&A expenses for the same period of \$191,000.

Income Tax Expense

Income tax expense totaled \$315,000 for the third quarter of fiscal year 2007 compared to \$151,000 for the same period in fiscal year 2006. Our effective tax rate was 36.9% in the third quarter of fiscal 2007 compared to 54.1% in the third quarter of fiscal 2006. Generally, fluctuations in our effective tax rates are primarily due to the amount and timing of various tax deductions and benefits. Our effective rate during the third quarter of fiscal year 2006 was much higher than our anticipated tax rate of approximately 35% to 38% as a result of fluctuations in projected pre-tax income.

Net Income

Net income for the third quarter of fiscal year 2007 was \$538,000 compared to \$128,000 for the third quarter of fiscal year 2006. This increase was due primarily to the increase in income before taxes of \$574,000 in the third quarter of fiscal year 2007 compared to the comparable period last year and the decrease in our effective tax rate when comparing the two periods.

Nine Months Ended July 31, 2007 and 2006

Net Sales

Net sales decreased 1.8% to \$32.1 million for the first nine months of fiscal year 2007 from \$32.7 million for the same period in 2006. Net sales to customers located outside of the United States continued to show substantial strength in the first nine months of fiscal year 2007, increasing 15.8% compared to the same period last year, while net sales to customers located in the United States decreased 7.4%.

The decrease in net sales during the first nine months of fiscal year 2007 when compared to the same period last year was primarily attributable to a decrease in our commercial market compared to the same period last year. Net sales in certain of our specialty markets increased during the first nine months of fiscal year 2007 compared to last year, partially offset by decreases in certain other specialty markets.

We believe net sales results experienced in the first nine months of fiscal year 2007 indicate that net sales were impacted by seasonality factors. Further detail regarding seasonality is provided in our discussion of "Seasonality".

Gross Profit

Gross profit margin, or gross profit as a percentage of net sales, increased to 36.6% in the first nine months of fiscal 2007 from 32.7% for the same period last year. As a result, gross profit increased 10.1% to \$11.7 million for the first nine months of fiscal 2007 from \$10.7 million for the same period in 2006, despite the 1.8% decrease in net sales for the same period.

During the first nine months of fiscal year 2007, our manufacturing lead times decreased, our manufacturing efficiencies increased and we experienced improved gross profit margins, when compared to the same period last year. We believe these improvements are in part the result of the successful implementation of the major portions of our new ERP system, as well as overcoming certain ERP implementation challenges.

Selling, General, and Administrative Expenses

SG&A expenses decreased 1.5% to \$11.0 million in the first nine months of 2007 from \$11.2 million for the same period last year. SG&A expenses as a percentage of net sales were 34.4% for the nine months ended July 31, 2007 compared to 34.3% for the same period in 2006. The decrease in SG&A expenses during the first nine months of 2007 compared to the same period last year was primarily due to decreased employee compensation costs.

Other Income (Expense), Net

We recognized other income, net of \$4,000 in the first nine months of fiscal 2007 compared to other expense, net of \$6,000 in the first nine months of 2006. Other expense, net is comprised of interest income, interest expense and other miscellaneous items which may fluctuate from period to period.

Income (Loss) Before Income Taxes

We reported income before income taxes of \$705,000 for the first nine months of fiscal year 2007 compared to a loss before income taxes of \$546,000 for the first nine months of fiscal year 2006. This change was primarily due to the increase in gross profit of \$1.1 million and a decrease in SG&A expenses totaling \$168,000 in the first nine months of fiscal year 2007 when compared to the same period in fiscal year 2006.

Income Tax Expense (Benefit)

Income tax expense totaled \$262,000 for the first nine months of fiscal year 2007 compared to income tax benefit of \$145,000 for the same period in fiscal 2006. Our effective tax rate was 37.2% in the first nine months of 2007 compared to 26.6% in the first nine months of 2006. Generally, fluctuations in our effective tax rates are primarily due to the amount and timing of various tax deductions and benefits.

Net Income (Loss)

Net income for the first nine months of 2007 was \$442,000 compared to a net loss of \$401,000 for the first nine months of fiscal 2006. This change was due primarily to the income before taxes experienced in the first nine months of fiscal year 2007 compared to a loss before taxes for the comparable period last year, partially offset by the recognition of tax expense in the first nine months of fiscal year 2007 compared to a tax benefit in the first nine months of fiscal year 2006.

Financial Condition

Total assets were \$34.8 million at both July 31, 2007 and October 31, 2006. Changes within total assets since October 31, 2006 include a \$1.9 million increase in cash and cash equivalents. Further detail regarding the increase in cash and cash equivalents is provided in our discussion of "Liquidity and Capital Resources." Other changes within total assets include a \$986,000 increase in note receivable as a result of additional advances made by us to a start-up connector company, described further herein. Increases within total assets were offset by a \$1.3 million decrease in inventories and an \$816,000 decrease in accounts receivable, net. The inventory decrease was largely a result of efforts to optimize inventory levels. Our new ERP system allows us to better plan inventory types and quantities on hand by increasing visibility of inventory available for use in production and providing improved tools for production planning. Accounts receivable, net decreased primarily as a result of the decrease in net sales when comparing net sales for the third quarter of fiscal year 2007, totaling \$11.7 million, to net sales for the fourth quarter of fiscal year 2006, totaling \$12.6 million.

Total liabilities decreased \$489,000 or 11.2% to \$3.9 million at July 31, 2007, from \$4.4 million at October 31, 2006. This decrease was primarily due to a \$991,000 decrease in note payable to bank resulting from the repayment early in fiscal year 2007 of outstanding borrowings on our bank line of credit. The decrease in the note payable was partially offset by a \$309,000 increase in accrued compensation and payroll taxes. The increase in accrued compensation and payroll taxes results from the accrual of certain incentives associated with our improved financial performance in the third quarter of fiscal year 2007.

Total shareholders' equity at July 31, 2007 increased \$483,000 in the first nine months of fiscal 2007. The increase resulted primarily from the impact of stock-based compensation totaling \$559,000 and net income totaling \$442,000, partially offset by the repurchase and retirement of 99,174 shares of our common stock for \$525,000.

Liquidity and Capital Resources

Our primary capital needs during the first nine months of fiscal 2007 have been to fund working capital requirements, repayment of the note payable to our bank, 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 cash equivalents and cash provided by operations. As of July 31, 2007, we had no outstanding balance under our bank lines of credit. As of October 31, 2006, we had an outstanding loan balance of \$991,000 under one of our bank lines of credit.

Our cash totaled \$2.4 million as of July 31, 2007, an increase of \$1.9 million compared to \$555,000 as of October 31, 2006. The increase in cash for the nine months ended July 31, 2007 primarily resulted from net cash provided by operating activities of \$4.8 million, partially offset by capital expenditures totaling \$545,000, advances by us pursuant to a note receivable (described further herein) totaling \$891,000, the repayment of our outstanding borrowings under our bank line of credit totaling \$991,000 and the repurchase and retirement of 99,174 shares of our common stock for \$525,000.

On July 31, 2007, we had working capital of \$15.1 million compared to \$14.4 million as of October 31, 2006. The ratio of current assets to current liabilities as of July 31, 2007, was 5.5 to 1, compared to 4.4 to 1 as of October 31, 2006. The increase in working capital when comparing the periods was primarily due to the \$1.9 million increase in cash and the \$991,000 decrease in the note payable under our bank line of credit, partially offset by the \$1.3 million decrease in inventories, the \$816,000 decrease in accounts receivable, net, and the \$309,000 increase in accrued compensation and payroll taxes.

On March 26, 2007, our Board of Directors approved a plan to purchase and retire up to 300,100 shares of our common stock, or approximately 5% of the shares then outstanding. We anticipate that the purchases will be made over a 12-month period, but there is no definite time period for repurchase. As of July 31, 2007, we repurchased and retired 99,174 shares of our outstanding common stock. The repurchase of these shares and the costs associated with the repurchase, including brokerage and legal fees, totaled approximately \$525,000. As a result, 6,099,910 shares of the Company's common stock were outstanding as of July 31, 2007.

Net cash provided by operating activities was \$4.8 million in the first nine months of fiscal year 2007, compared to net cash used in operating activities of \$651,000 in the first nine months of fiscal year 2006. Net cash provided by operating activities during the first nine months of 2007 primarily resulted from net income of \$442,000 plus net adjustments to reconcile net income to net cash provided by operating activities, including depreciation and amortization of \$1.2 million and share-based compensation expense of \$559,000. Additionally, the decrease in accounts receivable in the amount of \$706,000 and the decrease in inventories totaling \$1.3 million further contributed to net cash provided by operating activities. Net cash used in operating activities during the first nine months of fiscal year 2006 primarily resulted from a net loss of \$401,000 and a decrease in accrued compensation and payroll taxes totaling \$1.2 million, partially offset by adjustments to reconcile net loss to net cash used in operating activities, including depreciation and amortization of \$977,000 and stock based compensation expense of \$542,000.

Net cash used in investing activities totaled \$1.4 million in the first nine months of fiscal year 2007, compared to \$2.8 million in the first nine months of fiscal year 2006. Net cash used in investing activities during the first nine months of fiscal years 2007 and 2006 resulted primarily from the purchase of property and equipment and advances made to a start-up connector company described further herein.

On April 22, 2005, we agreed to extend a loan to a start-up connector company, Applied Optical Systems, Inc. (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 July 31, 2007, total assets of the Borrower, based on unaudited financial information, was equivalent to approximately 5.4% of our total assets. Total revenue of the Borrower, based on unaudited financial information, was equivalent to approximately 7.8% and 7.2%, respectively, of our net sales for the three and nine month periods ended July 31, 2007.

This loan, and the related transactions described further herein, is part of a strategy designed to provide us with the ability 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.

Through July 31, 2007, we had advanced a total of \$3.3 million, net (including some accrued interest and accounts receivable from certain product sales) to the Borrower. The note receivable, which matures July 31, 2008, 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, 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 \$1,500,000. 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. 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. We did not make any additional advances to the Borrower subsequent to July 31, 2007.

Net cash used in financing activities totaled \$1.5 million in the first nine months of fiscal 2007 and resulted from the repayment of a note payable to our bank under our line of credit in the amount of \$991,000 and the repurchase and retirement of 99,000 shares of our common stock for \$525,000. Net cash provided by financing activities totaled \$128,000 in the first nine months of fiscal 2006 and resulted primarily from proceeds from a note payable to our bank under our line of credit.

On September 25, 2006, we established 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"), which together replaced our former credit facility with Wachovia Bank, National Association. 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 July 31, 2007, we had approximately \$12.1 million of unused and available credit, after considering borrowing base calculations. As of July 31, 2007, we had no outstanding borrowings under the Working Capital Facility, the Machinery and Equipment Facility or the Real Estate Loan.

If not sooner demanded, the Working Capital Facility and the Machinery and Equipment Facility expire on February 28, 2008. Of the \$13.5 million aggregate maximum availability, \$6.5 million relates to the Real Estate Loan. If no advances are made under the Real Estate Loan within one year of the Closing Date, or September 25, 2007, the Real Estate Loan will expire.

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

During fiscal year 2003, as part of a settlement agreement reached in September 2002, we 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 our former chief executive officer. The warrants have an exercise price per share of \$4.88. 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 this 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 and other seasonal factors. 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 for those years did not follow this pattern due to overall economic conditions in the industry.

We believe our net sales may continue to be 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. 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

As of July 31, 2007, we have no 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 condensed financial statements and accompanying condensed notes that have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting information and the instructions to Form 10-Q and Article 10 of Regulation S-X. The preparation of these condensed financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed 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 filed with our Annual Report on Form 10-K for fiscal year 2006 provides a summary of our significant accounting policies. Those significant accounting policies detailed in our fiscal year 2006 Form 10-K did not change during the period from October 31, 2006 through July 31, 2007.

Future Accounting Considerations

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 under U.S. generally accepted accounting principles, 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 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 158 also requires measurement of the funded status of a plan as of the date of the statement of financial position. SFAS 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 February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 allows entities to measure eligible financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Statement will be effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. We are currently evaluating the impact of SFAS 159.

As of September 5, 2007, there are no other new accounting standards issued, but not yet adopted by us, which are expected to be applicable to our financial position, operating results or financial statement disclosures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of July 31, 2007, 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 4. Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures as of July 31, 2007.

In connection with that evaluation, a material weakness in our internal control over financial reporting was discovered by Company management. A material weakness is defined in Section 210.1-02(4) of Regulation S-X as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified arose from the existence of the following control deficiency:

The Company did not have a procedure to reconcile the price actually paid for its bare fiber inventory with the technical bare fiber archive database used for bare fiber inventory valuation purposes or to otherwise verify the cost used to value bare fiber inventory on hand at period end.

The material weakness prevented the Company from timely detecting a significant price data-entry error associated with the receipt of a large raw material shipment that occurred during the three-month period ended January 31, 2007. When the value of this raw material shipment was entered into the data-entry system incorrectly it resulted in the inventory being overvalued and caused misstatements in the Company's reported interim financial statements for the first two quarters of fiscal 2007.

Upon discovering the price data-entry error, the Company performed extensive testing of bare fiber inventory pricing as of the end of the three month periods ended January 31, April 30 and July 31, 2007, but found no other misstatements that individually or in aggregate could be considered material.

The effects of the misstatements caused by the control deficiency are that the Company reported a smaller net loss than it should have for the first quarter ended January 31, 2007 in the amount of approximately \$186,000 and reported less net income than it should have for the second quarter ended April 30, 2007 of approximately \$172,000. The combined impact of the misstatements in each of the first two quarters resulted in a cumulative understatement of net loss totaling approximately \$14,000 for the six month period ended April 30, 2007.

Based on management's evaluation and as a result of the identified material weakness, the Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were not effective to ensure that we are able to accumulate and communicate to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, information that we are required to disclose in the reports that we file with the SEC, and to record, process, summarize and report that information within the required time periods.

Changes in Internal Control over Financial Reporting and Plan of Remediation of Material Weakness

There have been no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter ended July 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. However, we have initiated or intend to initiate a number of remediation measures to address the material weakness identified above. The remediation measures include or are expected to include the following:

- The Company has previously, and continues to, match invoices with purchase orders and packing slips prior to payment of invoices. Additionally, we will perform a manual control in which invoices are manually matched not only to the packing slip and original purchase order documents, but also to a

technical bare fiber archive database. Reconciliation of the per unit price, quantity received and receipt date included in the technical bare fiber archive database to invoices, purchase orders and packing slips, as applicable, will provide reasonable assurance that our bare fiber inventory is appropriately recorded at historical cost.

- During our quarterly closing process for the third quarter ended July 31, 2007 we performed price test procedures on our bare fiber inventory on hand as of January 31, 2007, April 30, 2007 and July 31, 2007 and have determined that there are no additional errors that occurred for any of the three periods that have materially affected our interim financial statements; and
- We will perform a price test of bare fiber inventory on hand as of the end of each reporting period.

We intend to continue to evaluate our internal controls on an ongoing basis and to upgrade and enhance them as needed.

PART II. OTHER INFORMATION

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 2, “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 Quarterly Report on Form 10-Q 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,” “could,” “likely,” “probably,” “feel,” “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 2, “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 Quarterly Report on Form 10-Q 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-buffered fiber optic cable specifically or in certain applications, in the markets we target may cause our sales to fall.

Fiber optic cable, specifically tight-buffered 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-buffered 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-buffered 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-buffered 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, and significant declines in our share price.

PART II. OTHER INFORMATION

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 copper and fiber optic cable manufacturers such as General Cable, Belden, AFL Telecommunications, Hitachi, Nexans (doing business 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;

PART II. OTHER INFORMATION

- Fluctuations in corporate or government spending;
- Fluctuations in spending by specific customers or end-users, including the U.S. military;
- 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.

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 considerations 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.

PART II. OTHER INFORMATION

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.

PART II. OTHER INFORMATION

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

The following table summarizes the Company's purchases of its common stock for the three months ended July 31, 2007:

<u>Period</u>	<u>Total number of shares purchased (1)</u>	<u>Average price paid per share (2)</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Maximum number of shares that may yet be purchased under the plans or programs (1)</u>
May 1, 2007 – May 31, 2007	—	—	—	300,100
June 1, 2007 – June 30, 2007	—	—	—	300,100
July 1, 2007 – July 31, 2007	99,174	\$ 5.30	99,174	200,926

- (1) On March 26, 2007, the Company's Board of Directors approved a plan to purchase and retire up to 300,100 shares of the Company's common stock, or approximately 5% of the shares then outstanding. The Company anticipates that the purchases will be made over a 12-month period, but there is no definite time period for repurchase. As of July 31, 2007, the Company had repurchased and retired 99,174 shares of its outstanding common stock. The repurchase of these shares and the cost associated with the repurchases, including brokerage and legal fees, totaled approximately \$525,000. As a result, 6,099,910 shares of the Company's common stock were outstanding as of July 31, 2007.
- (2) The average price paid per share set forth above includes the purchase price paid for the shares, and brokerage and legal fees paid by the Company. The average purchase price per share (excluding brokerage and legal fees) paid by the Company was \$5.22.

PART II. OTHER INFORMATION

Item 6. Exhibits

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

SIGNATURES

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

OPTICAL CABLE CORPORATION
(Registrant)

Date: September 14, 2007

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

Date: September 14, 2007

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

Exhibit Index

Exhibit No.	Description
3.1	Articles of Amendment filed November 5, 2001 to the Amended and Restated Articles of Incorporation, as amended through November 5, 2001 (incorporated herein by reference to Exhibit 1 to the Company's Form 8-A filed with the Commission on November 5, 2001).
3.2	Bylaws of Optical Cable Corporation, as amended (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2004 (file number 0-27022)).
4.1	Form of certificate representing Common Stock (incorporated herein by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2004 (file number 0-27022)).
4.2	Rights Agreement dated as of November 2, 2001 (incorporated herein by reference to Exhibit 4 to the Company's Form 8-A filed with the Commission on November 5, 2001).
4.3	Form of certificate representing preferred share purchase right (incorporated herein by reference to Exhibit 5 to the Company's Form 8-A filed with the Commission on November 5, 2001).
4.4	Warrant Agreement dated as of October 24, 2002 (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 filed with the Commission on February 11, 2003).
4.5	Form of warrant certificate (incorporated herein 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) (incorporated herein by reference to Exhibit 4.6 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
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) (incorporated herein by reference to Exhibit 4.7 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
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) (incorporated herein by reference to Exhibit 4.8 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
4.9	Promissory Note dated September 22, 2006 by Optical Cable Corporation in the amount of \$2,000,000 (Loan No. 156833) (incorporated herein by reference to Exhibit 4.9 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).

- 4.10 Credit Line Deed of Trust dated September 22, 2006 between Optical Cable Corporation as Grantor, John T. McCaleb and Catherine J. Hartman as Trustees, and Valley Bank as Lender (incorporated herein by reference to Exhibit 4.10 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
- 4.11 Promissory Note dated September 22, 2006 by Optical Cable Corporation in the amount of \$6,500,000 (Loan No. 156779) (incorporated herein by reference to Exhibit 4.11 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
- 4.12 Promissory Note dated September 22, 2006 by Optical Cable Corporation in the amount of \$5,000,000 (Loan No. 156809) (incorporated herein by reference to Exhibit 4.12 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
- 10.1* Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective November 1, 2002 (incorporated herein by reference to Exhibit 10.1 to the Company's Amended Quarterly Report on Form 10-Q/A for the quarterly period ended January 31, 2003 (file number 0-27022)).
- 10.2* Employment Agreement dated December 10, 2004 by and between Optical Cable Corporation and Tracy G. Smith (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 24, 2005 (file number 0-27022)).
- 10.3* Employment Agreement by and between Optical Cable Corporation and Luke J. Huybrechts effective November 1, 2002 (incorporated herein 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).
- 10.9* Form of December 17, 2004 restricted stock award agreement under the Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed January 24, 2005).
- 10.10* Form of award agreement under the Optical Cable Corporation Amended 2004 Non-Employee Directors Stock Plan (incorporated herein by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K for the period ended October 31, 2004).

- 10.11* Optical Cable Corporation 2005 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's definitive proxy statement on Form 14A filed February 23, 2005).
- 10.12* Form of time vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
- 10.13* Form of stock performance (Company stock performance measure) 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 (individual participant performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
- 10.15* Form of operational performance (Company financial performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2007).
- 10.16 Redemption Agreement by and between Optical Cable Corporation and BB&T Investment Services, Inc. dated March 27, 2007 (incorporated herein by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2007).
- 11.1 Statement regarding computation of per share earnings (incorporated by reference to note 9 of the Condensed Notes to Condensed Financial Statements contained herein).
- 31.1 Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
- 31.2 Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
- 32.1 Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
- 32.2 Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.

* Management contract or compensatory plan or agreement.

CERTIFICATION

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

1. I have reviewed this report on Form 10-Q of Optical Cable Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 auditors 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: September 14, 2007

/s/ Neil D. Wilkin, Jr.

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

CERTIFICATION

I, Tracy G. Smith, certify that:

1. I have reviewed this report on Form 10-Q of Optical Cable Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 auditors 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: September 14, 2007

/s/ Tracy G. Smith

Tracy G. Smith

Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of Optical Cable Corporation (the "Company") on Form 10-Q for the quarter ended July 31, 2007 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 July 31, 2007, and for the period then ended.

Date: September 14, 2007

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.

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

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

In connection with the Quarterly Report of Optical Cable Corporation (the "Company") on Form 10-Q for the quarter ended July 31, 2007 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 July 31, 2007, and for the period then ended.

Date: September 14, 2007

/s/ Tracy G. Smith

Tracy G. Smith

Vice President and Chief Financial Officer