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

FORM 10-Q

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

For the quarterly period ended April 30, 2006

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 June 8, 2006, 6,002,761 shares of the registrant's Common Stock, no par value, were outstanding.

OPTICAL CABLE CORPORATION
Form 10-Q Index
Six Months Ended April 30, 2006

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	
Condensed Balance Sheets – April 30, 2006 and October 31, 2005	2
Condensed Statements of Operations – Three Months and Six Months Ended April 30, 2006 and 2005	3
Condensed Statement of Shareholders' Equity – Six Months Ended April 30, 2006	4
Condensed Statements of Cash Flows – Six Months Ended April 30, 2006 and 2005	5
Condensed Notes to Condensed Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures About Market Risk	32
Item 4. Controls and Procedures	33
PART II. OTHER INFORMATION	
Item 4. Submission of Matters to a Vote of Security Holders	34
Item 6. Exhibits	35
SIGNATURES	36

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

OPTICAL CABLE CORPORATION
Condensed Balance Sheets
(Unaudited)

	April 30, 2006	October 31, 2005
Assets		
Current assets:		
Cash	\$ 2,569	\$ 3,290,133
Trade accounts receivable, net of allowance for doubtful accounts of \$449,886 at April 30, 2006 and \$454,550 at October 31, 2005	8,153,723	8,174,384
Other receivables	313,714	158,340
Inventories	10,259,108	8,706,081
Prepaid expenses	400,003	384,773
Deferred income taxes	61,213	44,839
Total current assets	<u>19,190,330</u>	<u>20,758,550</u>
Property and equipment, net	13,289,413	12,779,152
Other assets, net	1,443,747	1,047,699
Deferred income taxes	567,752	358,700
Total assets	<u>\$ 34,491,242</u>	<u>\$ 34,944,101</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,681,938	\$ 2,974,694
Accrued compensation and payroll taxes	797,467	2,099,156
Income taxes payable	452,351	525,340
Total current liabilities	<u>4,931,756</u>	<u>5,599,190</u>
Note payable to bank	426,832	—
Total liabilities	<u>5,358,588</u>	<u>5,599,190</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 5,994,761 shares at April 30, 2006 and 5,800,975 at October 31, 2005	2,247,410	1,930,944
Retained earnings	26,885,244	27,413,967
Total shareholders' equity	<u>29,132,654</u>	<u>29,344,911</u>
Commitments and contingencies		
Total liabilities and shareholders' equity	<u>\$ 34,491,242</u>	<u>\$ 34,944,101</u>

See accompanying condensed notes to condensed financial statements.

OPTICAL CABLE CORPORATION
Condensed Statements of Operations
(Unaudited)

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2006	2005	2006	2005
Net sales	\$ 11,239,276	\$ 11,609,312	\$ 21,109,596	\$ 22,748,680
Cost of goods sold	7,838,611	6,879,976	14,412,556	13,430,554
Gross profit	3,400,665	4,729,336	6,697,040	9,318,126
Selling, general and administrative expenses	3,891,033	4,136,073	7,542,880	8,360,400
Income (loss) from operations	(490,368)	593,263	(845,840)	957,726
Other income (expense), net:				
Interest income	18,208	75	32,874	20,636
Interest expense	(5,465)	(24,914)	(5,465)	(54,663)
Other, net	(4,533)	3,451	(6,008)	4,206
Other income (expense), net	8,210	(21,388)	21,401	(29,821)
Income (loss) before income taxes	(482,158)	571,875	(824,439)	927,905
Income tax expense (benefit)	(172,948)	208,135	(295,716)	341,480
Net income (loss)	<u>\$ (309,210)</u>	<u>\$ 363,740</u>	<u>\$ (528,723)</u>	<u>\$ 586,425</u>
Net income (loss) per share:				
Basic and diluted	<u>\$ (0.05)</u>	<u>\$ 0.06</u>	<u>\$ (0.09)</u>	<u>\$ 0.10</u>

See accompanying condensed notes to condensed financial statements.

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

	Six Months Ended April 30, 2006			Total Shareholders' Equity
	Common Stock		Retained Earnings	
	Shares	Amount		
Balances at October 31, 2005	5,800,975	\$ 1,930,944	\$ 27,413,967	\$ 29,344,911
Stock-based compensation	193,321	314,198	—	314,198
Exercise of warrants (\$4.88 per share)	465	2,268	—	2,268
Net loss	—	—	(528,723)	(528,723)
Balances at April 30, 2006	<u>5,994,761</u>	<u>\$ 2,247,410</u>	<u>\$ 26,885,244</u>	<u>\$ 29,132,654</u>

See accompanying condensed notes to condensed financial statements.

OPTICAL CABLE CORPORATION
Condensed Statements of Cash Flows
(Unaudited)

	Six Months Ended	
	April 30,	
	2006	2005
Cash flows from operating activities:		
Net income (loss)	\$ (528,723)	\$ 586,425
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	624,357	588,108
Bad debt expense (recovery)	(6,925)	24,214
Deferred income tax expense (benefit)	(225,426)	317,958
Stock-based compensation expense	314,198	224,753
Gain on sale of machinery and equipment	—	(1,000)
(Increase) decrease in:		
Trade accounts receivable	27,586	171,173
Other receivables	(155,374)	(79,174)
Inventories	(1,553,027)	(1,616,427)
Prepaid expenses	(15,230)	124,728
Other assets, net	140,051	—
Increase (decrease) in:		
Accounts payable and accrued expenses	753,055	(181,659)
Accrued compensation and payroll taxes	(1,301,689)	(645,936)
Income taxes payable	(72,989)	297,074
Net cash used in operating activities	<u>(2,000,136)</u>	<u>(189,763)</u>
Cash flows from investing activities:		
Purchase of and deposits for the purchase of property and equipment	(1,162,445)	(902,704)
Proceeds from sale of property and equipment	—	1,000
Investment in other assets	(32,355)	—
Note receivable	(500,000)	(150,000)
Net cash used in investing activities	<u>(1,694,800)</u>	<u>(1,051,704)</u>
Cash flows from financing activities:		
Proceeds from note payable to bank, net	426,832	—
Payments for financing costs	(21,728)	—
Proceeds from exercise of warrants	2,268	—
Net cash provided by financing activities	<u>407,372</u>	<u>—</u>
Net decrease in cash	(3,287,564)	(1,241,467)
Cash at beginning of period	3,290,133	4,341,956
Cash at end of period	<u>\$ 2,569</u>	<u>\$ 3,100,489</u>

See accompanying condensed notes to condensed financial statements.

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2006

(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 six months ended April 30, 2006 are not necessarily indicative of the results for the fiscal year ending October 31, 2006 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, 2005 or as otherwise identified in other filings by the Company as 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, 2005.

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

Optical Cable Corporation uses stock incentives to increase the personal financial interest key employees have in the future success of the Company, thereby aligning their interests with those of the shareholders and strengthening their desire to remain with the Company. The Company has authorized and reserved 750,000 shares of common stock for issuance pursuant to the Optical Cable Corporation 1996 Stock Incentive Plan (the "1996 Plan"). As of April 30, 2006 there were approximately 135,000 remaining shares available for grant under the 1996 Plan; however, at this time, the Company does not anticipate making any additional grants under the 1996 Plan.

In March of 2005, the Company's shareholders approved the Optical Cable Corporation 2005 Stock Incentive Plan (the "2005 Plan"). The 2005 Plan is intended to be the successor to the 1996 Plan. The Company has authorized and reserved 1,000,000 shares of common stock for issuance pursuant to the 2005 Plan. As of April 30, 2006, there were 780,000 remaining shares available for grant under the 2005 Plan.

Effective November 1, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share Based Payment*, ("SFAS 123(R)") and related interpretations, using the modified prospective method. SFAS 123(R) requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant-date fair value of those awards. Using the modified prospective method of adopting SFAS 123(R), the Company began recognizing compensation expense for the remaining unvested portions of stock option awards granted prior to November 1, 2005. All such stock option awards were made prior to July 2002.

Stock-based compensation expense (including the expense for both stock option awards granted prior to July 2002, and restricted stock grants) recognized under SFAS 123(R) in the condensed statement of operations for the three months and six months ended April 30, 2006 was \$195,728 and \$325,645, respectively. The estimated fair value of the Company's stock-based awards, less estimated forfeitures, is

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2006

(Unaudited)

amortized over the awards' vesting period on a straight-line basis. The stock-based compensation expense for the three months and six months ended April 30, 2006 included \$152,085 and \$261,241, respectively, related to restricted stock grants that would have been included in the Company's condensed statements of operations under the provisions of Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure* ("SFAS 148"). As a result of adopting SFAS 123(R) and because SFAS 123(R) as finally adopted does not allow for complete prospective treatment of equity compensation, the Company's loss before taxes for the three months and six months ended April 30, 2006 were increased by \$45,330 and \$92,908, respectively, and the Company's net loss for the three months and six months ended April 30, 2006 were increased by \$29,011 and \$59,461, respectively, related to stock options granted before July 2002. The implementation of SFAS 123(R) did not significantly impact basic earnings per share or cash flows from operations for the three months and six months ended April 30, 2006.

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

For stock options granted prior to the adoption of SFAS 123(R) on November 1, 2005, the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123(R) to its stock option plans would have been as follows for the three months and six months ended April 30, 2005:

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2006

(Unaudited)

	Three Months Ended April 30, 2005	Six Months Ended April 30, 2005
Net income as reported	\$ 363,740	\$ 586,425
Less total stock-based employee compensation expense determined under the fair value based method, net of related tax effects	136,178	269,493
Pro forma net income	<u>\$ 227,562</u>	<u>\$ 316,932</u>
Net income per share:		
Basic:		
As reported	<u>\$ 0.06</u>	<u>\$ 0.10</u>
Pro forma	<u>\$ 0.04</u>	<u>\$ 0.06</u>
Diluted:		
As reported	<u>\$ 0.06</u>	<u>\$ 0.10</u>
Pro forma	<u>\$ 0.04</u>	<u>\$ 0.05</u>

Under the 1996 Plan, employees and outside contractors were issued options to purchase common stock, all of which were issued prior to July 2002. The exercise price equaled the market price of the Company's common stock on the date of grant. Options issued under the 1996 Plan generally vest incrementally over one to five years, and remain exercisable for ten years from the date of grant. During 2002, non-employee members of the Company's Board of Directors were granted options to purchase a total of 3,123 shares of the Company's common stock at an exercise price of \$7.12 per share, the closing price at the date of grant. These options were not granted pursuant to a plan. Options issued to non-employee directors vested monthly over one year.

The fair value of options granted prior to November 1, 2005 was estimated using the Black-Scholes option pricing model and the assumptions noted in the table below. Expected volatility was based on a combination of historical and implied volatilities of the Company's stock over a period at least as long as the options' expected term. The expected term represents the period of time that the options granted are expected to be outstanding based on the simplified method provided in Staff Accounting Bulletin No. 107 ("SAB 107"), which averages an award's weighted average vesting period and its contractual term for 'plain vanilla' share options. The risk-free rate is based on the available zero-coupon U.S. Treasury instruments with remaining terms equal to the expected term of the share options.

Stock Options Assumptions

Volatility	80.88%
Dividend yields	—
Expected Term (in years)	3.96 - 6.31
Risk-free rate	5.14% - 5.58%

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2006

(Unaudited)

Stock option activity during the six months ended April 30, 2006 is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (in yrs)</u>
Outstanding at October 31, 2005	319,483	\$ 19.74	5.26
Forfeited	(76,706)	\$ 57.96	—
Outstanding at April 30, 2006	<u>242,777</u>	\$ 7.67	5.78
Exercisable at April 30, 2006	<u>213,880</u>	\$ 7.74	6.56

As of April 30, 2006, there was no aggregate intrinsic value of options outstanding and options exercisable. Aggregate intrinsic value represents the positive difference between the Company's closing stock price on the last trading day of the fiscal period, which was \$4.59 as of April 30, 2006, and the exercise price multiplied by the number of options outstanding.

As of April 30, 2006, there was \$166,680 of total unrecognized compensation cost related to unvested share-based compensation awards in the form of stock options granted to employees prior to July 2002 under the 1996 Plan. That cost is expected to be recognized over the next four fiscal quarters.

In November 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3 ("FSP 123(R)-3"), *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. FSP 123(R)-3 provides an elective alternative transition method for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of FAS 123(R). Companies may take up to one year from the effective date of FSP 123(R)-3 to evaluate the available transition alternatives and make a one-time election as to which method to adopt. The Company is currently in the process of evaluating the alternative methods.

From time to time the Company has granted restricted stock awards under the 1996 Plan. A portion of the restricted stock awards granted under the 1996 Plan vest based on the passage of time and the remainder vest over time if certain performance criteria are met. The Company records compensation expense ratably over the vesting periods equal to the number of shares multiplied by the closing price of the Company's common stock on the date of grant. The Compensation Committee of the Board of Directors approved restricted stock awards in December 2004 and 2003 in the amount of 191,000 and 149,000 shares, respectively.

On January 28, 2006 restricted stock awards under the 2005 Plan totaling 220,000 shares were approved by the Compensation Committee of the Board of Directors of the Company. Of the restricted stock awards granted, 147,100 shares are time-based shares, 129,850 shares of which vest quarterly over five years with the first vesting date occurring on April 30, 2006; and 17,250 shares of which vest annually over three years with the first vesting date occurring on January 31, 2007. Of the restricted stock awards granted,

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2006

(Unaudited)

55,650 shares are stock performance-based shares generally eligible to vest over almost five years if the management team is able to provide total shareholder return (in terms of increase in share price plus dividends) at least 20% greater than the return of the Russell 2000® index. Greater shareholder returns can accelerate vesting of the stock performance-based shares, but the shares cannot vest more quickly than over three years. The first vesting date of the stock performance-based shares is October 31, 2006. The remaining 17,250 shares of restricted stock awards granted are operational performance-based shares vesting over a two year period beginning on January 31, 2007 based on the achievement of certain operational performance goals. Failure to meet the performance criteria required for vesting – whether for the stock performance-based shares or for the operational performance-based shares – will result in a portion or all of the shares being forfeited. The Company recognizes expense on the performance-based shares each quarter using an estimate of the shares expected to vest multiplied by the closing price of the Company's common stock of \$5.37 on the date of grant. U.S. generally accepted accounting principles requires that any previously recognized compensation cost shall not be reversed if the shares are forfeited as a result of not meeting the performance measure.

The Company recorded compensation expense related to its restricted stock awards totaling \$152,085 and \$261,241, respectively, during the three months and six months ended April 30, 2006 and \$111,129 and \$222,258, respectively, during the three months and six months ended April 30, 2005.

Restricted stock award activity during the six months ended April 30, 2006 consisted of a restricted share grant of 220,000 shares, and 26,678 restricted shares forfeited or withheld for taxes.

(3) Allowance for Doubtful Accounts for Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not typically bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company reviews outstanding trade accounts receivable at the end of each quarter and records allowances for doubtful accounts as deemed appropriate for (i) certain individual customers and (ii) for all other trade accounts receivable in total. In determining the amount of allowance for doubtful accounts to be recorded for individual customers, the Company considers the age of the receivable, the financial stability of the customer, discussions that may have occurred with the customer and management's judgment as to the overall collectibility of the receivable from that customer. In addition, the Company establishes an allowance for all other receivables for which no specific allowances are deemed necessary. This portion of the allowance for doubtful accounts is based on a percentage of total trade accounts receivable with different percentages used based on different age categories of receivables. The percentages used are based on the Company's historical experience and management's current judgment regarding the state of the economy and the industry. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers. Also see note 10.

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2006

(Unaudited)

A summary of changes in the allowance for doubtful accounts for trade accounts receivable for the six months ended April 30, 2006 and 2005 follows:

	Six Months Ended	
	April 30,	
	2006	2005
Balance at beginning of period	\$454,550	\$464,963
Bad debt expense (recovery)	(6,925)	24,214
Recoveries added to allowance	2,261	1,150
Balance at end of period	<u>\$449,886</u>	<u>\$490,327</u>

A prior distributor for the Company filed for protection from its creditors under bankruptcy laws in January 2001. The Company wrote off approximately \$2,191,000 for estimated uncollectible accounts receivable from this distributor for the year ended October 31, 2001. Subsequent recoveries from the bankrupt estate of this distributor, if any, will be recognized when payment is received, in accordance with U.S. generally accepted accounting principles.

(4) Inventories

Inventories as of April 30, 2006 and October 31, 2005 consist of the following:

	April 30,	October 31,
	2006	2005
Finished goods	\$ 3,381,382	\$ 3,435,050
Work in process	2,172,341	1,669,801
Raw materials	4,541,363	3,528,446
Production supplies	164,022	72,784
	<u>\$ 10,259,108</u>	<u>\$ 8,706,081</u>

(5) Note Receivable

On April 22, 2005, the Company agreed to extend a loan to an unaffiliated start-up connector company (the "Borrower"), specializing in the design, manufacture and sale of connectors and cable assemblies. 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 April 30, 2006, total assets of the Borrower, based on unaudited financial information, was equivalent to approximately 3% of the Company's total assets and total revenues of the Borrower, based on unaudited financial information, for the three month and the six month periods ended April 30, 2006, was equivalent to approximately 5% of the Company's net sales for the same periods.

This loan and the related transactions described further herein were part of a strategy designed to provide the Company with an option to expand its product line offering in market segments 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 over the longer term.

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2006

(Unaudited)

The loan agreement, as amended, provides that the maximum aggregate principal amount that may be advanced to the Borrower is \$2,500,000. Through April 30, 2006, the Company had advanced a total of \$1,314,859 to the Borrower, whereas through October 31, 2005, the Company had advanced a total of \$814,859 to the Borrower. Subsequent to April 30, 2006, additional advances by the Company to the Borrower totaled \$225,000. The note receivable, which matures July 31, 2007, is collateralized by all of the Borrower's tangible and intangible property and bears interest at six percent (6%) per annum and is included in other assets, net, in the accompanying condensed balance sheet as of April 30, 2006. Two of the founders of the Borrower have also guaranteed amounts up to two-thirds of the principal balance outstanding on the note receivable plus two-thirds of any accrued interest related to the note receivable. In connection with the loan, 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. The warrant expires on July 31, 2007 if it has not been exercised. 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 Company sold fiber optic cables to the Borrower totaling \$47,141 and \$193,797 during the three and six months ended April 30, 2006, respectively, and \$43,880 for fiscal year 2005. During the three months ended April 30, 2006, the Borrower sold product to the Company totaling \$9,166. The Company has included \$228,511 related to the sale of product to the Borrower in trade accounts receivable, net, as of April 30, 2006.

The Company recorded interest income related to the loan totaling \$18,208 and \$32,872 during the three and six months ended April 30, 2006, respectively, and \$13,381 during fiscal year 2005, all of which is included in other assets, net as of April 30, 2006.

(6) Product Warranties

The Company generally warrants its products against certain manufacturing and other defects in material and workmanship. These product warranties are provided for specific periods of time and are applicable assuming the product has not been subjected to misuse, improper installation, negligence, or shipping damage. As of April 30, 2006 and October 31, 2005, the Company's accrual for estimated product warranty claims totaled \$125,000 and \$100,000, respectively, and is included in accounts payable and accrued expenses. Warranty claims expense includes the costs to investigate claims and potential claims, and the costs to replace and/or repair product pursuant to claims, which in certain cases can include claims not deemed valid by the Company. The accrued product warranty costs are based primarily on historical experience of actual warranty claims and costs as well as current information with respect to potential warranty claims and costs. Warranty claims expense for the three months and six months ended April 30, 2006 totaled \$38,352 and \$67,100, respectively. Warranty claims expense for the three months and six months ended April 30, 2005 totaled \$87,918 and \$147,961, respectively.

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2006

(Unaudited)

The following table summarizes the changes in the Company's accrual for product warranties during the six months ended April 30, 2006 and 2005:

	Six Months Ended	
	April 30,	
	2006	2005
Balance at beginning of period	\$ 100,000	\$ 150,000
Liabilities accrued for warranties issued during the period	80,103	151,383
Warranty claims paid during the period	(42,100)	(147,961)
Changes in liability for pre-existing warranties during the period	(13,003)	(3,422)
Balance at end of period	<u>\$ 125,000</u>	<u>\$ 150,000</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 and in accordance with a settlement agreement approved by the United States District Court for the Western District of Virginia on September 23, 2002. Each warrant entitles the holder to purchase one share of the Company's common stock at an exercise price of \$4.88 per share. The warrants will expire October 24, 2007. The total number of warrants to be issued in accordance with the settlement agreement, 250,000 warrants, have been issued by the Company. There were 235,080 and 235,545 warrants outstanding as of April 30, 2006 and October 31, 2005, respectively. During the six months ended April 30, 2006, 465 warrants were exercised.

(8) Note Payable to Bank

The Company has a revolving credit facility with Wachovia Bank, National Association ("Wachovia"). The initial term of the loan agreement expired in April 2005 and was automatically extended through April 2006 pursuant to the terms of the agreement. Effective March 31, 2006, the Company and Wachovia agreed to amend and restate the terms of the financing. The amended loan agreement expires on April 17, 2008; however the Company is engaged in active discussions with both the lender and other financial institutions to replace the Company's credit facility with a credit facility with terms the Company believes will be more appropriate for the Company's current financing needs. Upon completion of these negotiations, should the Company choose to enter into a separate agreement with either the lender or another financial institution, the amended loan agreement is cancelable upon 60 days advance notice without early termination penalties.

The credit facility pursuant to both the original agreement and the amended and restated loan agreement provides up to a maximum of \$25 million and is collateralized by all of the Company's tangible and intangible assets. Borrowings under the credit facility are subject to certain coverage ratios, advance limits and qualifications that are applied to the Company's accounts receivable, inventory and fixed assets. The Company's ability to access the full amount of the credit facility depends on the future growth of the Company's borrowing base. The Company maintains a sweep arrangement with its bank, where at the end of each day, all of the Company's cash is used to paydown its outstanding note payable to the bank, if any.

As of April 30, 2006, the Company had outstanding borrowings in the amount of \$426,832 under the credit facility, with approximately \$7,796,708 unused and available. As of October 31, 2005, the Company had no outstanding borrowings under the credit facility.

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2006

(Unaudited)

The credit facility bears interest at one-half of one percent (0.50%) per annum above the prime rate (facility rate of 8.25% as of April 30, 2006). The facility also provides a LIBOR based rate at the Company's option.

In connection with obtaining and amending the initial credit facility, the Company incurred various costs. These financing costs, net of amortization, were deferred and were included in other assets, net in the condensed balance sheets of the Company for periods prior to the second quarter of 2005. These deferred financing costs were amortized to interest expense using the straight-line method, which approximates the effective interest method through April 2005 (the original term of the credit facility) and were fully amortized in fiscal year 2005. Although we did not need to use our credit facility during fiscal 2005, we recognized interest expense during the first two quarters of 2005 related to the amortization of the deferred financing costs associated with obtaining and amending our credit facility.

In connection with amending and restating the credit facility in March of 2006, the Company incurred various costs. These financing costs, net of amortization, have been deferred and are included in other assets, net in the condensed balance sheets of the Company as of April 30, 2006. These deferred financing costs are being amortized to interest expense using the straight-line method, which approximates the effective interest method for a period not greater than the term of the amended loan agreement.

(9) Net Income (Loss) Per Share

Basic net income (loss) per share excludes dilution and is computed by dividing income or 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 Six Months Ended April 30, 2006

(Unaudited)

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

	<u>Net Loss (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Three Months Ended April 30, 2006			
Basic net loss per share	\$ (309,210)	5,999,462	\$ (0.05)
Effect of dilutive stock options and warrants	—	—	
Diluted net loss per share	<u>\$ (309,210)</u>	<u>5,999,462</u>	<u>\$ (0.05)</u>
Three Months Ended April 30, 2005			
Basic net income per share	\$ 363,740	5,797,988	\$ 0.06
Effect of dilutive stock options and warrants	—	6,462	
Diluted net income per share	<u>\$ 363,740</u>	<u>5,804,450</u>	<u>\$ 0.06</u>
Six Months Ended April 30, 2006			
Basic net loss per share	\$ (528,723)	5,902,220	\$ (0.09)
Effect of dilutive stock options and warrants	—	—	
Diluted net loss per share	<u>\$ (528,723)</u>	<u>5,902,220</u>	<u>\$ (0.09)</u>
Six Months Ended April 30, 2005			
Basic net income per share	\$ 586,425	5,748,968	\$ 0.10
Effect of dilutive stock options and warrants	—	14,395	
Diluted net income per share	<u>\$ 586,425</u>	<u>5,763,363</u>	<u>\$ 0.10</u>

Otherwise dilutive securities, including stock options and warrants, to acquire approximately 14,000 shares and 28,000 shares, respectively, net of assumed proceeds based on exercise price, and with an exercise price less than the stock price as of the three months and six months ended April 30, 2006, were excluded from the computation of diluted net loss per share for the three and six months ended April 30, 2006 because their effect would have been antidilutive.

Stock options that could potentially dilute net income (loss) per share in the future that were not included in the computation of diluted net income (loss) per share (because to do so would have been antidilutive for the periods presented) totaled 237,778 for the three months and six months ended April 30, 2006 and 331,362 for the three months and six months ended April 30, 2005.

(10) Segment Information and Business and Credit Concentrations

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

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 April 30, 2006 and October 31, 2005 have been adequately provided for in the condensed financial statements.

OPTICAL CABLE CORPORATION

Condensed Notes to Condensed Financial Statements

Three Months and Six Months Ended April 30, 2006

(Unaudited)

For the three months ended April 30, 2006 and 2005, 17.2% and 15.3%, respectively, of net sales were attributable to one major domestic distributor. For the six months ended April 30, 2006 and 2005, 16.2% and 14.3% of net sales were attributable to this distributor. For the six months ended April 30, 2005, 10.2% of our net sales were attributable to another domestic customer. No other single customer accounted for more than 10% of net sales during the three months ended April 30, 2006 or 2005 or the six months ended April 30, 2006. For the six months ended April 30, 2006 and 2005, approximately 76% and 86%, respectively, of net sales were from customers located in the United States, and approximately 24% and 14%, respectively, were from customers outside of the United States.

(11) Contingencies

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

(12) New Accounting Standards

In November 2004, the Financial Accounting Standards Board, also referred to as the "FASB," issued Statement of Financial Accounting Standards No. 151, ("SFAS 151"), *Inventory Costs – an amendment of ARB No. 43, Chapter 4*. SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and requires these costs be treated as current period charges. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS 151 did not have any effect on the Company's financial position, results of operations and liquidity.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123(R) ("SFAS 123(R)"), *Share-Based Payment*. SFAS 123(R) is a revision of FASB SFAS 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123(R) focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of SFAS 123(R), as amended by a rule adopted by the SEC on April 14, 2005, are effective for public entities that do not file as small business issuers as of the beginning of the fiscal year that begins after June 15, 2005. See note 2 for a description of the impact to the Company's financial position, results of operations and liquidity due to the adoption of SFAS 123(R).

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; further adverse changes in laws and regulations associated with the extraterritorial income exclusion; adverse changes in state tax laws and/or positions taken by state taxing authorities affecting us; technological changes and introductions of new competing products; changes in end-user preferences of competing technologies, including copper cable and wireless, relative to fiber optic cable; economic conditions that affect the telecommunications sector, certain technology sectors or the economy as a whole; terrorist attacks or acts of war, particularly given the acts of terrorism against the United States and subsequent military responses by the United States, and any potential future military conflicts; changes in the level of military spending by the United States government; ability to retain key personnel; our ability to successfully implement planned changes to our information technology systems and manufacturing processes; the impact of changes in accounting policies, including those by the Securities and Exchange Commission and the Public Company Accounting Oversight Board; our ability to successfully comply with, and the cost of compliance with, the provisions of Section 404 of the Sarbanes-Oxley Act of 2002 or any revisions to that act which apply to us; impact of future consolidation among competitors and/or among customers adversely affecting our position with our customers and/or our market position; actions by customers adversely affecting us in reaction to the expansion of our product offering in any manner, including, but not limited to, by offering products that compete with our customers, and/or by entering into alliances with, and/or making investments in or with, parties that compete with and/or have conflicts with customers of ours; impact of weather or natural disasters in the areas of the world in which we operate and market our products; changes in market demand, exchange rates, productivity, or market and economic conditions in the areas of the world in which we operate and market our products, and our success in managing the risks involved in the foregoing.

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

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

Overview

During the second quarter and the first half of our 2006 fiscal year, net sales and gross profit margin decreased when compared to the same periods last year. Net sales decreased 3.2% to \$11.2 million during the second quarter of fiscal 2006, down from \$11.6 million during the same period last year. However, net sales sequentially increased \$1.4 million or 13.9% during the second quarter when compared to the first quarter of fiscal 2006. Gross profit margin decreased to 30.3% during the second quarter of fiscal 2006, compared to 40.7% during the same period last year, and compared to 33.4% during the first quarter of fiscal 2006. We reported a net loss of \$309,000 during the second quarter of fiscal 2006, compared to net income of \$364,000 for the comparable period last year.

[Table of Contents](#)

Net sales decreased 7.2% to \$21.1 million for the six months ended April 30, 2006 compared to \$22.7 million for the same period last year. Likewise, gross profit margin decreased to 31.7% for the six months ended April 30, 2006 compared to 41.0% for the same period last year. We reported a net loss of \$529,000 during the first half of fiscal year 2006 compared to net income of \$586,000 for the same period last year.

We believe a number of factors contributed to the decrease in net sales and gross profit margins during the three month and six month periods ended April 30, 2006 compared to the same periods last year. We experienced an increase in net sales in our commercial market (with relatively lower gross profit margins) compared to the same periods last year. This increase, however, was more than offset by decreases in net sales for certain of our specialty markets (with relatively higher gross profit margins). Further, net sales to customers outside the United States showed substantial strength during the first half of fiscal 2006, compared to the same period last year, while net sales to customers in the United States decreased due to lower sales in certain of our specialty markets. Generally, this is the continuation of a sales pattern we experienced during the first quarter of fiscal 2006. Despite the decrease in overall net sales, we believe our market share (based on fiber volume) of the multi-mode fiber optic cable produced in North America increased during the first calendar quarter of 2006.

We believe these product sales patterns are a result of a number of factors including the timing of projects and other factors affecting product demand in certain specialty markets and relatively consistent growth in our commercial market.

Also during the first and second quarters of fiscal 2006, we experienced what we believe to be a temporary increase in manufacturing lead times and a temporary decrease in manufacturing efficiencies in part resulting from the implementation of business process and system changes in connection with our new enterprise resource planning ("ERP") system and other initiatives, which likely contributed to lower net sales and gross profit margins during the first and second quarters of fiscal 2006. While we identified and corrected a number of the issues impacting our manufacturing lead times and manufacturing efficiencies by the end of the second quarter, we cannot be certain of the impact on the second half of the year. Regardless of any further negative impact by these issues during the second half of fiscal year 2006, we continue to believe that our process and system changes ultimately will improve the scalability of our systems (and therefore our ability to better handle increased production volume), improve our plant efficiency, and improve our customer service.

We are continuing to evaluate to what extent the net sales and gross profit margin results during the first half of fiscal 2006 are indicative of expected results for the remainder of the year.

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

Founded in 1983, Optical Cable Corporation pioneered the design and production of fiber optic cables for the most demanding military field applications, as well as of fiber optic cables suitable for both indoor and outdoor use. Our current broad product offering is built on the evolution of these fundamental technologies, and is designed to provide end-users with fiber optic cables that are easy and economical to install, provide a high degree of reliability and offer outstanding performance characteristics.

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

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

We sell our products internationally and domestically through our sales force to our customers, which include major distributors, regional distributors, various smaller distributors, original equipment manufacturers and value-added resellers. Net sales to customers located outside of the United States were 24% and 13% for the three months ended April 30, 2006 and 2005, respectively. Net sales to customers located outside of the United States were 24% and 14% of total net sales for the six months ended April 30, 2006 and 2005, respectively. Substantially all of our sales to customers located outside of the United States are denominated in U.S. dollars. We believe the increase in the percentage of net sales to customers located outside of the United States in the first six months of 2006 compared to the same period last year is primarily the result of certain organizational changes and increased sales efforts in certain international markets, as well as a large sale to one customer located outside of the United States during the first quarter of fiscal 2006. We can experience fluctuations in the percentage of net sales to customers outside of the United States from period to period based on the timing of large orders coupled with the impact of increases or decreases in sales to customers located in the United States.

[Table of Contents](#)

Net sales consist of gross sales of products less discounts, refunds and returns. Revenue is recognized at the time of product shipment or delivery to the customer (including distributors) provided that the customer takes ownership and assumes risk of loss, based on shipping terms. During the second quarters of fiscal years 2006 and 2005, respectively, 17.2% and 15.3% of our net sales were attributable to one major domestic distributor. For the six months ended April 30, 2006 and 2005, 16.2% and 14.3%, respectively, of net sales were attributable to this distributor. For the six months ended April 30, 2005, 10.2% of our net sales were attributable to another domestic customer. No other single customer accounted for more than 10% of our net sales during the second quarters of fiscal years 2006 or 2005 or the six months ended April 30, 2006.

A significant percentage of the selling price of our fiber optic cable is based on the cost of raw materials used. Single-mode fiber is less expensive than multimode fiber, and consequently single-mode fiber optic cables have a lower per unit selling price than comparable multimode fiber optic cables. We believe that while the long-haul, metropolitan and access markets are predominantly the users of single-mode fiber optic cable, that increasingly, single-mode fiber optic cable is also being used for short- to moderate-distance installations where higher bandwidth is required. However, any trend toward the use of single-mode fiber optic cables in such other installations may be slowed to the extent that 50 micron 1 gigabit and 10 gigabit multimode fiber optic cables are used to satisfy current bandwidth demands. To the extent that our sales mix shifts toward single-mode cables, we will have to increase the volume of our sales to maintain our current level of net sales.

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

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

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

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

Results of Operations

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

	Three Months Ended		Percent Change	Six Months Ended		Percent Change
	April 30,			April 30,		
	2006	2005		2006	2005	
Net sales	11,239,000	11,609,000	(3.2)%	21,110,000	22,749,000	(7.2)%
Gross profit	3,401,000	4,729,000	(28.1)%	6,697,000	9,318,000	(28.1)%
SG&A expenses	3,891,000	4,136,000	(5.9)%	7,543,000	8,360,000	(9.8)%
Net income (loss)	(309,000)	364,000	(185.0)%	(529,000)	586,000	(190.2)%

Three Months Ended April 30, 2006 and 2005

Net Sales

Net sales decreased 3.2% to \$11.2 million for the second quarter of fiscal year 2006 from \$11.6 million for the same period in 2005. Sequentially, net sales for the second quarter of fiscal 2006 increased 13.9% compared to net sales of \$9.9 million during the first quarter of fiscal 2006.

A number of factors contributed to the \$370,000 decrease in net sales in the second quarter of 2006. While we continued to experience an increase in net sales in our commercial market compared to the same period last year, this increase was more than offset by decreases in net sales for certain of our specialty markets. Further, net sales to customers outside the United States showed substantial strength during the second quarter of fiscal 2006, compared to the same period last year, while net sales to customers in the United States decreased due to lower sales in certain of our specialty markets. Generally, this is the continuation of a sales pattern we experienced during the first quarter of fiscal 2006. Despite the decrease in overall net sales, we believe our market share (based on fiber volume) of the multi-mode fiber optic cable produced in North America increased during the first calendar quarter of 2006. We believe these product sales patterns are a result of a number of factors including, the timing of projects and other factors affecting product demand in certain specialty markets, and relatively consistent growth in our commercial market.

Also, during the second quarter of fiscal 2006, we continued the implementation of business process and system changes in connection with our new ERP system and certain other initiatives. Those changes, to some extent, adversely impacted our production efficiency as we continued the transition to new systems and processes. As expected, we continued to experience what we believe to be a temporary increase in manufacturing lead times during the second quarter, which likely contributed to lower net sales during the second quarter of fiscal 2006. While we identified and corrected a number of the issues impacting our manufacturing lead times and manufacturing efficiencies by the end of the second quarter, we cannot be certain of the impact on net sales during the second half of the year. We believe our process and system changes ultimately will improve the scalability of our systems (and therefore our ability to better handle increased production volume), improve our plant efficiency, and improve our customer service.

During fiscal year 2005, we did not experience the same seasonality pattern in net sales as experienced by us in fiscal years 2004 and 2003, and as previously expected during fiscal year 2005. Specifically, 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. As we saw during fiscal year 2005, the effect of seasonality patterns can be altered by the timing of larger projects. We continue to evaluate whether typical seasonality patterns are a factor impacting our net sales in fiscal 2006.

Gross Profit

Gross profit decreased 28.1% to \$3.4 million for the second quarter of 2006 from \$4.7 million for the same period in 2005. Gross profit margin, or gross profit as a percentage of net sales, decreased to 30.3% for the second quarter of 2006 from 40.7% for the second quarter of 2005. By comparison, gross profit margin was 33.4% in the first quarter of 2006.

We believe a number of factors contributed to the decrease in gross profit margins during the three month period ended April 30, 2006 compared to the same period last year. We believe the decrease in the gross profit margin during the second quarter of 2006 resulted in part from the sale of a mix of products with lower margins. We experienced an increase in net sales in our commercial market (with relatively lower gross profit margins) compared to the same period last year. This increase, however, was more than offset by a decrease in net sales for certain of our specialty markets (with relatively higher gross profit margins). Product mix can vary as a result of changes in sales of products with different fiber types and fiber counts, and changes in sales to various markets that require different product types. Our gross profit margin percentages are heavily dependent upon product mix on a quarterly basis and may deviate from expectations based on both anticipated and unanticipated changes in product mix. We believe the product sales patterns during the second quarter are a result of a number of factors including, the timing of projects and other factors affecting product demand in certain specialty markets, and relatively consistent growth in our commercial market.

[Table of Contents](#)

Also during the second quarter of fiscal 2006, we experienced what we believe to be a temporary decrease in manufacturing efficiencies in part resulting from the continuing implementation of process and system changes in connection with our new ERP system and other initiatives, which likely contributed to lower gross profit margins during the second quarter of fiscal 2006. While we identified and corrected a number of the issues impacting our manufacturing efficiencies by the end of the second quarter, we cannot be certain of the impact on gross profit margins for the second half of fiscal 2006. Regardless of any further negative impact by these issues during the second half of fiscal year 2006, we continue to believe that our process and system changes ultimately will improve the scalability of our systems (and therefore our ability to better handle increased production volume), improve our plant efficiency, and improve our customer service.

We are continuing to evaluate to what extent the gross profit margin results during the second quarter of fiscal 2006 are indicative of expected results for the remainder of the year.

Selling, General, and Administrative Expenses

SG&A expenses decreased 5.9% to \$3.9 million in the second quarter of fiscal year 2006 from \$4.1 million for the same period last year. SG&A expenses as a percentage of net sales were 34.6% in the second quarter of 2006 compared to 35.6% in the second quarter of 2005. The decrease in SG&A expenses during the second quarter of fiscal 2006 compared to the same period last year was primarily due to decreased employee compensation costs, and decreased professional fees.

Compensation costs have decreased when comparing the second quarter of fiscal 2006 to the comparable period in fiscal 2005 largely as a result of decreases in commissions as net sales have decreased and decreases in employee incentives due to the fact that our financial results during the second quarter were less favorable than planned. The decreases in compensation costs were partially offset by an increase in severance expenses totaling approximately \$285,000 before tax effects associated with certain changes within our sales organization implemented during the second quarter of fiscal 2006. The decreases in legal and professional fees were largely due to the timing of when certain costs were incurred.

Other Income (Expense), Net

We recognized other income, net in the second quarter of fiscal year 2006 of \$8,000 compared to other expense, net of \$21,000 in the second quarter of fiscal year 2005. The change was primarily due to a decrease in interest expense related to our credit facility. Although we did not need to use our credit facility during fiscal 2005, we recognized interest expense during the first two quarters of 2005 related to the amortization of the deferred financing costs associated with obtaining and amending our credit facility. During the second quarter of fiscal 2006, we incurred approximately \$22,000 of deferred financing costs associated with amending and restating our existing credit facility and began amortizing these costs over a period not to exceed the term of the amended and restated credit facility. Although we incurred interest expense associated with borrowings under our credit facility during the second quarter of 2006, these borrowings and the amortization of the financing costs associated with amending and restating our credit facility were less than the amortization of the deferred financing costs associated with the original credit facility. Additional information describing our credit facility can be found in our discussion of "Liquidity and Capital Resources."

[Table of Contents](#)

Income (Loss) Before Income Tax Expense (Benefit)

We reported a loss before income taxes of \$482,000 for the second quarter of fiscal year 2006 compared to income before income taxes of \$572,000 for the second quarter of fiscal year 2005. This change was primarily due to a decrease in gross profit of \$1.3 million in the second quarter of fiscal year 2006, partially offset by the decrease in SG&A expenses totaling \$245,000 in the second quarter of 2006 compared to the same period in 2005.

Income Tax Expense (Benefit)

Income tax benefit totaled \$173,000 for the second quarter of fiscal year 2006 compared to income tax expense of \$208,000 for the same period in fiscal year 2005. Our effective tax rate was 35.9% in the second quarter of fiscal 2006 compared to 36.4% in the second quarter of fiscal 2005. Fluctuations in our effective tax rates are primarily due to the amount and timing of various tax deductions and benefits, including our Extraterritorial Income Exclusion, ("EIE"), which exempts from federal income taxation a portion of the net profit realized from sales outside the United States of products manufactured in the United States. The EIE is calculated by a complex analysis of all export sales and profits for each tax year. Fluctuations in the ratio of export sales and profitability to total sales and profitability create changes in the EIE. Additionally, the EIE benefit continues to be phased out as described in more detail herein.

The World Trade Organization has ruled against the United States' EIE regime. In the ruling, the World Trade Organization gave permission to the European Union to sanction tariffs on certain products manufactured in the United States if the EIE regime was not repealed. The American Jobs Creation Act of 2004, also referred to as the "Jobs Act", generally repeals the EIE regime for transactions after December 31, 2004. The Jobs Act continues to extend EIE benefits at a reduced rate for two additional years, and continues EIE benefits indefinitely for transactions pursuant to a binding contract in effect on September 17, 2003. As passed, the Jobs Act provides transition relief by allowing taxpayers to retain a portion of their otherwise-applicable EIE benefits: 100% for transactions during calendar year 2004, 80% for transactions during calendar year 2005 and 60% for transactions during calendar year 2006. At the same time, the Jobs Act allows for a new deduction based on qualified domestic production activities. The impact of the phase out of the EIE benefit and phase in of the new deduction contributed to the increase in our effective tax rate during the first half of fiscal year 2006 compared to the same period last year. We may continue to experience a modest impact on our effective tax rate as the new deduction is phased in over the next six years and the EIE benefit continues to be phased out.

Net Income (Loss)

Net loss for the second quarter of fiscal year 2006 was \$309,000 compared to net income of \$364,000 for the second quarter of fiscal year 2005. This change was due primarily to the loss before taxes experienced in the second quarter of fiscal year 2006 compared to income before taxes for the comparable period last year, partially offset by the recognition of a tax benefit in the second quarter of 2006 compared to tax expense in the second quarter of fiscal year 2005.

Six Months Ended April 30, 2006 and 2005

Net Sales

Net sales decreased 7.2% to \$21.1 million for the first half of fiscal year 2006 from \$22.7 million for the same period in 2005. We are continuing to evaluate whether or not the decrease in net sales we experienced in the first half of fiscal 2006 is indicative of expected results for the second half of the year.

A number of factors contributed to the \$1.6 million decrease in net sales in the first half of fiscal 2006. While we continued to experience an increase in net sales in our commercial market compared to the same period last year, this increase was more than offset by decreases in net sales for certain of our specialty markets. Further, net sales to customers outside the United States showed substantial strength during the first half of fiscal 2006, compared to customers to the same period last year, while net sales to customers in the United States decreased due to lower sales in certain of our specialty markets. Despite the decrease in overall net sales, we believe our market share (based on fiber volume) of the multi-mode fiber optic cable produced in North America increased during the first calendar quarter of 2006. We believe these product sales patterns are a result of a number of factors including the timing of projects and other factors affecting product demand in certain specialty markets, and relatively consistent growth in our commercial market.

[Table of Contents](#)

Also, during the first half of fiscal 2006, we began the implementation of business process and system changes in connection with our new ERP system and certain other initiatives. Those changes, to some extent, adversely impacted our production efficiency as we began the transition to new systems and processes. As expected, we experienced what we believe to be a temporary increase in manufacturing lead times, which likely contributed to lower net sales during the first half of fiscal 2006. While we identified and corrected a number of the issues impacting our manufacturing lead times and manufacturing efficiencies by the end of the second quarter, we cannot be certain of the impact on net sales during the second half of the year. We believe our process and system changes ultimately will improve the scalability of our systems (and therefore our ability to better handle increased production volume), improve our plant efficiency, and improve our customer service.

During fiscal year 2005, we did not experience the same seasonality pattern in net sales as experienced by us in fiscal years 2004 and 2003, and as previously expected during fiscal year 2005. Specifically, 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. As we saw during fiscal year 2005, the effect of seasonality patterns can be altered by the timing of larger projects. We continue to evaluate whether typical seasonality patterns are a factor impacting our net sales in fiscal 2006.

Gross Profit

Gross profit decreased 28.1% to \$6.7 million for the first half of fiscal 2006 from \$9.3 million for the same period in 2005. Gross profit margin, or gross profit as a percentage of net sales, decreased to 31.7% in the first half of fiscal 2006 from 41.0% in the first half of fiscal 2005.

We believe a number of factors contributed to the decrease in gross profit margins during the six month period ended April 30, 2006 compared to the same period last year. We believe the decrease in the gross profit margin during the first half of fiscal 2006 resulted in part from the sale of a mix of products with lower margins. We experienced an increase in net sales in our commercial market (with relatively lower gross profit margins) compared to the same period last year. This increase, however, was more than offset by a decrease in net sales for certain of our specialty markets (with relatively higher gross profit margins). Product mix can vary as a result of changes in sales of products with different fiber types and fiber counts, and changes in sales to various markets that require different product types. Our gross profit margin percentages are heavily dependent upon product mix on a quarterly basis and may deviate from expectations based on both anticipated and unanticipated changes in product mix. We believe the product sales patterns during the first half of fiscal 2006 are a result of a number of factors including the timing of projects and other factors affecting product demand in certain specialty markets, and relatively consistent growth in our commercial market.

Also during the first half of fiscal 2006, we experienced what we believe to be a temporary decrease in manufacturing efficiencies in part resulting from the continuing implementation of process and system changes in connection with our new ERP system and other initiatives, which likely contributed to lower gross profit margins during the first half of fiscal 2006. While we identified and corrected a number of the issues impacting our manufacturing efficiencies by the end of the second quarter, we cannot be certain of the impact on the gross profit margins during the second half of fiscal 2006. Regardless of any further negative impact by these issues during the second half of fiscal year 2006, we continue to believe that our process and system changes ultimately will improve the scalability of our systems (and therefore our ability to better handle increased production volume), improve our plant efficiency, and improve our customer service.

We are continuing to evaluate to what extent the gross profit margin results during the first half of fiscal 2006 are indicative of expected results for the remainder of the year.

[Table of Contents](#)

Selling, General, and Administrative Expenses

SG&A expenses decreased 9.8% to \$7.5 million in the first half of 2006 from \$8.4 million for the same period last year. SG&A expenses as a percentage of net sales were 35.7% for the six months ended April 30, 2006 compared to 36.8% for the same period in 2005. The decrease in SG&A expenses during the first half of 2006 compared to the same period last year was primarily due to decreased employee compensation costs, decreased marketing expenses, decreased professional fees, and reduced costs associated with non-recurring quality certification fees.

Compensation costs have decreased when comparing the first half of fiscal 2006 to the comparable period in fiscal 2005 largely as a result of decreases in commissions as net sales have decreased and decreases in employee incentives due to the fact that our financial results during the first half of fiscal 2006 were less favorable than planned. The decreases in compensation costs were partially offset by an increase in severance expenses totaling approximately \$285,000 before tax effects associated with certain changes within our sales organization implemented during the second quarter of fiscal 2006. The decreases in marketing expenses and professional fees were primarily due to the timing of when certain costs were incurred.

We experienced reduced costs associated with quality certification fees in the first half of fiscal 2006 when compared to the same period last year primarily due to non-recurring fees incurred in the first half of fiscal 2005 related to our efforts and ultimate achievement of certain qualifications and certifications.

Other Income (Expense), Net

We recognized other income, net of \$21,000 in the first half of fiscal 2006 compared to other expense, net of \$30,000 in the first half of 2005. The change was primarily due to a decrease in interest expense related to our credit facility. Although we did not need to use our credit facility during fiscal year 2005, we recognized interest expense during the first two quarters of 2005 related to the amortization of the deferred financing costs associated with obtaining and amending our credit facility. During the first half of fiscal 2006, we incurred approximately \$22,000 of deferred financing costs associated with amending and restating our existing credit facility and began amortizing these costs over a period not to exceed the term of the amended and restated credit facility. Although we incurred interest expense associated with borrowings under our credit facility during the first half of fiscal 2006, these borrowings and the amortization of the financing costs associated with amending and restating our credit facility were less than the amortization of the deferred financing costs associated with the original credit facility. Additional information describing our credit facility can be found in our discussion of "Liquidity and Capital Resources."

Income (Loss) Before Income Tax Expense (Benefit)

We reported a loss before income taxes of \$824,000 for the first half of fiscal year 2006 compared to income before income taxes of \$928,000 for the first half of fiscal year 2005. This change was primarily due to the decrease in gross profit of \$2.6 million in the first half of fiscal year 2006, partially offset by the decrease in SG&A expenses totaling \$818,000 in the first half of 2006.

[Table of Contents](#)

Income Tax Expense (Benefit)

Income tax benefit totaled \$296,000 for the first half of fiscal year 2006 compared to income tax expense of \$341,000 for the same period in fiscal 2005. Our effective tax rate was 35.9% in the first half of 2006 compared to 36.8% in the first half of 2005. Fluctuations in our effective tax rates are primarily due to the amount and timing of various tax deductions and benefits, including our Extraterritorial Income Exclusion, (“EIE”), which exempts from federal income taxation a portion of the net profit realized from sales outside the United States of products manufactured in the United States. The EIE is calculated by a complex analysis of all export sales and profits for each tax year. Fluctuations in the ratio of export sales and profitability to total sales and profitability create changes in the EIE. Additionally, the EIE benefit continues to be phased out as described in more detail herein.

The World Trade Organization has ruled against the United States’ EIE regime. In the ruling, the World Trade Organization gave permission to the European Union to sanction tariffs on certain products manufactured in the United States if the EIE regime was not repealed. The American Jobs Creation Act of 2004, also referred to as the “Jobs Act,” generally repeals the EIE regime for transactions after December 31, 2004. The Jobs Act continues to extend EIE benefits at a reduced rate for two additional years, and continues EIE benefits indefinitely for transactions pursuant to a binding contract in effect on September 17, 2003. As passed, the Jobs Act provides transition relief by allowing taxpayers to retain a portion of their otherwise-applicable EIE benefits: 100% for transactions during calendar year 2004, 80% for transactions during calendar year 2005 and 60% for transactions during calendar year 2006. At the same time, the Jobs Act allows for a new deduction based on qualified domestic production activities. The impact of the phase out of the EIE benefit and the phase in of the new deduction contributed to the increase in our effective tax rate during fiscal year 2006 compared to the same period last year. We may continue to experience a modest impact on our effective tax rate as the new deduction is phased in over the next six years and the EIE benefit continues to be phased out.

Net Income (Loss)

Net loss for the first half of 2006 was \$529,000 compared to net income of \$586,000 for the first half of fiscal 2005. This change was due primarily to the loss before taxes experienced in the first half of fiscal year 2006 compared to income before taxes for the comparable period last year, partially offset by the recognition of a tax benefit in the first half of fiscal year 2006 compared to tax expense in the first half of fiscal year 2005.

Financial Condition

Total assets decreased \$453,000, or 1.3%, to \$34.5 million at April 30, 2006, from \$34.9 million at October 31, 2005. This decrease was primarily due to a \$3.3 million decrease in cash. Further detail regarding the decrease in cash is provided in our discussion of “Liquidity and Capital Resources.” The decrease in cash was partially offset by a \$1.6 million increase in inventories, a \$396,000 increase in other assets, net, and a \$510,000 increase in property and equipment, net. We continually make efforts to maintain optimal inventory levels based on current and anticipated customer demands. However, during the first half of fiscal year 2006, we made changes to certain production processes in conjunction with the implementation of our ERP system and those changes, to some extent, have resulted in increases in our work-in-process inventory levels as we work through the transition to the new system. Increases in raw materials inventory also contributed to the overall increase in inventories as the timing of certain purchases impacted the balances on hand at April 30, 2006.

Total liabilities decreased \$241,000 or 4.3% to \$5.4 million at April 30, 2006, from \$5.6 million at October 31, 2005. This decrease was primarily due to a \$1.3 million decrease in accrued compensation and payroll taxes as a result of the payment of certain incentive compensation related to fiscal year 2005 during the first half of fiscal 2006, and the fact that we did not meet financial performance requirements that would require the accrual of certain incentive compensation associated with the first half of fiscal 2006. This decrease was partially offset by a \$707,000 increase in accounts payable and accrued expenses, largely due to timing of related payments when comparing the two periods, and a \$427,000 increase in a note payable to our bank under our line of credit.

[Table of Contents](#)

Total shareholders' equity at April 30, 2006 decreased \$212,000, or less than 1% in the first half of fiscal 2006. The decrease resulted from a net loss of \$529,000 partially offset by the impact of stock-based compensation totaling \$314,000.

Liquidity and Capital Resources

Our primary capital needs during the first half of fiscal 2006 have been to fund working capital requirements, capital expenditures, and advances to an unaffiliated company described below. Our primary source of capital for these purposes has been cash provided from operations, cash on hand, and our bank line of credit. As of April 30, 2006, we had an outstanding loan balance of \$427,000 under our bank line of credit. We had no outstanding balance under our bank line of credit at October 31, 2005.

We had \$3,000 of cash on hand as of April 30, 2006, a decrease of \$3.3 million compared to October 31, 2005. We maintain a sweep account arrangement with our bank, where at the end of each day all of our cash is used to paydown our outstanding note payable to the bank, if any. The decrease in cash for the six months ended April 30, 2006, primarily resulted from payments made for operating expenses during the period as well as capital expenditures made during the first half of fiscal year 2006 and advances under a note receivable (described further herein).

On April 30, 2006, we had working capital of \$14.3 million compared to \$15.2 million as of October 31, 2005. The ratio of current assets to current liabilities as of April 30, 2006, was 3.9 to 1, compared to 3.7 to 1 as of October 31, 2005. The decrease in working capital when comparing the periods was primarily due to the \$3.3 million decrease in cash, partially offset by the \$1.6 million increase in inventories.

Net cash used in operating activities was \$2.0 million in the first half of fiscal year 2006, compared to net cash used in operating activities of \$190,000 in the first half of 2005. Net cash used in operating activities during the first half of 2006 primarily resulted from our net loss of \$529,000, an increase in inventories in the amount of \$1.6 million and a decrease in accrued compensation and payroll taxes totaling \$1.3 million, partially offset by adjustments to reconcile net loss to net cash used in operating activities, including depreciation and amortization of \$624,000, an increase in accounts payable and accrued expenses of \$753,000 and stock-based compensation expense of \$314,000. Net cash used in operating activities during the first half of fiscal year 2005 primarily resulted from an increase in inventories of \$1.6 million and a decrease in accounts payable and accrued expenses, including accrued compensation and payroll taxes totaling \$828,000, partially offset by adjustments to reconcile net income to net cash used in operating activities, including depreciation and amortization of \$588,000, and stock-based compensation expense of \$225,000.

Net cash used in investing activities totaled \$1.7 million in the first half of fiscal year 2006, compared to \$1.1 million in the first half of fiscal year 2005. Net cash used in investing activities during the first half of fiscal year 2006 resulted primarily from the purchase of property and equipment, deposits for the purchase of property and equipment, and advances made to an unaffiliated company described further herein.

On April 22, 2005, we agreed to extend a loan to an unaffiliated start-up connector company, also referred to as the "Borrower," specializing in the design, manufacture and sale of connectors and cable assemblies. 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 April 30, 2006, total assets of the Borrower, based on unaudited financial information, was equivalent to approximately 3% of our total assets and total revenues of the Borrower, based on unaudited financial information, for the three month and the six month periods ended April 30, 2006, was equivalent to approximately 5% of our net sales for the same periods.

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

[Table of Contents](#)

The loan agreement, as amended, provides that the maximum aggregate principal amount that may be advanced to the Borrower is \$2,500,000. Through April 30, 2006 and October 31, 2005, we advanced a total of \$1.3 million and \$815,000, respectively, to the Borrower. Subsequent to April 30, 2006, we made additional advances to the Borrower totaling \$225,000. The note receivable, which matures July 31, 2007, is collateralized by all of the Borrower's tangible and intangible property and bears interest at six percent (6%) per annum and is included in other assets, net, in our condensed balance sheet as of April 30, 2006. Two of the founders of the Borrower have also guaranteed amounts up to two-thirds of the principal balance outstanding on the note receivable plus two-thirds of any accrued interest related to the note receivable. In connection with the loan, we were issued a warrant by the Borrower which, as amended, gives us the right to purchase a fifty-six percent (56%) equity interest in the Borrower on a fully diluted, as converted basis, for a purchase price of \$1,500,000. The warrant expires on July 31, 2007 if it has not been exercised. 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.

Net cash used in investing activities for the first half of fiscal year 2005 resulted primarily from the purchase of property and equipment and deposits for the purchase of property and equipment.

Net cash provided by financing activities totaled \$407,000 in the first half of fiscal 2006 and resulted from proceeds from a note payable to our bank under our line of credit and proceeds received from the exercise of warrants, partially offset by payments for financing costs associated with amending and restating our existing credit facility. There was no cash provided by or used in financing activities for the first half of fiscal 2005.

We have a revolving credit facility with Wachovia Bank, National Association ("Wachovia"). The initial term of the loan agreement expired in April 2005 and was automatically extended through April 2006 pursuant to the terms of the agreement. Effective March 31, 2006, an agreement was reached with Wachovia to amend and restate the terms of the financing. The amended loan agreement expires on April 17, 2008; however we are engaged in active discussions with both the lender and other financial institutions to replace our credit facility with a credit facility with terms we believe will be more appropriate for our current financing needs. Upon completion of these negotiations, should we choose to enter into a separate agreement with either the lender or another financial institution, the amended loan agreement is cancelable upon 60 days advance notice without early termination penalties.

The credit facility pursuant to both the original agreement and the amended and restated loan agreement provides up to a maximum of \$25 million and is collateralized by all of our tangible and intangible assets. Borrowings under the credit facility are subject to certain coverage ratios, advance limits and qualifications that are applied to our accounts receivable, inventory and fixed assets. Our ability to access the full amount of the credit facility depends on the future growth of our borrowing base. We maintain a sweep arrangement with our bank, where at the end of each day, all of our cash is used to paydown our outstanding note payable to the bank, if any.

As of April 30, 2006, we had outstanding borrowings in the amount of \$427,000 under the credit facility, with approximately \$7.8 million unused and available. As of October 31, 2005, we had no outstanding borrowings under the credit facility.

The credit facility bears interest at one-half of one percent (0.50%) per annum above the prime rate (facility rate of 8.25% as of April 30, 2006). The facility also provides a LIBOR based rate at our option.

In connection with obtaining and amending the initial credit facility, the Company incurred various costs. These financing costs, net of amortization, were deferred and were included in other assets, net in the condensed balance sheets of the Company for periods prior to the second quarter of 2005. These deferred financing costs

[Table of Contents](#)

were amortized to interest expense using the straight-line method, which approximates the effective interest method through April 2005 (the original term of the credit facility) and were fully amortized in fiscal year 2005. Although we did not need to use our credit facility during fiscal 2005, we recognized interest expense during the first two quarters of 2005 related to the amortization of the deferred financing costs associated with obtaining and amending our credit facility.

In connection with amending and restating the credit facility in March of 2006, the Company incurred various costs. These financing costs, net of amortization, have been deferred and are included in other assets, net in the condensed balance sheets of the Company for periods beginning in the second quarter of 2006. These deferred financing costs are being amortized to interest expense using the straight-line method, which approximates the effective interest method for a period not greater than the term of the amended loan agreement, as deemed appropriate.

We believe that our cash flow from operations, our cash on hand and our existing credit facility, as restated and amended, or any alternative credit facility we may obtain, will be adequate to fund our operations for at least the next twelve months.

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

A prior distributor for us filed for protection from its creditors under bankruptcy laws in January 2001. We wrote off approximately \$2.2 million for estimated uncollectible accounts receivable from this distributor for the year ended October 31, 2001. Subsequent recoveries from the bankrupt estate of this distributor, if any, will be recognized when payment is received, in accordance with U.S. generally accepted accounting principles.

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

Seasonality

Historically, net sales are relatively lower in the first half of each fiscal year and relatively higher in the second half of each fiscal year, which we believe may be partially due to construction cycles and budgetary considerations of our customers. For example, an average of approximately 45% of our net sales occurred during the first half of the fiscal year and an average of approximately 55% of our net sales occurred during the second half of the fiscal year for fiscal years 1996 through 2000. However, our net sales did not follow this pattern in fiscal year 2002 or 2001. In fiscal years 2002 and 2001, approximately 52% and 57% of our net sales occurred during the first half of the fiscal year, respectively, and approximately 48% and 43% of our net sales occurred during the second half of the fiscal year, respectively. We believe this shift in the pattern of our net sales appears to be related to overall economic conditions in the industry at the time. During fiscal years 2004 and 2003, approximately 46% and 47%, respectively, of our net sales occurred during the first half of the fiscal year and approximately 54% and 53%, respectively, of our net sales occurred during the second half of the fiscal year. While we believe the pattern of net sales we experienced during fiscal years 2004 and 2003 may have reflected a return to our historical seasonality pattern, we did not see this pattern during fiscal year 2005, as net sales during the first half of the fiscal year were approximately the same as net sales for the second half of the year. We believe the lack of seasonality pattern in fiscal 2005 was partially due to the timing of larger projects, which were weighted more heavily during the first half of the year. At this time, we have not yet determined whether we will see a return to a more typical seasonality pattern in fiscal year 2006.

[Table of Contents](#)

Contractual Obligations and Commitments

As of April 30, 2006, we have a note payable to our bank totaling \$427,000 under the terms of our amended and restated loan agreement. The credit facility, as amended, will expire in April 2008. See further discussion under "Liquidity and Capital Resources." As of April 30, 2006, we have no other disclosable contractual obligations and commitments that will significantly adversely 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 2005 provides a summary of our significant accounting policies. The following are areas requiring significant judgments and estimates due to uncertainties as of the reporting date: revenue recognition, trade accounts receivable and the allowance for doubtful accounts, inventories, long-lived assets, and commitments and contingencies.

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

Revenue Recognition

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

Trade Accounts Receivable and the Allowance for Doubtful Accounts

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

Inventories

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

[Table of Contents](#)

Long-lived Assets

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

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

Commitments and Contingencies

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

Future Accounting Considerations

In May 2005, the Financial Accounting Standards Board, also referred to as the "FASB," issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* ("SFAS 154") which replaces Accounting Principles Board, also referred to as "APB," Opinion No. 20 *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28*. SFAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principal unless it is not practicable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, and is required to be adopted by us in the first quarter of fiscal year 2007. We are currently evaluating the impact of the application of SFAS 154 on our results of operations, financial position and liquidity.

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

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

[Table of Contents](#)

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

As of June 1, 2006, there are no other new accounting standards issued, but not yet adopted by us, which are expected to be applicable to our financial position, operating results or financial statement disclosures.

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 April 30, 2006, our financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk.

Item 4. 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 April 30, 2006. Based on this evaluation process, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective and that there have been no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The following information is furnished for matters submitted to a vote of security holders during the three months ended April 30, 2006:

- (a) The Annual Meeting of Shareholders of Optical Cable Corporation was held on March 28, 2006.
- (b) The name of each director elected at the meeting follows:

Neil D. Wilkin, Jr.
Luke J. Huybrechts
Randall H. Frazier
John M. Holland
Craig H. Weber
John B. Williamson, III

The above-named directors constitute the entire board of directors and there are no other directors continuing their term who were not up for re-election.

- (c) A brief description of each matter voted upon at the meeting and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes, as to each such matter, including a separate tabulation with respect to each nominee for office follows:

- 1. To elect the following six directors to serve for the terms of office specified in the proxy statement and until their successors are duly elected and qualified.

<u>Director</u>	<u>Votes for</u>	<u>Votes against</u>	<u>Votes abstaining</u>	<u>Broker non-votes</u>
Neil D. Wilkin, Jr.	4,900,049	—	306,652	—
Luke J. Huybrechts	4,976,846	—	229,855	—
Randall H. Frazier	5,049,133	—	157,568	—
John M. Holland	4,905,841	—	300,860	—
Craig H. Weber	5,047,744	—	158,957	—
John. B. Williamson, III	5,049,992	—	156,709	—

- 2. To ratify the selection of KPMG LLP as the independent registered public accounting firm for the Company.

<u>Votes for</u>	<u>Votes against</u>	<u>Votes abstaining</u>	<u>Broker non-votes</u>
5,157,620	33,823	15,258	—

PART II. OTHER INFORMATION

Item 6. Exhibits

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

SIGNATURES

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

OPTICAL CABLE CORPORATION
(Registrant)

Date: June 14, 2006

/s/ Neil D. Wilkin, Jr.

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

Date: June 14, 2006

/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).
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)).

Table of Contents

- 10.4* Employment Agreement by and between Optical Cable Corporation and Charles W. Carson effective January 2, 2003 (incorporated herein by reference to Exhibit 10.3 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 time vesting 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 performance vesting 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 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. FILED HEREWITH.
- 10.13* Form of stock performance vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan. FILED HEREWITH.
- 10.14* Form of operational performance vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan. FILED HEREWITH).
- 31.1 Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
- 31.2 Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
- 32.1 Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
- 32.2 Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.

* Management contract or compensatory plan or agreement.

**FORM
OF
OPTICAL CABLE CORPORATION
2005 STOCK INCENTIVE PLAN**

**FY _____ RESTRICTED STOCK AWARD
(Time Vesting)**

[Note: This Form of Restricted Stock Award may change from time to time at the direction of the Compensation Committee of the Board of Directors or the Board of Directors.]

GRANTED TO	GRANT DATE	NUMBER OF SHARES GRANTED	PRICE PER SHARE	SOCIAL SECURITY NUMBER
Grantee	Grant Date	_____	N/A	_____
	GRANT NUMBER	VESTING AND RESTRICTION LAPSE SCHEDULE*		
	_____	_____ shares will vest [quarterly on the last day of each fiscal quarter for ____ quarters, with the first vesting date being _____, 200__, and additional vesting dates being the last day of each quarter subsequent to the first vesting date (with quarters ending on January 31, April 30, July 31 and October 31)] [annually on _____ over ____ years, with the first vesting date being _____, 20__, and additional vesting dates being on _____ of each year subsequent to the first vesting date] until the Award is fully vested (each such date a "Vesting Date").		

* Fractional shares carried over to last vesting period

OPTICAL CABLE CORPORATION and its successors and assigns (the "Company") hereby grants to _____ (the "Participant") effective _____ (the "Grant Date"), a Restricted Stock Award (the "Award"), pursuant to its 2005 Stock Incentive Plan that is provided along herewith (the "Plan"), covering the above stated number of shares (the "Restricted Shares") of common stock of the Company ("Common Stock").

The Chief Executive Officer proposed this Award and recommended its approval to the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee"), and the Compensation Committee, pursuant to the terms of the Plan, granted the Award to the Participant.

The Plan is administered by the Compensation Committee, or alternatively and as appropriate, the Board of Directors (in either case, the "Committee"). Any controversy that arises concerning this Award or the Plan shall be resolved by the Committee as it deems proper, and any decision of the Committee shall be final and conclusive.

The terms of the Plan are hereby incorporated into this Award by this reference. In the case of any conflict between the Plan and this Award, the terms of the Plan shall control. Capitalized terms not defined in this Award shall have the meaning assigned to such terms in the Plan.

Now, therefore, in consideration of the foregoing and the mutual covenants hereinafter set forth:

1. The Company hereby grants to the Participant an Award covering the Restricted Shares, subject to the terms and conditions of this Award and the Plan.

2. Unless otherwise determined by the Committee [or unless as otherwise provided in Section 3(b) below], the Award will vest, and the restrictions applicable to Restricted Shares shall lapse (with the shares no longer subject to the restrictions set forth herein being referred to as “Unrestricted Shares”), ratably in installments over _____ quarters [____ years] according to the schedule set forth above.

3. (a) Unless otherwise determined by the Committee [or unless as otherwise provided in Section 3(b) below], in the event that Participant’s employment with the Company and/or any subsidiaries terminates before the Award is fully vested and the restrictions on all of the Restricted Shares have lapsed, Participant will, upon the date of Participant’s termination of employment (as reasonably fixed and determined by the Company), forfeit the remainder of the Restricted Shares and the Company will be the owner of such remaining Restricted Shares and will have the right, without further action by Participant, to transfer such remaining Restricted Shares into its name.

[(b) If a Triggering Event (as defined in Section 3 (c) below) occurs while Participant is employed by the Company (or if Participant’s employment is terminated during the pendency of an event that, if consummated, would lead to a Triggering Event), but before the Award is fully vested and the restrictions applicable to all of the Restricted Shares have lapsed, then the date upon which the Triggering Event (or the date of the termination of Participant’s employment if Participant’s employment is terminated during the pendency of an event that, if consummated, would lead to a Triggering Event) occurs will be the Vesting Date with respect to the unvested portion of the Award and all restrictions on the remaining Restricted Shares shall lapse.] [Note: This paragraph is applicable to grants for executive officers only]

[(c) For purposes of this Award, a “Triggering Event” occurs if, after the date of this Award, (i) any person, including a “group” as defined in Section 13(d) (3) of the Securities Exchange Act of 1934, becomes the owner or beneficial owner of Company securities having 50% or more of the combined voting power of the then outstanding Company securities that may be cast for the election of the Company’s directors; or (ii) as the direct or indirect result of, or in connection with, a tender or exchange offer, a merger or other business combination, a sale of assets, a contested election of directors, or any combination of these events, the persons who were directors of the Company before such events cease to constitute a majority of the Corporation’s Board, or any successor’s board, within three years of the last of such transactions. For purposes of this Award, a Triggering Event occurs on the date on which an event described in (i) or (ii) occurs. If a Triggering Event occurs on account of a series of transactions or events, the Triggering Event occurs on the date of the last of such transactions or events.] [Note: This paragraph is applicable to grants for executive officers only]

4. Participant will not sell, transfer, pledge, hypothecate or otherwise dispose of any Restricted Shares (or any interest in such shares) prior to the Vesting Date as to which the restrictions applicable to such shares lapse.

5. Prior to a Vesting Date, the Company will, at its option, reflect Participant’s ownership of the Restricted Shares in book-entry form with the Company’s transfer agent or through the issuance of one or more stock certificates. If the Company elects to reflect ownership through the issuance of stock certificates, such certificates will be held in escrow with the Corporate Secretary of the Company in accordance with the provisions of this Award and the Plan. Subject to terms of this Award and the Plan, Participant will have all rights of a shareholder with respect to the Restricted Shares while they are held in escrow or in book-entry form, including, without limitation, the right to vote the Restricted Shares and receive any cash dividends declared on such shares. If, from time to time prior to the date that the Award is fully vested and the restrictions on all of the Restricted Shares have lapsed, there is (i) any stock dividend, stock split or other change in the Restricted Shares, or (ii) any merger or sale of all or substantially all of the assets or other acquisition of the Company, any and all new, substituted or additional securities to which Participant is entitled by reason of his ownership of the Restricted Shares shall be held on his behalf by the Company in book-entry form or through the issuance of one or more stock certificates and held in escrow pursuant to this section until vesting pursuant to the schedule applicable to the underlying Restricted Shares, at which time all restrictions shall lapse.

6. As described in the Plan, in the event of certain corporate transactions or other actions or events, the Committee may take such actions with respect to this Award as it deems appropriate and consistent with the Plan.

7. Participant understands that Participant (and not the Company) is responsible for any tax liability that may arise as a result of the transaction contemplated by this Award. Participant understands that Section 83 of the Internal Revenue Code of 1986, as amended (the "Code") taxes as ordinary income the difference between the amount paid for the Restricted Shares and the fair market value of the Restricted Shares as of the date the restrictions on such shares lapse. Participant understands that Participant may elect to be taxed at the time of the Award, rather than when the restrictions lapse, by filing an election under Section 83(b) of the Code with the Internal Revenue Service within 30 days from the Grant Date.

8. As a condition of accepting this Award, Participant agrees to make arrangements for the payment of withholding of income taxes and employment taxes upon the vesting of the Award and the lapse of restrictions on the Restricted Shares. Until adequate arrangements have been made, certificates representing Unrestricted Shares will not be issued to Participant. Participant may satisfy applicable withholding taxes by any manner permitted by the Plan, subject to the consent of the Committee, including, (i) delivering a sufficient number of shares of already owned Common Stock (which have been owned by Participant for more than six (6) months), and/or (ii) having the Company retain a sufficient number of shares from the distribution to be made to Participant.

9. The fact that the Participant has been granted this Award will not affect or qualify the right of the Company or a subsidiary to terminate the Participant's employment at any time.

10. If any provision of this Award should be deemed void or unenforceable for any reason, it shall be severed from the remainder of the agreement, which shall otherwise remain in full force and effect.

11. The Company may, in its discretion, delay delivery of a certificate required upon vesting of the Award until (i) the admission of such shares to list on any stock exchange (including NASDAQ) on which the Common Stock may then be listed, (ii) the completion of any registration or other qualification of such shares under any state or federal law, ruling, or regulation of any governmental regulatory body that the Company shall, in its sole discretion, determine if necessary or advisable, and (iii) the Company shall have been advised by counsel that it has complied with all applicable legal requirements.

12. Any notice to be given under the terms of this Award shall be addressed to Optical Cable Corporation, to the attention of the Chief Financial Officer, 5290 Concourse Drive, Roanoke, VA 24019, and any notice to be given to Participant or to his or her personal representative shall be addressed to him or her at the address set forth below or to such other address as either party may, hereafter, designate in writing to the other. Notices shall be deemed to have been duly given if mailed, postage prepaid, addressed as aforesaid.

13. You may accept this Award, subject to the registration and listing of the shares issueable under the Plan, by signing and returning the enclosed copy of this Award. Your signature will also evidence your agreement to the terms and conditions set forth herein and to which this Award is subject.

14. Along with this Award, you hereby acknowledge receipt of a copy of the Plan and the Prospectus for the Plan. Also, if you have previously been granted an award under the Plan, you hereby acknowledge that you have received all of the reports, proxy statements and other communications generally distributed to the holders of the Company's securities since the date(s) of such grant(s) and no later than the times of such distributions.

[15. Note: With respect to any individual Award, Committee may insert required retention periods for shares received pursuant to an Award, applicable even after such shares are Unrestricted Shares.] [Note: With respect to any individual Award, Committee may condition receipt of shares under this Award on other events or conditions.]

(Signature Page Follows)

IN WITNESS WHEREOF, the Company has caused this Award to be signed, as of the Grant Date shown above.

OPTICAL CABLE CORPORATION

By: _____

I hereby acknowledge receipt of this Award, the Plan, and the Prospectus for the Plan, and I agree to conform to all terms and conditions of this Award and the Plan.

Name

Date

Signature

Address

**FORM
OF
OPTICAL CABLE CORPORATION
2005 STOCK INCENTIVE PLAN**

**FY _____ RESTRICTED STOCK AWARD
(Stock Performance Vesting)**

[Note: This Form of Restricted Stock Award may change from time to time at the direction of the Compensation Committee of the Board of Directors or the Board of Directors.]

GRANTED TO	GRANT DATE	NUMBER OF SHARES GRANTED	PRICE PER SHARE	SOCIAL SECURITY NUMBER
_____	_____	_____	N/A	_____
	GRANT NUMBER	VESTING AND RESTRICTION LAPSE SCHEDULE*		
_____	_____	Shares granted hereunder will vest, in accordance with and subject in all respects to the provisions of Sections 3 and 4 below, on _____ of each year (each such date, a "Vesting Date"), with the first Vesting Date being _____, 20__ and the last Vesting Date being _____, 20__.		

* Fractional shares shall be carried over to the last vesting period

OPTICAL CABLE CORPORATION and its successors and assigns (the "Company") hereby grants to _____ (the "Participant") effective _____ (the "Grant Date"), a Restricted Stock Award (the "Award"), pursuant to its 2005 Stock Incentive Plan that is provided along herewith (the "Plan"), covering the above stated number of shares (the "Restricted Shares") of common stock of the Company ("Common Stock").

The Chief Executive Officer proposed this Award and recommended its approval to the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee"), and the Compensation Committee, pursuant to the terms of the Plan, granted the Award to the Participant.

The Plan is administered by the Compensation Committee, or alternatively and as appropriate, the Board of Directors (in either case, the "Committee"). Any controversy that arises concerning this Award or the Plan shall be resolved by the Committee as it deems proper, and any decision of the Committee shall be final and conclusive.

The terms of the Plan are hereby incorporated into this Award by this reference. In the case of any conflict between the Plan and this Award, the terms of the Plan shall control. Capitalized terms not defined in this Award shall have the meaning assigned to such terms in the Plan.

Now, therefore, in consideration of the foregoing and the mutual covenants hereinafter set forth:

1. The Company hereby grants to the Participant an Award covering the Restricted Shares, subject to the terms and conditions of this Award and the Plan.

2. Unless otherwise determined by the Committee [or unless as otherwise provided in Section 4(b) below], the Award will vest, and the restrictions applicable to Restricted Shares shall lapse (with the shares no longer subject to the restrictions set forth herein being referred to as "Unrestricted Shares"), in accordance with Section 3 below. Except as otherwise provided in the Plan or in Section 4 below or otherwise determined by the Committee, the Participant must be employed by the Company or a subsidiary at all times from the Grant Date through a Vesting Date in order for part of this Award to vest on such Vesting Date, and the restrictions on that portion of the Restricted Shares to lapse.

3. On each Vesting Date, a portion of the Award shall vest in accordance with the following schedule:

<u>TSR v RIR</u>	<u>Portion of Award Vesting</u>
If TSR is at least ____% greater than RIR	____% of the Award will vest
If TSR is ____% greater than RIR	____% of the Award will vest
If TSR is less than ____% greater than RIR	None of the Award will vest

By way of example, if the RIR is 10% for any Vesting Date and the TSR is 15%, then the TSR is 50% greater than the RIR. Note that interpolation, calculated as set forth in Section 3(a) below, will be used to calculate the portion of the Award vesting when TSR is less than 50% greater than RIR, but more than 20% greater than RIR.

The above schedule is subject in all respects to the following:

a. Except as otherwise provided in Section 3(e) and/or Section 4 below, if as of a Vesting Date, the TSR minus the RIR, divided by the absolute value of the RIR is at least ____% (whether or not TSR is positive or negative), a portion of the Award shall vest (measured as a percentage of the Award) equal to: (i) ____% plus (ii) _____ multiplied by the total of (y) the TSR less the RIR, divided by the absolute value of the RIR, less (z) ____%; provided that no more than ____% of the Award shall vest pursuant to the foregoing on any Vesting Date. Calculation results shall be rounded to the nearest tenth.

b. "TSR" for any Vesting Date means total shareholder return (expressed as a percentage) of the Company, calculated for the 12 month period ending on that Vesting Date (such period, a "Vesting Period") based on the net change during such Vesting Period in the published adjusted share price of the Common Stock plus any dividends declared by the Company that are payable to holders of Common Stock during such Vesting Period (i.e., the "record date" occurs during such Vesting Period). For purposes of determining the TSR as of any Vesting Date, the arithmetic average of the adjusted closing price for the Common Stock as published in the Wall Street Journal (or if the Wall Street Journal does not publish a price for the Common Stock on the relevant dates, any other reasonably comparable publication of general circulation selected by the Compensation Committee) (the "OCC Closing Price") for each of the 20 trading days immediately preceding such Vesting Date (provided that if such Vesting Date is a trading day, the 20 trading days shall include such Vesting Date) shall be compared to the arithmetic average of the OCC Closing Price for each of the 20 trading days immediately preceding the _____[date] immediately preceding such Vesting Date (provided that if such _____[date] is a trading day, the 20 trading days shall include such _____[date]).

c. "RIR" for any Vesting Date means the total return (expressed as a percentage) of the Russell 2000® Index, calculated for the 12 month period ending on that Vesting Date based on the net change during such Vesting Period year in the published adjusted value of the Russell 2000® Index. For purposes of determining RIR as of any Vesting Date, the arithmetic average of the adjusted closing value of the Russell 2000® Index as published in the Wall Street Journal (or, if the Wall Street Journal does not publish the Russell 2000® Index on the relevant dates, any other reasonable publication of general circulation or web site selected by the

Committee) (the "RI Closing Value") for each of the 20 trading days immediately preceding the Vesting Date (provided that if such Vesting Date is a trading day, the 20 trading days shall include the Vesting Date) shall be compared to the arithmetic average of the RI Closing Value for each of the 20 trading days immediately preceding the _____ [date] immediately preceding such Vesting Date (provided that if such _____ [date] is a trading day, the 20 trading days shall include such _____ [date]). In the event the Russell 2000® Index is not available as required for the preceding calculation, the Committee shall select a published index that is reasonably comparable to the Russell 2000® Index for purposes of the preceding calculation.

d. Participant shall not be entitled to receive more than the total number of Restricted Shares shown as the "Number of Shares Granted" set forth at the top of this document. Thus, by way of example, if TSR exceeds RIR by _____% or more as measured at each of the first _____ Vesting Dates and as a result a total of _____% of the Award vests after the first _____ Vesting Dates then, only _____% of the remaining shares can vest on the last _____ Vesting Dates.

e. Any Restricted Shares covered by the Award that have not vested in accordance herewith or pursuant to Section 4 below on or before _____, 20____, shall be irrevocably forfeited, subject to the immediately following sentence. Notwithstanding anything herein to the contrary, on _____, 20____, all Restricted Shares covered by the Award shall immediately vest and all restrictions on the remaining Restricted Shares shall lapse if the average annual TSR during the _____ year period ending in the last Vesting Date is at least _____% greater than the average annual RIR during such same _____ year period.

4. a. Unless otherwise determined by the Committee [or unless as otherwise provided in Section 4(b) below], in the event that Participant's employment with the Company and/or any subsidiaries terminates before the Award is fully vested and the restrictions on all of the Restricted Shares have lapsed, Participant will, upon the date of Participant's termination of employment (as reasonably fixed and determined by the Company), forfeit the remainder of the Restricted Shares and the Company will be the owner of such remaining Restricted Shares and will have the right, without further action by Participant, to transfer such remaining Restricted Shares into its name.

[b. If a Triggering Event (as defined in Section 4 (c) below) occurs while Participant is employed by the Company (or if Participant's employment is terminated during the pendency of an event that, if consummated, would lead to a Triggering Event), but before the Award is fully vested and the restrictions applicable to all of the Restricted Shares have lapsed, then the date upon which the Triggering Event (or the date of the termination of Participant's employment if Participant's employment is terminated during the pendency of an event that, if consummated, would lead to a Triggering Event) occurs will be the Vesting Date with respect to the unvested portion of the Award, and such unvested portion of the Award shall thereupon immediately vest and all restrictions on the remaining Restricted Shares shall lapse.] [Note: This paragraph is applicable to grants for executive officers only]

[c. For purposes of this Award, a "Triggering Event" occurs if, after the date of this Award, (i) any person, including a "group" as defined in Section 13(d) (3) of the Securities Exchange Act of 1934, becomes the owner or beneficial owner of Company securities having 50% or more of the combined voting power of the then outstanding Company securities that may be cast for the election of the Company's directors; or (ii) as the direct or indirect result of, or in connection with, a tender or exchange offer, a merger or other business combination, a sale of assets, a contested election of directors, or any combination of these events, the persons who were directors of the Company before such events cease to constitute a majority of the Corporation's Board, or any successor's board, within three years of the last of such transactions. For purposes of this Award, a Triggering Event occurs on the date on which an event described in (i) or (ii) occurs. If a Triggering Event occurs on account of a series of transactions or events, the Triggering Event occurs on the date of the last of such transactions or events.] [Note: This paragraph is applicable to grants for executive officers only]

5. Participant will not sell, transfer, pledge, hypothecate or otherwise dispose of any Restricted Shares (or any interest in such shares) prior to the Vesting Date as to which the restrictions applicable to such shares lapse.

6. Prior to a Vesting Date, the Company will, at its option, reflect Participant's ownership of the Restricted Shares in book-entry form with the Company's transfer agent or through the issuance of one or more stock certificates. If the Company elects to reflect ownership through the issuance of stock certificates, such certificates

will be held in escrow with the Corporate Secretary of the Company in accordance with the provisions of this Award and the Plan. Subject to terms of this Award and the Plan, Participant will have all rights of a shareholder with respect to the Restricted Shares while they are held in escrow or in book-entry form, including, without limitation, the right to vote the Restricted Shares and receive any cash dividends declared on such shares. If, from time to time prior to the date that the Award is fully vested and the restrictions on all of the Restricted Shares have lapsed, there is (i) any stock dividend, stock split or other change in the Restricted Shares, or (ii) any merger or sale of all or substantially all of the assets or other acquisition of the Company, any and all new, substituted or additional securities to which Participant is entitled by reason of his ownership of the Restricted Shares shall be held on his behalf by the Company in book-entry form or through the issuance of one or more stock certificates and held in escrow pursuant to this section until vesting pursuant to the schedule applicable to the underlying Restricted Shares, at which time all restrictions shall lapse.

7. As described in the Plan, in the event of certain corporate transactions or other actions or events, the Committee may take such actions with respect to this Award as it deems appropriate and consistent with the Plan.

8. Participant understands that Participant (and not the Company) is responsible for any tax liability that may arise as a result of the transaction contemplated by this Award. Participant understands that Section 83 of the Internal Revenue Code of 1986, as amended (the "Code") taxes as ordinary income the difference between the amount paid for the Restricted Shares and the fair market value of the Restricted Shares as of the date the restrictions on such shares lapse. Participant understands that Participant may elect to be taxed at the time of the Award, rather than when the restrictions lapse, by filing an election under Section 83(b) of the Code with the Internal Revenue Service within 30 days from the Grant Date.

9. As a condition of accepting this Award, Participant agrees to make arrangements for the payment of withholding of income taxes and employment taxes upon the vesting of the Award and the lapse of restrictions on the Restricted Shares. Until adequate arrangements have been made, certificates representing Unrestricted Shares will not be issued to Participant. Participant may satisfy applicable withholding taxes by any manner permitted by the Plan, subject to the consent of the Committee, including, (i) delivering a sufficient number of shares of already owned Common Stock (which have been owned by Participant for more than six (6) months), and/or (ii) having the Company retain a sufficient number of shares from the distribution to be made to Participant.

10. The fact that the Participant has been granted this Award will not affect or qualify the right of the Company or a subsidiary to terminate the Participant's employment at any time.

11. If any provision of this Award should be deemed void or unenforceable for any reason, it shall be severed from the remainder of the agreement, which shall otherwise remain in full force and effect.

12. The Company may, in its discretion, delay delivery of a certificate required upon vesting of the Award until (i) the admission of such shares to list on any stock exchange (including NASDAQ) on which the Common Stock may then be listed, (ii) the completion of any registration or other qualification of such shares under any state or federal law, ruling, or regulation of any governmental regulatory body that the Company shall, in its sole discretion, determine if necessary or advisable, and (iii) the Company shall have been advised by counsel that it has complied with all applicable legal requirements.

13. Any notice to be given under the terms of this Award shall be addressed to Optical Cable Corporation, to the attention of the Chief Financial Officer, 5290 Concourse Drive, Roanoke, VA 24019, and any notice to be given to Participant or to his or her personal representative shall be addressed to him or her at the address set forth below or to such other address as either party may, hereafter, designate in writing to the other. Notices shall be deemed to have been duly given if mailed, postage prepaid, addressed as aforesaid.

14. You may accept this Award, subject to the registration and listing of the shares issueable under the Plan, by signing and returning the enclosed copy of this Award. Your signature will also evidence your agreement to the terms and conditions set forth herein and to which this Award is subject.

15. Along with this Award, you hereby acknowledge receipt of a copy of the Plan and the Prospectus for the Plan. Also, if you have previously been granted an award under the Plan, you hereby acknowledge that you have

received all of the reports, proxy statements and other communications generally distributed to the holders of the Company's securities since the date(s) of such grant(s) and no later than the times of such distributions.

(Signature Page Follows)

IN WITNESS WHEREOF, the Company has caused this Award to be signed, as of the Grant Date shown above.

OPTICAL CABLE CORPORATION

By: _____

I hereby acknowledge receipt of this Award, the Plan, and the Prospectus for the Plan, and I agree to conform to all terms and conditions of this Award and the Plan.

Name

Date

Signature

Address

**FORM
OF
OPTICAL CABLE CORPORATION
2005 STOCK INCENTIVE PLAN
FY _____ RESTRICTED STOCK AWARD
(Operational Performance Vesting)**

[Note: This Form of Restricted Stock Award may change from time to time at the direction of the Compensation Committee of the Board of Directors or the Board of Directors.]

GRANTED TO	GRANT DATE	NUMBER OF SHARES GRANTED	PRICE PER SHARE	SOCIAL SECURITY NUMBER
_____	_____	_____	N/A	_____
	GRANT NUMBER	VESTING AND RESTRICTION LAPSE SCHEDULE*		
_____	_____	Shares granted hereunder will vest, in accordance with and subject in all respects to the provisions of Sections 3 and 4 below, on _____ of each year (each such date, a "Vesting Date"), with the first Vesting Date being _____, 20__ and the last Vesting Date being _____, 20__ .		

* Fractional shares shall be carried over to the last vesting period

OPTICAL CABLE CORPORATION and its successors and assigns (the "Company") hereby grants to _____ (the "Participant") effective _____ (the "Grant Date"), a Restricted Stock Award (the "Award"), pursuant to its 2005 Stock Incentive Plan that is provided along herewith (the "Plan"), covering the above stated number of shares (the "Restricted Shares") of common stock of the Company ("Common Stock").

The Chief Executive Officer proposed this Award and recommended its approval to the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee"), and the Compensation Committee, pursuant to the terms of the Plan, granted the Award to the Participant.

The Plan is administered by the Compensation Committee, or alternatively and as appropriate, the Board of Directors (in either case, the "Committee"). Any controversy that arises concerning this Award or the Plan shall be resolved by the Committee as it deems proper, and any decision of the Committee shall be final and conclusive.

The terms of the Plan are hereby incorporated into this Award by this reference. In the case of any conflict between the Plan and this Award, the terms of the Plan shall control. Capitalized terms not defined in this Award shall have the meaning assigned to such terms in the Plan.

Now, therefore, in consideration of the foregoing and the mutual covenants hereinafter set forth:

1. The Company hereby grants to the Participant an Award covering the Restricted Shares, subject to the terms and conditions of this Award and the Plan.

2. Unless otherwise determined by the Committee [or unless as otherwise provided in Section 4(b) below], the Award will vest, and the restrictions applicable to Restricted Shares shall lapse (with the shares no longer subject to the restrictions set forth herein being referred to as “Unrestricted Shares”), in accordance with Section 3 below. Except as otherwise provided in the Plan or in Section 4 below or otherwise determined by the Committee, the Participant must be employed at all times from the Grant Date through a Vesting Date in order for part of this Award to vest on such Vesting Date, and the restrictions on that portion of the Restricted Shares to lapse.

3. On each Vesting Date, a portion of the Award shall vest in accordance with the performance criteria set forth on Exhibit A attached hereto. In any event, Participant shall not be entitled to receive more than the total number of Restricted Shares shown as the “Number of Shares Granted” set forth at the top of this document. Any Restricted Shares covered by the Award that have not vested in accordance herewith or pursuant to Section 4 below on or before _____, 20____, shall be irrevocably forfeited.

4. a. Unless otherwise determined by the Committee [or unless as otherwise provided in Section 4(b) below], in the event that Participant’s employment with the Company and/or any subsidiaries terminates before the Award is fully vested and the restrictions on all of the Restricted Shares have lapsed, Participant will, upon the date of Participant’s termination of employment (as reasonably fixed and determined by the Company), forfeit the remainder of the Restricted Shares and the Company will be the owner of such remaining Restricted Shares and will have the right, without further action by Participant, to transfer such remaining Restricted Shares into its name.

[b. If a Triggering Event (as defined in Section 4 (c) below) occurs while Participant is employed by the Company (or if Participant’s employment is terminated during the pendency of an event that, if consummated, would lead to a Triggering Event), but before the Award is fully vested and the restrictions applicable to all of the Restricted Shares have lapsed, then the date upon which the Triggering Event (or the date of the termination of Participant’s employment if Participant’s employment is terminated during the pendency of an event that, if consummated, would lead to a Triggering Event) occurs will be the Vesting Date with respect to the unvested portion of the Award, and such unvested portion of the Award shall thereupon immediately vest and all restrictions on the remaining Restricted Shares shall lapse.] [Note: This paragraph is applicable to grants for executive officers only]

[c. For purposes of this Award, a “Triggering Event” occurs if, after the date of this Award, (i) any person, including a “group” as defined in Section 13(d) (3) of the Securities Exchange Act of 1934, becomes the owner or beneficial owner of Company securities having 50% or more of the combined voting power of the then outstanding Company securities that may be cast for the election of the Company’s directors; or (ii) as the direct or indirect result of, or in connection with, a tender or exchange offer, a merger or other business combination, a sale of assets, a contested election of directors, or any combination of these events, the persons who were directors of the Company before such events cease to constitute a majority of the Corporation’s Board, or any successor’s board, within three years of the last of such transactions. For purposes of this Award, a Triggering Event occurs on the date on which an event described in (i) or (ii) occurs. If a Triggering Event occurs on account of a series of transactions or events, the Triggering Event occurs on the date of the last of such transactions or events.] [Note: This paragraph is applicable to grants for executive officers only]

5. Participant will not sell, transfer, pledge, hypothecate or otherwise dispose of any Restricted Shares (or any interest in such shares) prior to the Vesting Date as to which the restrictions applicable to such shares lapse.

6. Prior to a Vesting Date, the Company will, at its option, reflect Participant’s ownership of the Restricted Shares in book-entry form with the Company’s transfer agent or through the issuance of one or more stock certificates. If the Company elects to reflect ownership through the issuance of stock certificates, such certificates will be held in escrow with the Corporate Secretary of the Company in accordance with the provisions of this Award and the Plan. Subject to terms of this Award and the Plan, Participant will have all rights of a shareholder with respect to the Restricted Shares while they are held in escrow or in book-entry form, including, without limitation, the right to vote the Restricted Shares and receive any cash dividends declared on such shares. If, from time to time prior to the date that the Award is fully vested and the restrictions on all of the Restricted Shares have lapsed, there is (i) any stock dividend, stock split or other change in the Restricted Shares, or (ii) any merger or sale of all or substantially all of the assets or other acquisition of the Company, any and all new, substituted or additional

securities to which Participant is entitled by reason of his ownership of the Restricted Shares shall be held on his behalf by the Company in book-entry form or through the issuance of one or more stock certificates and held in escrow pursuant to this section until vesting pursuant to the schedule applicable to the underlying Restricted Shares, at which time all restrictions shall lapse.

7. As described in the Plan, in the event of certain corporate transactions or other actions or events, the Committee may take such actions with respect to this Award as it deems appropriate and consistent with the Plan.

8. Participant understands that Participant (and not the Company) is responsible for any tax liability that may arise as a result of the transaction contemplated by this Award. Participant understands that Section 83 of the Internal Revenue Code of 1986, as amended (the "Code") taxes as ordinary income the difference between the amount paid for the Restricted Shares and the fair market value of the Restricted Shares as of the date the restrictions on such shares lapse. Participant understands that Participant may elect to be taxed at the time of the Award, rather than when the restrictions lapse, by filing an election under Section 83(b) of the Code with the Internal Revenue Service within 30 days from the Grant Date.

9. As a condition of accepting this Award, Participant agrees to make arrangements for the payment of withholding of income taxes and employment taxes upon the vesting of the Award and the lapse of restrictions on the Restricted Shares. Until adequate arrangements have been made, certificates representing Unrestricted Shares will not be issued to Participant. Participant may satisfy applicable withholding taxes by any manner permitted by the Plan, subject to the consent of the Committee, including, (i) delivering a sufficient number of shares of already owned Common Stock (which have been owned by Participant for more than six (6) months), and/or (ii) having the Company retain a sufficient number of shares from the distribution to be made to Participant.

10. The fact that the Participant has been granted this Award will not affect or qualify the right of the Company or a subsidiary to terminate the Participant's employment at any time.

11. If any provision of this Award should be deemed void or unenforceable for any reason, it shall be severed from the remainder of the agreement, which shall otherwise remain in full force and effect.

12. The Company may, in its discretion, delay delivery of a certificate required upon vesting of the Award until (i) the admission of such shares to list on any stock exchange (including NASDAQ) on which the Common Stock may then be listed, (ii) the completion of any registration or other qualification of such shares under any state or federal law, ruling, or regulation of any governmental regulatory body that the Company shall, in its sole discretion, determine if necessary or advisable, and (iii) the Company shall have been advised by counsel that it has complied with all applicable legal requirements.

13. Any notice to be given under the terms of this Award shall be addressed to Optical Cable Corporation, to the attention of the Chief Financial Officer, 5290 Concourse Drive, Roanoke, VA 24019, and any notice to be given to Participant or to his or her personal representative shall be addressed to him or her at the address set forth below or to such other address as either party may, hereafter, designate in writing to the other. Notices shall be deemed to have been duly given if mailed, postage prepaid, addressed as aforesaid.

14. You may accept this Award, subject to the registration and listing of the shares issueable under the Plan, by signing and returning the enclosed copy of this Award. Your signature will also evidence your agreement to the terms and conditions set forth herein and to which this Award is subject.

15. Along with this Award, you hereby acknowledge receipt of a copy of the Plan and the Prospectus for the Plan. Also, if you have previously been granted an award under the Plan, you hereby acknowledge that you have received all of the reports, proxy statements and other communications generally distributed to the holders of the Company's securities since the date(s) of such grant(s) and no later than the times of such distributions.

[16. Note: With respect to any individual Award, Committee may insert required retention periods for shares received pursuant to an Award, applicable even after such shares are Unrestricted Shares.] [Note: With respect to any individual Award, Committee may condition receipt of shares under this Award on other events or conditions.]

IN WITNESS WHEREOF, the Company has caused this Award to be signed, as of the Grant Date shown above.

OPTICAL CABLE CORPORATION

By: _____

I hereby acknowledge receipt of this Award, the Plan, and the Prospectus for the Plan, and I agree to conform to all terms and conditions of this Award and the Plan.

Name

Date

Signature

Address

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: June 14, 2006

/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: June 14, 2006

/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 April 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of April 30, 2006, and for the period then ended.

Date: June 14, 2006

/s/ Neil D. Wilkin, Jr.

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

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

In connection with the Quarterly Report of Optical Cable Corporation (the "Company") on Form 10-Q for the quarter ended April 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of April 30, 2006, and for the period then ended.

Date: June 14, 2006

/s/ Tracy G. Smith

Tracy G. Smith

Vice President and Chief Financial Officer