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

Form 10-K

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

For the fiscal year ended October 31, 2007

Commission File Number 0-27022

OPTICAL CABLE CORPORATION

(Exact name of the 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, VA
(Address of principal executive offices)

24019
(Zip Code)

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

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

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the registrant's Common Stock, no par value, held by non-affiliates of the registrant (without admitting any person whose shares are not included in determining such value is an affiliate) as of April 30, 2007, the last business day of the Company's most recent second quarter was \$30,303,464 based upon the closing price of these shares as reported by the Nasdaq Global Market on April 30, 2007.

As of January 23, 2008, the Company had outstanding 6,090,331 common shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2008 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K Report: "Election of Directors," "Beneficial Ownership of Securities," "Compensation of Executive Officers," "Compensation of Directors," "Compliance with Section 16(a) of the Securities Exchange Act of 1934," "Code of Ethics," "Executive Compensation," "Compensation Committee Report on Executive Compensation," "Compensation Committee Interlocks and Insider Participation," "Compensation Discussion and Analysis," "Performance Graph," "Beneficial Ownership of Common Stock," "Equity Compensation Plans Information," "Certain Relationships and Related Transactions," "Independent Registered Public Accounting Firm," and "Audit Committee Pre-approval of Audit and Permissible Non-audit Services of Independent Registered Public Accounting Firm." In addition, portions of the Company's Annual Report filed as exhibit 13.1 to this report on Form 10-K are incorporated by reference in Part II of this Form 10-K Report: "Corporate Information," "Selected Financial Information," "Management's Discussion and Analysis," "Financial Statements," "Notes to Financial Statements," "Report of Independent Registered Public Accounting Firm" and "Management's Statement of Responsibility."

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PART I

Item 1. BUSINESS

Overview

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

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

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

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

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

Products

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

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

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

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

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

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

Other Fiber Optic Cable Types. We believe that we offer the most comprehensive tight-buffered fiber optic cable product offering for the enterprise market. We produce variations on the basic fiber optic cable styles discussed above for more specialized installations, as well as various hybrid and composite cables (some variations are not available for all cable styles or types). We can armor fiber optic cables with corrugated steel tape or interlocking armor for further protection in certain installations. We offer cables suitable for underground or overhead installations. For overhead installations on utility poles, we offer several self-supporting fiber optic cables, with higher performance outer jackets, as well as M-Series aerial messenger cables which feature a stainless steel or galvanized steel, self-supporting messengered construction. We have fiber optic cables available in several flammability ratings, including plenum for use in moving air spaces in buildings, and riser for less critical flame-retardant requirements. Zero halogen versions of many of our fiber optic cables are available for use in enclosed spaces where there is concern over release of toxic gases during fire. We offer various hybrid and composite fiber optic cables combining different types of optical fiber and/or copper wires, with copper wires being used as power feeds or to facilitate the transition from copper wire to optical fiber-based systems without further installation of fiber optic cables. Our composite cables include a line of security cables which combine copper power feeds with optical fiber in the cables making them particularly well suited for surveillance cameras and other specialty applications. We also offer specialty fiber optic cables, such as military ground tactical, industrial (including tray cables), mining, festoon, and pierside fiber optic cables. Our product offering further includes fiber optic cables complying with or certified to various standards for specialty applications, such as: U.S. Department of Defense MIL-PRF-85045/8A and U.K. Ministry of Defence Def-Stan 60-1, Part 3 qualifications for military ground tactical fiber optic cable; Det Norske Veritas (DNV) type approval certificate for marine shipboard and offshore platform applications; U.S. Mine Safety and Health Administration (MSHA) approval for use in mines; and American Bureau of Shipping (ABS) type approved cables. Additionally, we offer our customers a variety of customized constructions to meet their specific communication needs.

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Customers

We have a global customer base, selling in over 50 countries in fiscal year 2007. Our customers include major distributors, regional distributors, various smaller distributors, original equipment manufacturers, value-added resellers, and, in certain cases, end users. Generally, our products are purchased from our customers by contractors, system integrators and end users. The following is a partial list of representative types of end users of our fiber optic cables:

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

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

Employees

As of October 31, 2007, we employed a total of 198 persons. None of our employees is represented by a labor union. We have experienced no work stoppages and we continue to take steps we believe appropriate to ensure our employee relations are good.

Item 1A. RISK FACTORS

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

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

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

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

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

The market for fiber optic cables, including the short- to moderate-distance markets in which our products are concentrated, is highly competitive. We compete with large, integrated fiber optic cable manufacturers such as Corning Cabling Systems, OFS, and Draka Comteq, as well as with other large fiber optic cable manufacturers such as General Cable, Belden, Nexans (doing business as Berk-Tek), CommScope and others. Some of our competitors are more established, benefit from greater market recognition and have much greater financial, research and development, production and marketing resources than we do. Competition could increase if new companies enter the market or if existing competitors expand their product lines.

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

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

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

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

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

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- Our manufacturing capacity, efficiencies and yield; and
- Spending for fiber optic cabling in the metropolitan, access and enterprise markets.

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

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

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

Potential strategic alliances may not achieve their objectives.

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We own our principal administration, marketing, manufacturing, and product development facilities which are situated on approximately 23 acres of land near the Roanoke, Virginia airport and major trucking company facilities. Our facilities are housed in an approximately 146,000 square foot building on this property. We believe that we are currently operating at approximately 60% of our production equipment capacity. Additional personnel would need to be hired and trained, and additional warehousing space may be needed to utilize our excess production equipment capacity. We can provide no assurance as to the time required to complete the process of hiring and training personnel or our ability to secure additional warehousing space, necessary to utilize our excess capacity.

Item 3. LEGAL PROCEEDINGS

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 its financial position, results of operations or liquidity.

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

No matters were submitted to a vote of security holders during the fourth quarter of the year ended October 31, 2007.

PART II

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

The information pertaining to shareholders beneficially owning more than five percent of the Company's common stock and the security ownership of management, which is set forth under the caption "Beneficial Ownership of Common Stock" in the Proxy Statement for the 2008 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

[Table of Contents](#)**Issuer Purchases of Equity Securities**

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

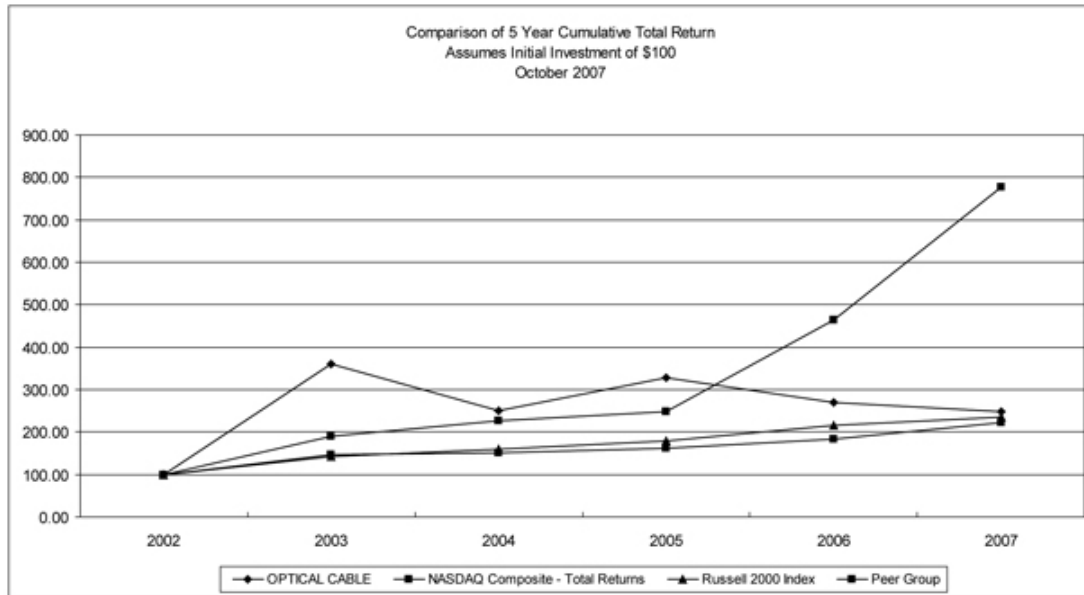
Period	Total number of shares purchased (1)	Average price paid per share (2)	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs (1)
August 1, 2007—August 31, 2007	1,170	\$ 5.15	1,170	199,756
September 1, 2007—September 30, 2007	10,001	\$ 4.89	10,001	189,755
October 1, 2007—October 31, 2007	30,928	\$ 4.79	30,928	158,827

- (1) On March 26, 2007, the Company's Board of Directors approved a plan to purchase and retire up to 300,100 shares of the Company's common stock, or approximately 5% of the shares then outstanding. The Company anticipates that the purchases will be made over a 12-month period, but there is no definite time period for repurchase. For the three month period ended October 31, 2007, the Company repurchased and retired 42,099 shares of its outstanding common stock. The repurchase, including brokerage and legal fees, totaled approximately \$197,000. As of October 31, 2007, 6,090,331 shares of the Company's common stock were outstanding.
- (2) The average price paid per share set forth above includes the purchase price paid for the shares, and brokerage and legal fees paid by the Company. The average purchase price per share (excluding brokerage and legal fees) paid by the Company for the three months ended October 31, 2007 was \$4.81.

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Performance Graph

Five year graph



The above five year performance graph compares the yearly percentage change in cumulative total shareholder return of the Company's Common Shares against the cumulative total return of (i) the Nasdaq stock market, (ii) the Russell 2000[®] index and (iii) a peer group, which consists of Belden CDT Inc. (formerly Belden Inc. and Cable Design Technologies Corp.), CommScope Inc. and General Cable Corp.

The information contained under the caption "Corporate Information" of our Annual Report for the fiscal year ended October 31, 2007, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

Item 6. SELECTED FINANCIAL DATA

The information contained under the caption "Selected Financial Information" of our Annual Report for the fiscal year ended October 31, 2007, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

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

The information contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report for the fiscal year ended October 31, 2007, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of October 31, 2007, our financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information contained under the captions "Financial Statements," "Notes to Financial Statements," "Report of Independent Registered Public Accounting Firm," and "Management's Statement of Responsibility" of our Annual Report for the fiscal year ended October 31, 2007, filed as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

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

None.

Item 9A. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of October 31, 2007. 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 other than changes related to the remediation of a material weakness in our internal control over financial reporting that was discovered by Company management as a result of reporting its results for the third quarter of fiscal year 2007. The remediation measures taken during the fourth quarter of fiscal year 2007 associated with the material weakness identified previously include the following:

- The Company has previously, and continues to, match invoices with purchase orders and packing slips prior to payment of invoices. Additionally, we now perform a manual control in which invoices are manually matched not only to the packing slip and original purchase order documents, but also to a technical bare fiber archive database. Reconciliation of the per unit price, quantity received and receipt date included in the technical bare fiber archive database to invoices, purchase orders and packing slips, as applicable, provides reasonable assurance that our bare fiber inventory is appropriately recorded at historical cost.
- The Company performs a price test of bare fiber inventory on hand as of the end of each reporting period.

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

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

For information with respect to the Directors of the registrant, see "Election of Directors," "Directors," and "Executive Officers" in the Proxy Statement for the 2008 Annual Meeting of Shareholders of the Company, which information is incorporated herein by reference.

For information with respect to the executive officers of the registrant, see "Executive Officers" in the Proxy Statement for the 2008 Annual Meeting of Shareholders of the Company, which information is incorporated herein by reference.

The information with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934, which is set forth under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement for the 2008 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

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

Item 11. EXECUTIVE COMPENSATION

The information set forth under the captions "Executive Compensation," "Compensation Committee Report on Executive Compensation," "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation" and Director Compensation in the Proxy Statement for the 2008 Annual Meeting of Shareholders of the Company is incorporated herein by reference.

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

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	(b) Weighted-average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
1996 Stock Incentive Plan			
Stock Option Grants	201,333 shares	\$ 7.77	— shares
Restricted Share Grants	76,975 shares	—	— shares
Total 1996 Stock Incentive Plan	278,308 shares	\$ 5.62	— shares
2005 Stock Incentive Plan	342,412 shares	—	604,120 shares
2004 Non-employee Directors Plan	— shares	—	215,236 shares
Total for approved plans	620,720 shares	\$ 2.52	819,356 shares
Equity compensation not pursuant to plan approved by security holders			
	3,123 shares	\$ 7.12	— shares
Total for all plans	623,843 shares	\$ 2.54	819,356 shares

(1) Includes restricted shares that are issued and outstanding, but have not yet vested and are subject to forfeiture.

The term "shares" in the table above means our common shares.

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

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The information concerning stock ownership by directors, executive officers and shareholders beneficially owning more than five percent of the Company's common stock, which is set forth under the caption "Beneficial Ownership of Common Stock" in the Proxy Statement for the 2008 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

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

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

The information with respect to certain transactions with management of the Company, which is set forth under the caption "Certain Relationships and Related Transactions" in the Proxy Statement for the 2008 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information with respect to certain principal accountant fees and services, which is set forth under the caption "Independent Registered Public Accounting Firm" in the Proxy Statement for the 2008 Annual Meeting of Shareholders of the Company, is incorporated herein by reference.

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

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

1. Financial statements: The Company's financial statements and related information are hereby incorporated by reference to pages 18 to 37 of the Company's Annual Report filed as Exhibit 13.1 to this Form 10-K.
2. Financial statement schedules: All schedules are omitted, as the required information is inapplicable or the information is presented in financial statements or related notes thereto.
3. Exhibits to this Form 10-K pursuant to Item 601 of Regulation S-K are as follows:

<u>Exhibit No.</u>	<u>Description</u>
3.1	Articles of Amendment filed November 5, 2001 to the Amended and Restated Articles of Incorporation, as amended through November 5, 2001 (incorporated herein by reference to Exhibit 1 to the Company's Form 8-A filed with the Commission on November 5, 2001).
3.2	Bylaws of Optical Cable Corporation, as amended (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the third quarter ended July 31, 2004 (file number 0-27022)).

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- 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 by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 filed with the Commission on February 11, 2003).
- 4.6 Commercial Loan Agreement dated September 22, 2006 by and between Optical Cable Corporation and Valley Bank in the amount of \$6,500,000 (Loan No. 156779) (incorporated herein by reference to Exhibit 4.6 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
- 4.7 Commercial Loan Agreement dated September 22, 2006 by and between Optical Cable Corporation and Valley Bank in the amount of \$2,000,000 (Loan No. 156833) (incorporated herein by reference to Exhibit 4.7 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
- 4.8 Commercial Loan Agreement dated September 22, 2006 by and between Optical Cable Corporation and Valley Bank in the amount of \$5,000,000 (Loan No. 156809) (incorporated herein by reference to Exhibit 4.8 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
- 4.9 Promissory Note dated September 22, 2006 by Optical Cable Corporation in the amount of \$2,000,000 (Loan No. 156833) (incorporated herein by reference to Exhibit 4.9 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
- 4.10 Credit Line Deed of Trust dated September 22, 2006 between Optical Cable Corporation as Grantor, John T. McCaleb and Catherine J. Hartman as Trustees, and Valley Bank as Lender (incorporated herein by reference to Exhibit 4.10 of the Company's Annual Report on Form 10-K for the period ended October 31, 2006).
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- 4.13 Amendment to Commercial Loan Agreement dated October 26, 2007 by and between Optical Cable Corporation and Valley Bank (Loan No. 156779). FILED HEREWITH.
- 10.1* Employment Agreement by and between Optical Cable Corporation and Neil D. Wilkin, Jr. effective November 1, 2002 (incorporated by reference to Exhibit 10.1 to our Amended Quarterly Report on Form 10-Q/A for the quarterly period ended January 31, 2003 (file number 0-27022)).
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- 10.6* Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 28.1 to the Company's Registration Statement on Form S-8 No. 333-09733).
- 10.7* Optical Cable Corporation Amended 2004 Non-Employee Directors Stock Plan (incorporated herein by reference to Appendix B to the Company's definitive proxy statement on Form 14A filed February 23, 2005).
- 10.8* Form of December 17, 2004 restricted stock award agreement under the Optical Cable Corporation 1996 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed January 24, 2005).
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10.13*	Form of stock performance (Company stock performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
10.14*	Form of operational performance (individual participant performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2006).
10.15*	Form of operational performance (Company financial performance measure) vesting award agreement under the Optical Cable Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2007).
10.16	Redemption Agreement by and between Optical Cable Corporation and BB&T Investment Services, Inc. dated March 27, 2007 (incorporated herein by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2007).
11.1	Statement regarding computation of per share earnings (incorporated by reference to note 13 of the Notes to Financial Statements contained herein).
13.1	Annual Report. FILED HEREWITH.
23.1	Consent of Independent Registered Public Accounting Firm. FILED HEREWITH.
31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
32.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. FILED HEREWITH.
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.

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Date: January 29, 2008

/s/ CRAIG H. WEBER

Craig H. Weber
Director

Date: January 29, 2008

/s/ JOHN B. WILLIAMSON, III

John B. Williamson, III
Director

Exhibit Index

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* Management contract or compensatory plan or agreement.

<u>LOAN NUMBER</u>	<u>LOAN NAME</u>	<u>ACCT. NUMBER</u>	<u>AGREEMENT DATE</u>	
156779	Optical Cable Corporation	19398	10/26/07	
<u>NOTE AMOUNT</u>	<u>INDEX (w/Margin)</u>	<u>RATE</u>	<u>MATURITY DATE</u>	<u>LOAN PURPOSE</u>
\$6,500,000.00	First Phase – Not Applicable Second Phase – Not Applicable	First Phase - 7.5% Second Phase - 7.5%	10/01/11	Commercial

AMENDMENT #1 TO COMMERCIAL LOAN AGREEMENT
Draw Loan

DATE AND PARTIES. The date of this Amendment #1 to Commercial Loan Agreement (hereafter “Amended Agreement”) is October 26, 2007. The parties and their addresses are as follows:

<p>LENDER: _____ VALLEY BANK</p> <p>36 W. Church Ave. S.W. Roanoke, Virginia 24011</p>	<p>BORROWER: _____ OPTICAL CABLE CORPORATION a Virginia Corporation 5290 Concourse Drive Roanoke, Virginia 24019</p>
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WHEREAS, by mutual agreement the parties desire to modify certain terms of that Commercial Loan Agreement dated September 22, 2006 (“Original Agreement”),

NOW THEREFORE, in exchange for mutual consideration, the sufficiency of which is hereby acknowledged, the parties agree that the Original Agreement is hereby supplemented, amended, corrected, and restated as follows:

- 1) The Original Agreement is modified by the addition of the following section:
 - 2. E. Draw Period. The loan will be single advancing note with a draw period extending through February 28, 2009.

This draw period amends and supersedes the previously stated draw period of 12 months stated in the commitment letter (p.1, section “Funding: C”) dated July 17, 2006.

- 2) Except as supplemented, amended, and corrected herein, the Original Agreement otherwise remains in full force and effect.

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

<p>BORROWER:</p> <p>Optical Cable Corporation</p> <p>By: <u>/s/ Tracy G. Smith</u> (Seal) Tracy G. Smith Vice President and CFO</p>	<p>LENDER:</p> <p>Valley Bank</p> <p>By: <u>/s/ Scott Leffel</u> (Seal) Name: Scott Leffel Title: Vice President</p>
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ANNUAL REPORT
2007

Cover (About the Artist) Doug Thompson is a Richmond-based illustrator specializing in watercolors whose editorial work has appeared in countless regional and national publications. Through his work with businesses and advertising agencies, he has played a valuable role in developing corporate identities and advertising campaigns for both small and large companies.

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39	Management's Statement of Responsibility
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Selected Financial Information
(in thousands, except per share data and footnotes)

	Years ended October 31,				
	2007	2006	2005	2004	2003
Statement of Income Information:					
Net sales	\$ 45,503	\$ 45,330	\$ 45,899	\$ 43,218	\$ 41,114
Cost of goods sold	28,333	29,908	28,067	26,515	26,505
Gross profit	17,170	15,422	17,832	16,703	14,609
Selling, general and administrative expenses	15,300	14,900	16,026	15,457	13,309
Shareholder litigation settlement expense (1)	—	—	—	—	871
Loss on impairment of machinery and equipment (2)	—	—	—	—	117
Income from operations	1,870	522	1,806	1,246	312
Other income (expense), net:					
Interest income (expense), net	21	(10)	(21)	(113)	(159)
Other, net	27	(9)	37	(19)	39
Income before income taxes	1,918	503	1,822	1,114	192
Income tax expense (benefit)	665	152	650	364	(123)
Net income	<u>\$ 1,253</u>	<u>\$ 351</u>	<u>\$ 1,172</u>	<u>\$ 750</u>	<u>\$ 315</u>
Net income per share:					
Basic and diluted	<u>\$ 0.21</u>	<u>\$ 0.06</u>	<u>\$ 0.20</u>	<u>\$ 0.13</u>	<u>\$ 0.05</u>
Weighted average shares:					
Basic	<u>6,089</u>	<u>5,954</u>	<u>5,776</u>	<u>5,587</u>	<u>5,736</u>
Diluted	<u>6,096</u>	<u>5,966</u>	<u>5,800</u>	<u>5,618</u>	<u>5,744</u>
Balance Sheet Information:					
Cash and cash equivalents	\$ 3,139	\$ 555	\$ 3,290	\$ 4,342	\$ 2,337
Working capital	15,937	14,441	15,159	15,360	14,277
Total assets	37,281	34,791	34,944	32,113	30,185
Bank debt	—	991	—	—	—
Total shareholders' equity	31,978	30,435	29,345	27,675	26,634

- (1) The Company recorded a charge during fiscal year 2003 in the amount of \$870,549, representing the costs incurred during the year as a result of the settlement of a consolidated shareholder class action lawsuit arising from the actions of the Company's former chief executive officer.
- (2) The Company recorded a charge during fiscal year 2003 in the amount of \$117,337 due to a loss on impairment of machinery and equipment in connection with an automation upgrade to the Company's production lines.

Dear Shareholders:

Solid Progress and Strong Results

I am pleased to report to you that the Optical Cable Team achieved increases in net sales, gross profits and net income in fiscal year 2007, as compared to the prior year.

Despite a slow first quarter, our net income in fiscal year 2007 exceeded not only the results of fiscal year 2006, but also the results of fiscal year 2005—delivering on a prediction I made to you at this time last year.

During fiscal year 2007:

- Net income increased sharply to \$1.3 million, or \$0.21 per basic and diluted share, from \$351,000, or \$0.06 per basic and diluted share, for fiscal year 2006.
- Gross profits increased 11.3% to \$17.2 million, up from \$15.4 million in fiscal year 2006. At the same time, gross profit margins increased to 37.7% in 2007, up from 34.0% in fiscal year 2006.
- Net sales increased to \$45.5 million, compared to net sales of \$45.3 million in the prior year, with net sales to customers outside the U.S. showing particular strength—increasing 22.7% to \$12.9 million in fiscal 2007.
- We reported net cash provided by operating activities of \$6.0 million, increased our cash on hand to \$3.1 million dollars, and ended fiscal year 2007 with no bank debt and bank credit facilities in place permitting Optical Cable to borrow up to \$13.5 million.

Strategic Investments Generating Significant Benefits

The financial results achieved in fiscal year 2007 were made possible by the combination of hard work and dedication of Optical Cable's employees, as well as the investments we made to significantly upgrade Optical Cable's facilities, processes and systems. We made significant changes in an effort to position the Company to consistently deliver higher net income and gross profit margins, and we are pleased to have delivered on these objectives in fiscal year 2007.

Executing our internal improvement strategy has made Optical Cable a stronger company, better positioned for long-term growth and value creation. By investing for the future, we believe we have increased plant efficiency, improved customer service and enhanced the scalability of our business. We believe we will continue to realize savings and growth opportunities made possible by the investments made over the past few years, in fiscal 2008 and beyond.

A Year of Accomplishments

In addition to the Company's financial accomplishments in fiscal 2007, the Optical Cable Team has achieved a number of important awards and milestones:

- Optical Cable was honored as *START-IT* magazine's **2007 Manufacturer of the Year** (mid-market category). *START-IT* magazine's Manufacturer of the Year awards honor manufacturing companies demonstrating excellence and an ability to embrace today's challenges and overcome hurdles to remain competitive. Optical Cable was recognized for its capital investments designed to improve competitiveness (including implementation of its new ERP system), for its strong commitment to its workforce and community, and for its ability to successfully compete in a complex, global marketplace.
- Optical Cable was named **2007 Business of the Year** by the *Blue Ridge Business Journal*. *The Blue Ridge Business Journal* is one of the most respected business publications in Virginia, and reports on business news for the NewVA and Blue Ridge regions of the Commonwealth.
- The Company's ground tactical fiber optic cables were fully qualified by the U.K. Ministry of Defence, meeting all of the U.K. MoD's stringent military requirements. As a result, Optical Cable Corporation is a qualified supplier of the U.K. MoD's Def-Stan 60-1, Part 3 ground tactical fiber optic cable. This U.K. MoD qualification is in addition to a previously earned qualification from the U.S. military. The Company's ground tactical fiber optic cable is qualified to the U.S. Department of Defense's MIL-PRF-85045/8A standard for ground tactical fiber optic cable—and Optical Cable is still the only fiber optic cable manufacturer fully qualified to this U.S. military standard.
- Optical Cable entered into a five-year contract to supply Tactical Fiber Optic Cable Assemblies (TFOCA) to the U.S. Army Communications-Electronics Command (CECOM) early in fiscal 2008. CECOM deploys ground tactical fiber optic cable assemblies worldwide to support the tactical communication requirements of the U.S. military, as well as certain other allied militaries. The U.S. Army may purchase up to \$2.6 million of the TFOCA assemblies over the life of the contract, if the U.S. Army exercises all delivery options.

Optical Cable's recent contract with CECOM is in addition to an existing five-year contract with CECOM awarded in November 2006. Under the existing contract, CECOM may acquire up to approximately \$4.6 million of TFOCA assemblies over the life of the contract, if all delivery options are exercised. CECOM has already purchased or ordered from Optical Cable approximately \$3.0 million of TFOCA assemblies under the existing contract.

- And just last week, Optical Cable was notified that it has been named **2008 Exporter of the Year** (information technology/telecommunications category) by ThinkGlobal, Inc., the publisher of *Commercial News USA*, the official export promotion magazine of the U.S. Department of Commerce.

Looking Forward to 2008

During the coming year, Optical Cable will continue to focus on growing sales in its commercial markets and targeted specialty markets; further improving its facilities and capabilities; and pursuing strategic opportunities to complement its fiber optic cable offering.

The Optical Cable Team is committed to further improving the Company's operational and financial performance in fiscal year 2008. And, early indications are that Optical Cable's net sales during the first quarter will be strong relative to the same period last year. Though economic conditions may present new challenges, with a solid balance sheet, no bank debt and available credit facilities, Optical Cable is well positioned for success.

We are confident that Optical Cable has the right strategies in place to serve its customers and drive growth and profitability. In fiscal year 2007, Optical Cable realized benefits from the successful execution on our strategic plan. We look forward to delivering further improvement in fiscal year 2008 as we continue to position Optical Cable for long-term shareholder value creation.

Thank you for your continued interest in Optical Cable Corporation.

/s/ Neil D. Wilkin, Jr.

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

January 28, 2008

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

Forward-Looking Information

This report may contain certain forward-looking information within the meaning of the federal securities laws. The forward-looking information may include, among other information, (i) statements concerning our outlook for the future, (ii) statements of belief, anticipation or expectation, (iii) future plans, strategies or anticipated events, and (iv) similar information and statements concerning matters that are not historical facts. Such forward-looking information is subject to risks and uncertainties that may cause actual events to differ materially from our expectations. Factors that could cause or contribute to such differences include, but are not limited to, the level of sales to key customers, including distributors; timing of certain projects and purchases by key customers; the economic conditions affecting network service providers; corporate and/or government spending on information technology; actions by competitors; fluctuations in the price of raw materials (including optical fiber); our dependence on a single manufacturing facility; our ability to protect our proprietary manufacturing technology; market conditions influencing prices or pricing; our dependence on a limited number of suppliers; the loss of or conflict with one or more key suppliers or customers; an adverse outcome in litigation, claims and other actions, and potential litigation, claims and other actions against us; an adverse outcome in regulatory reviews and audits and potential regulatory reviews and audits; adverse changes in state tax laws and/or positions taken by state taxing authorities affecting us; technological changes and introductions of new competing products; changes in end-user preferences of competing technologies, including copper cable and wireless, relative to fiber optic cable; economic conditions that affect the telecommunications sector, certain technology sectors or the economy as a whole; terrorist attacks or acts of war, and any current or potential future military conflicts; changes in the level of military spending by the United States government; ability to retain key personnel; inability to recruit needed personnel; poor labor relations; the impact of changes in accounting policies, including those by the Securities and Exchange Commission and the Public Company Accounting Oversight Board; our ability to successfully comply with, and the cost of compliance with, the provisions of Section 404 of the Sarbanes-Oxley Act of 2002 or any revisions to that act which apply to us; impact of future consolidation among competitors and/or among customers adversely affecting our position with our customers and/or our market position; actions by customers adversely affecting us in reaction to the expansion of our product offering in any manner, including, but not limited to, by offering products that compete with our customers, and/or by entering into alliances with, and/or making investments in or with, parties that compete with and/or have conflicts with customers of ours; adverse reactions by customers, vendors or other service providers to unsolicited proposals regarding the acquisition of us by another company; the additional costs of considering and possibly defending our position on such unsolicited proposals regarding the acquisition of us by another company; impact of weather or natural disasters in the areas of the world in which we operate and market our products; economic downturns and/or changes in market demand, exchange rates, productivity, or market and economic conditions in the areas of the world in which we operate and market our products, and our success in managing the risks involved in the foregoing.

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

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

Summary of Company Performance for Fiscal Year 2007

After lower than expected net sales in our first quarter, we recovered nicely in the second and third quarters, and we were able to finish fiscal year 2007 with strong financial results. During the fourth quarter, our net sales reached \$13.4 million and our net income was \$810,000, or \$0.13 per basic and diluted common share—both financial measures surpassing those of our record setting (since the telecommunications downturn in 2001) fourth quarter of fiscal year 2006. We believe our net income of \$1.3 million for fiscal year 2007 is indicative of our ability to leverage the investments we have made to improve our facilities, processes, systems and personnel to deliver greater shareholder returns.

Net sales for fiscal year 2007 as a whole increased slightly when compared to fiscal year 2006. During fiscal year 2007, we continued to experience substantial growth in international net sales and experienced increases in net sales in certain of our targeted specialty markets. These gains were partially offset, however, by a decrease in net sales in our commercial market. We reported net income in fiscal year 2007 of \$1.3 million, or \$0.21 per basic and diluted common share, compared to net income of \$351,000, or \$0.06 per basic and diluted common share, in fiscal year 2006.

Overview of Optical Cable Corporation

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

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

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

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

We sell our products internationally and domestically through our sales force to our customers, which include major distributors, regional distributors, various smaller distributors, original equipment manufacturers and value-added resellers. For the years ended October 31, 2007, 2006 and 2005, approximately 72%, 77% and 85%, respectively, of net sales were from customers located in the United States, while approximately 28%, 23% and 15%, respectively, of net sales were from customers located outside of the United States. Substantially all of our sales to customers outside of the United States are denominated in U.S. dollars. We believe the increase in the percentage of net sales to customers located outside of the United States in 2007 compared to 2006 and 2005 is primarily the result of certain organizational changes and increased sales efforts in certain international markets. We can experience fluctuations in the percentage of net sales to customers outside of the United States from period to period based on the timing of large orders, coupled with the impact of increases or decreases in sales to customers located in the United States.

Net sales consist of gross sales of products less discounts, refunds and returns. Revenue is recognized at the time of product shipment or delivery to the customer (including distributors) provided that the customer takes ownership and assumes risk of loss, based on shipping terms. In fiscal years 2007, 2006 and 2005, one major domestic distributor accounted for 11.7%, 15.7% and 15.4% of our net sales, respectively. Other than this distributor, no single customer accounted for more than 10% of our net sales in fiscal years 2007, 2006 or 2005.

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

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

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

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

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

Results of Operations

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

	Fiscal Years Ended October 31,			Fiscal Years Ended October 31,		
	2007	2006	Percent Change	2006	2005	Percent Change
Net sales	\$45,500,000	\$45,300,000	0.04%	\$45,300,000	\$45,900,000	(1.2)%
Gross profit	17,200,000	15,400,000	11.3	15,400,000	17,800,000	(13.5)
SG&A expenses	15,300,000	14,900,000	2.7	14,900,000	16,000,000	(7.0)
Net income	1,300,000	351,000	257.3	351,000	1,172,000	(70.1)

Net Sales

Net sales increased to \$45.5 million in fiscal year 2007 from \$45.3 million in fiscal year 2006. Net sales outside the U.S. increased 22.7% to \$12.9 million compared to \$10.5 million last year, while net sales in the U.S. for fiscal year 2007 decreased 6.4% to \$32.6 million compared to \$34.8 million last year. Quarterly net sales ranged from \$9.3 million during the first quarter of 2007 to \$13.4 million during the fourth quarter of 2007. We experienced an increase in net sales during fiscal year 2007 in our specialty markets compared to last year, but this increase was partially offset by decreases in net sales in our commercial market. Net sales to customers outside the United States continued to show substantial strength during fiscal year 2007 compared to last year, while net sales to customers in the United States decreased due to lower sales in our commercial market. We believe these product sales patterns are a result of a number of factors including market demand fluctuations, the timing of projects and other factors affecting product demand in certain specialty markets and our commercial market.

Additionally, we believe our net sales have generally been impacted by seasonality factors wherein we typically expect net sales to be relatively lower in the first half of each fiscal year and relatively higher in the second half of each fiscal year. Since fiscal year 2001, we have seen that this pattern may be substantially altered by the timing of larger projects or other economic factors impacting our industry or impacting the industries of our customers and end-users. As a result, while we believe seasonality may be a factor that impacts our quarterly net sales results, we are not able to reliably predict net sales based on seasonality because these other factors can also substantially impact our net sales patterns during the year. We believe net sales trends so far during the first quarter of fiscal year 2008 indicate that the quarter will be impacted by seasonality factors.

Net sales decreased 1.2% to \$45.3 million in fiscal year 2006 from \$45.9 million in fiscal year 2005. Net sales in the U.S. for fiscal year 2006 decreased 10.7% to \$34.8 million compared to \$39.0 million in fiscal year 2005, while net sales outside the U.S. increased 52.0% to \$10.5 million in fiscal year 2006 compared to \$6.9 million in fiscal year 2005. Quarterly net sales ranged from \$9.9 million during the first quarter of 2006 to \$12.6 million during the fourth quarter of 2006. We experienced an increase in net sales in fiscal year 2006 in our commercial market compared to fiscal year 2005, but the increase was more than offset by decreases in net sales for certain of our specialty markets. Overall, net sales to customers outside the United States showed substantial strength during fiscal year 2006 compared to fiscal year 2005, while net sales to customers in the United States decreased due to lower sales in certain specialty markets.

Gross Profit

Gross profit increased 11.3% to \$17.2 million in fiscal year 2007 from \$15.4 million in fiscal year 2006. Gross profit margin, or gross profit as a percentage of net sales, increased to 37.7% for fiscal year 2007 compared to 34.0% for fiscal year 2006. Quarterly gross profit margins during fiscal year 2007 were 32.1%, 36.5%, 40.2% and 40.5% during the first, second, third and fourth quarters, respectively.

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

Our gross profit margin percentages are heavily dependent upon product mix and may deviate from expectations based on both anticipated and unanticipated changes in product mix. We believe the product sales pattern during fiscal year 2007 was impacted by a number of factors including the timing of projects and other factors affecting product demand.

We believe the improvement in gross profit margins throughout fiscal year 2007 is primarily a result of improved manufacturing efficiencies as discussed above, rather than a significant increase in the sale of a mix of products with relatively higher margins.

Gross profit decreased 13.5% to \$15.4 million in fiscal year 2006 from \$17.8 million in 2005. Gross profit margin, or gross profit as a percentage of net sales, decreased to 34.0% for fiscal year 2006 from 38.9% for 2005. Our gross profit margin in fiscal year 2006, compared to fiscal year 2005, was negatively impacted by a temporary decrease in manufacturing efficiencies during fiscal year 2006, in part resulting from process and system changes in connection with our new ERP system and other initiatives.

Selling, General and Administrative Expenses

SG&A expenses increased 2.7% to \$15.3 million in fiscal year 2007 from \$14.9 million in 2006. SG&A expenses as a percentage of net sales were 33.6% in fiscal year 2007 compared to 32.9% in 2006. The higher percentage in fiscal year 2007 reflects the fact that net sales for the period increased less than 1.0% compared to 2006, while SG&A expenses increased 2.7% compared to 2006. The largest element of the net increase in SG&A expenses during 2007 compared to 2006 was compensation costs. Compensation costs have increased when comparing fiscal year 2007 to fiscal year 2006 primarily as a result of increases in amounts accrued for employee performance-based incentives based on improved financial results during fiscal year 2007.

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

Other Income (Expense), Net

We recognized other income, net in fiscal year 2007 of \$48,000 compared to other expense, net of \$19,000 in fiscal year 2006. Other income (expense), net is comprised of interest income, interest expense and other miscellaneous items and was positively impacted by our investment of cash in overnight repurchase agreements during fiscal year 2007 and the resulting interest earned thereon.

We recognized other expense, net in fiscal year 2006 of \$19,000 compared to other income, net of \$17,000 in fiscal year 2005.

Income Before Income Taxes

Income before income taxes was \$1.9 million in fiscal year 2007 compared to income before income taxes of \$503,000 in 2006. This increase was primarily due to the increase in gross profit of \$1.7 million, partially offset by an increase in SG&A expenses of \$400,000.

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

Income Tax Expense

Income tax expense totaled \$665,000 in fiscal year 2007 compared to income tax expense of \$152,000 in 2006. Our effective tax rate for fiscal year 2007 was 34.7%, compared to an effective tax rate of 30.3% during fiscal year 2006. Generally, fluctuations in our effective tax rates are primarily due to the amount and timing of various tax deductions and benefits.

Income tax expense totaled \$152,000 in fiscal year 2006 compared to income tax expense of \$650,000 in 2005. Our effective tax rate for fiscal year 2006 was 30.3% compared to an effective tax rate of 35.7% for fiscal year 2005.

Net Income

Net income increased 257.3% to \$1.3 million in fiscal year 2007 compared to \$351,000 in 2006. This increase was primarily due to the factors previously described as contributing to the increase in income before income taxes, partially offset by an increase in income tax expense of \$513,000 in 2007 compared to 2006.

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

Financial Condition

Total assets increased \$2.5 million, or 7.2%, to \$37.3 million at October 31, 2007, from \$34.8 million at October 31, 2006. This increase was primarily due to a \$2.6 million increase in cash and cash equivalents and a \$1.2 million increase in note receivable, partially offset by a \$1.3 million decrease in inventories. Further detail regarding the increase in cash and cash equivalents is provided in our discussion of "Liquidity and Capital Resources." The increase in note receivable is due to additional advances made by us to a start-up connector company during fiscal year 2007 and the inventory decrease is largely the result of efforts to optimize inventory levels. Our new ERP system allows us to better plan inventory types and quantities on hand by increasing visibility of inventory available for use in production and providing improved tools for production planning.

Total liabilities increased \$947,000, or 21.7%, to \$5.3 million at October 31, 2007 from \$4.4 million at October 31, 2006. This increase was primarily due to a \$969,000 increase in accounts payable and accrued expenses and a \$734,000 increase in accrued compensation and payroll taxes, partially offset by a \$991,000 decrease in note payable to bank under our lines of credit. The increase in accounts payable and accrued expenses resulted primarily from the timing of raw material receipts during the fourth quarter that remained unpaid at year end. The increase in accrued compensation and payroll taxes resulted from the accrual for employee performance-based incentives based on our financial results during fiscal year 2007.

Total shareholders' equity at October 31, 2007 increased \$1.5 million, or 5.1% during fiscal year 2007. The increase resulted from net income retained of \$1.3 million, share-based compensation totaling \$732,000 and proceeds from the exercise of warrants to purchase common stock totaling \$281,000, partially offset by the repurchase and retirement of 141,273 shares of our common stock for \$723,000.

Liquidity and Capital Resources

Our primary capital needs during fiscal year 2007 have been to fund working capital requirements, repayment of the note payable to our bank, capital expenditures, and advances to a start-up connector company described further herein. Our primary source of capital for these purposes has been existing cash and cash equivalents and cash provided by operations. As of October 31, 2007, we had no outstanding balance under our bank lines of credit. As of October 31, 2006, we had an outstanding loan balance of \$991,000 under one of our bank lines of credit.

Our cash totaled \$3.1 million as of October 31, 2007, an increase of \$2.6 million, compared to \$555,000 as of October 31, 2006. The increase in cash for the fiscal year ended October 31, 2007, primarily resulted from net cash provided by operating activities of \$6.0 million, partially offset by capital expenditures totaling \$830,000, advances by us pursuant to a note receivable (described further herein) totaling \$1.2 million, the repayment of our outstanding borrowings under our bank line of credit totaling \$991,000 and the repurchase and retirement of 141,273 shares of our common stock for \$723,000.

On October 31, 2007, we had working capital of \$15.9 million, compared to \$14.4 million as of October 31, 2006. The ratio of current assets to current liabilities as of October 31, 2007, was 4.3 to 1 compared to 4.4 to 1 as of October 31, 2006. The increase in working capital during fiscal year 2007 was primarily caused by the \$2.6 million increase in cash and cash equivalents and the \$991,000 decrease in note payable to our bank line of credit, partially offset by a \$1.3 million decrease in inventories and the \$1.7 million increase in accounts payable and accrued expenses, including accrued compensation and payroll taxes.

Net cash provided by operating activities was \$6.0 million in fiscal year 2007, compared to net cash used in operating activities of \$58,000 in fiscal year 2006 and net cash provided by operating activities of \$2.1 million in 2005.

Net cash provided by operating activities during fiscal year 2007 primarily resulted from net income of \$1.3 million and certain adjustments to reconcile net income to net cash provided by operating activities, including depreciation and amortization of \$1.6 million and share-based compensation expense of \$732,000. Additionally, the decrease in inventories totaling \$1.3 million and the increase in accounts payable and accrued expenses (including accrued compensation and payroll taxes) totaling \$1.7 million further contributed to net cash provided by operating activities. All of the aforementioned factors positively affecting cash provided by operating activities were partially offset by an increase in accounts receivable, net of \$883,000. The increase in accounts receivable, net resulted from increased sales generated in the fourth quarter of fiscal year 2007 when compared to fiscal year 2006.

Net cash used in operating activities during fiscal year 2006 primarily resulted from certain adjustments to reconcile net income to net cash used in operating activities, including depreciation and amortization of \$1.4 million and share-based compensation expense of \$733,000, offset by a decrease in accrued compensation and payroll taxes totaling \$1.3 million and a decrease in accounts payable and accrued expenses totaling \$858,000. Share-based compensation expense increased compared to 2005 as a result of the adoption of SFAS 123(R) and the January 28, 2006 restricted stock grant while accrued compensation decreased compared to 2005 as a result of decreases in employee incentives due to the fact that the financial results during fiscal year 2006 were less favorable than planned.

Net cash provided by operating activities during fiscal year 2005 primarily resulted from net income of \$1.2 million and certain adjustments to reconcile net income to net cash provided by operating activities, including depreciation and amortization of \$1.3 million and share-based compensation expense of \$477,000. Additionally, an increase in accounts payable and accrued expenses of \$526,000 and an increase in income taxes payable of \$386,000 contributed to net cash provided by operating activities. All of the aforementioned factors positively affecting cash provided by operating activities were partially offset by an increase in inventories of \$2.2 million.

Net cash used in investing activities totaled \$2.0 million in fiscal year 2007, compared to \$3.6 million in 2006 and \$3.2 million in 2005. Net cash used in investing activities during fiscal years 2007, 2006 and 2005 resulted primarily from purchases of property and equipment, deposits for the purchase of property and equipment and advances made to a start-up company described further herein.

On April 22, 2005, we agreed to extend a loan to a start-up connector company, Applied Optical Systems, Inc. (the "Borrower"), specializing in the design, manufacture and sale of connectors and cable assemblies for certain niche markets. The Borrower offers complementary products to our product offering and was incorporated in December 2003. The Borrower currently has limited revenues and assets and is incurring net losses. As of October 31, 2007 and 2006, total assets of the Borrower, based on audited financial information, was equivalent to approximately 5.2% and 4.5%, respectively, of our total assets. Total revenues of the Borrower, based on audited financial information for the year ended October 31, 2007 and unaudited financial information for the year ended October 31, 2006, was equivalent to approximately 6.7% and 5.0% of our net sales for fiscal years 2007 and 2006, respectively.

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

Through October 31, 2007 and 2006, we had advanced a total of \$3.5 million and \$2.2 million, net (including accrued interest and accounts receivable from product sales), respectively, to the Borrower. The note receivable, which matures July 31, 2008, is collateralized by all of the Borrower's tangible and intangible property and bears interest at six percent (6%) per annum. Two of the founders of the Borrower have also personally guaranteed amounts up to two-thirds of the principal balance outstanding on the note receivable plus two-thirds of any accrued interest related to the note receivable. In connection with the loan, we were issued a warrant by the Borrower which, as amended, gives us the right to purchase a fifty-six percent (56%) equity interest in the Borrower on a fully diluted, as converted basis, for a purchase price of \$1.5 million. In addition, we were granted the right to purchase all other outstanding equity of the Borrower at various times from 2009 through 2012, at a fixed multiple of trailing earnings before interest and taxes (EBIT), conditioned upon our exercise of the warrant or the Borrower's failure to repay the loan when due. The note receivable is callable by us at any time. Our rights under the warrant terminate if the warrant is not exercised prior to the expiration date. Subsequent to October 31, 2007, we made additional advances to the Borrower totaling \$270,000.

Net cash used in financing activities was \$1.4 million in fiscal year 2007 compared to net cash provided by financing activities of \$878,000 in fiscal year 2006 and \$20,000 in fiscal year 2005. Net cash used in financing activities in fiscal year 2007 resulted from repayment of a note payable to our bank under one of our lines of credit in the amount of \$991,000 and the repurchase and retirement of 141,273 shares of our common stock for \$723,000, partially offset by proceeds received from the exercise of warrants to purchase our common stock totaling \$281,000. Net cash provided by financing activities in fiscal year 2006 resulted from proceeds from a note payable to our bank under our line of credit and proceeds received from the exercise of warrants, partially offset by payments for financing costs associated with amending and restating our former credit facility and obtaining our new credit facilities. Net cash provided by financing activities in fiscal year 2005 resulted entirely from proceeds received from the exercise of warrants to purchase our common stock.

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

As of October 31, 2007, we had credit totaling approximately \$13.4 million unused and available, after considering borrowing base calculations. As of October 31, 2007, we had no outstanding borrowings under our Working Capital Facility, the Machinery and Equipment Facility or the Real Estate Loan.

If not sooner demanded, the Working Capital Facility and the Machinery and Equipment Facility expire on February 28, 2008, but are expected to be extended. Of the \$13.5 million aggregate maximum availability, \$6.5 million relates to the Real Estate Loan. The period of time in which advances under the Real Estate Loan may be made has been extended until February 28, 2009. If no advances are made under the Real Estate Loan by February 28, 2009, the Real Estate Loan will expire, if not further extended.

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

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 2007, excluding fiscal years 2001 and 2002. Fiscal years 2001 and 2002 are excluded because we believe net sales did not follow this pattern due to overall economic conditions in the industry.

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

Contractual Obligations and Commitments

As of October 31, 2007, we have no disclosable contractual obligations and commitments that will significantly impact our future liquidity.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based on the financial statements and accompanying notes that have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 to the financial statements provides a summary of our significant accounting policies. The following are areas requiring significant judgments and estimates due to uncertainties as of the reporting date: revenue recognition, trade accounts receivable and the allowance for doubtful accounts, inventories, long-lived assets, and commitments and contingencies.

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

Revenue Recognition

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

Trade Accounts Receivable and the Allowance for Doubtful Accounts

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

Inventories

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

Long-lived Assets

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

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

Commitments and Contingencies

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

Quantitative and Qualitative Disclosures About Market Risk

We do not engage in transactions in derivative financial instruments or derivative commodity instruments. As of October 31, 2007, our financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk.

Future Accounting Considerations

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB

Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Although we will continue to evaluate the application of FIN 48, we do not currently believe adoption of this interpretation will have a material impact on our results of operations, financial position or liquidity.

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

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

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

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* (“SFAS 141(R)"). SFAS 141(R) requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred to as the purchase method). Companies applying this method will have to identify the acquirer, determine the acquisition date and purchase price and recognize at their acquisition-date fair values the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree. In the case of a bargain purchase the acquirer is required to reevaluate the measurements of the recognized assets and liabilities at the acquisition date and recognize a gain on that date if an excess remains. SFAS 141(R) becomes effective for fiscal periods beginning after December 15, 2008. We are currently evaluating the impact of SFAS 141(R).

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51* (“SFAS 160”). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. In addition this statement establishes a single method of accounting for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS 160 becomes effective for fiscal periods beginning after December 15, 2008. We are currently evaluating the impact of SFAS 160.

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

As of December 31, 2007, there are no other new accounting standards issued, but not yet adopted by us, which are expected to be applicable to our financial position, operating results or financial statement disclosures.

Disagreements with Accountants

We did not have any disagreements with our accountants on any accounting or financial disclosure made during our fiscal year ended October 31, 2007.

Balance Sheets
October 31, 2007 and 2006

	October 31,	
	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,138,878	\$ 555,272
Trade accounts receivable, net of allowance for doubtful accounts of \$246,803 in 2007 and \$238,455 in 2006	9,056,964	8,296,996
Other receivables	199,985	115,824
Inventories	7,340,370	8,614,871
Prepaid expenses and other assets	371,194	545,057
Deferred income taxes	707,388	619,047
Total current assets	<u>20,814,779</u>	<u>18,747,067</u>
Property and equipment, net	12,896,564	13,650,007
Note receivable	3,490,677	2,244,182
Other assets, net	79,220	149,853
Total assets	<u>\$ 37,281,240</u>	<u>\$ 34,791,109</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,968,620	\$ 1,999,536
Accrued compensation and payroll taxes	1,495,294	761,585
Income taxes payable	413,664	553,989
Note payable to bank	—	990,724
Total current liabilities	<u>4,877,578</u>	<u>4,305,834</u>
Deferred income taxes—noncurrent	425,188	50,335
Total liabilities	<u>5,302,766</u>	<u>4,356,169</u>
Shareholders' equity:		
Preferred stock, no par value, authorized 1,000,000 shares; none issued and outstanding	—	—
Common stock, no par value, authorized 50,000,000 shares; issued and outstanding 6,090,331 shares in 2007 and 6,008,016 shares in 2006	3,683,754	2,670,343
Retained earnings	28,294,720	27,764,597
Total shareholders' equity	<u>31,978,474</u>	<u>30,434,940</u>
Commitments and contingencies		
Total liabilities and shareholders' equity	<u>\$ 37,281,240</u>	<u>\$ 34,791,109</u>

See accompanying notes to financial statements.

Statements of Income
Years ended October 31, 2007, 2006 and 2005

	Years ended October 31,		
	2007	2006	2005
Net sales	\$ 45,502,705	\$ 45,330,397	\$ 45,898,547
Cost of goods sold	28,332,900	29,908,252	28,066,840
Gross profit	17,169,805	15,422,145	17,831,707
Selling, general and administrative expenses	15,299,861	14,900,094	16,026,075
Income from operations	1,869,944	522,051	1,805,632
Other income (expense), net:			
Interest income	119,238	38,324	33,942
Interest expense	(98,382)	(48,449)	(54,663)
Other, net	27,166	(9,123)	37,270
Other income (expense), net	48,022	(19,248)	16,549
Income before income taxes	1,917,966	502,803	1,822,181
Income tax expense	665,328	152,173	650,284
Net income	<u>\$ 1,252,638</u>	<u>\$ 350,630</u>	<u>\$ 1,171,897</u>
Net income per share:			
Basic and diluted	<u>\$ 0.21</u>	<u>\$ 0.06</u>	<u>\$ 0.20</u>

See accompanying notes to financial statements.

Statements of Shareholders' Equity
Years ended October 31, 2007, 2006 and 2005

	Common Stock		Retained Earnings	Total Shareholders' Equity
	Shares	Amount		
Balances at October 31, 2004	5,608,123	\$ 1,433,351	\$ 26,242,070	\$27,675,421
Share-based compensation, net	188,717	477,412	—	477,412
Exercise of warrants (\$4.88 per share)	4,135	20,181	—	20,181
Net income	—	—	1,171,897	1,171,897
Balances at October 31, 2005	5,800,975	1,930,944	27,413,967	29,344,911
Share-based compensation, net	205,701	732,861	—	732,861
Exercise of warrants (\$4.88 per share)	1,340	6,538	—	6,538
Net income	—	—	350,630	350,630
Balances at October 31, 2006	6,008,016	2,670,343	27,764,597	30,434,940
Share-based compensation, net	166,016	732,458	—	732,458
Repurchase and retirement of common stock (at cost)	(141,273)	—	(722,515)	(722,515)
Exercise of warrants (\$4.88 per share)	57,572	280,953	—	280,953
Net income	—	—	1,252,638	1,252,638
Balances at October 31, 2007	6,090,331	\$3,683,754	\$ 28,294,720	\$ 31,978,474

See accompanying notes to financial statements.

Statements of Cash Flows
Years ended October 31, 2007, 2006 and 2005

	Years ended October 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 1,252,638	\$ 350,630	\$ 1,171,897
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,603,741	1,400,498	1,286,706
Bad debt expense (recovery)	28,197	(89,116)	8,728
Deferred income tax expense (benefit)	286,512	(165,173)	384,803
Share-based compensation expense	732,458	732,861	477,412
Loss (gain) on disposal of machinery and equipment	1,255	—	(10,450)
(Increase) decrease in:			
Trade accounts receivable	(883,440)	(298,276)	27,054
Other receivables	(84,161)	42,516	(74,470)
Inventories	1,274,501	91,210	(2,157,319)
Prepaid expenses and other assets	80,472	(67,222)	81,121
Accrued interest on note receivable	—	(36,393)	—
Other assets, net	133,953	147,629	(165,065)
Increase (decrease) in:			
Accounts payable and accrued expenses	977,341	(858,077)	525,868
Accrued compensation and payroll taxes	733,709	(1,337,571)	144,477
Income taxes payable	(140,325)	28,649	385,734
Net cash provided by (used in) operating activities	<u>5,996,851</u>	<u>(57,835)</u>	<u>2,086,496</u>
Cash flows from investing activities:			
Purchase of and deposits for the purchase of property and equipment	(829,764)	(2,290,372)	(2,363,950)
Proceeds from disposal of property and equipment	25	—	10,450
Investment in other assets	—	(136,376)	—
Note receivable	(1,151,220)	(1,128,150)	(805,000)
Net cash used in investing activities	<u>(1,980,959)</u>	<u>(3,554,898)</u>	<u>(3,158,500)</u>
Cash flows from financing activities:			
Proceeds from and repayment of note payable to bank, net	(990,724)	990,724	—
Payments for financing costs	—	(119,390)	—
Repurchase of common stock	(722,515)	—	—
Proceeds from exercise of warrants	280,953	6,538	20,181
Net cash provided by (used in) financing activities	<u>(1,432,286)</u>	<u>877,872</u>	<u>20,181</u>
Net increase (decrease) in cash and cash equivalents	2,583,606	(2,734,861)	(1,051,823)
Cash and cash equivalents at beginning of year	555,272	3,290,133	4,341,956
Cash and cash equivalents at end of year	<u>\$ 3,138,878</u>	<u>\$ 555,272</u>	<u>\$ 3,290,133</u>
Supplemental disclosure of cash flow information:			
Cash payments for interest	\$ 4,991	\$ 10,425	\$ —
Income taxes paid (refunded), net	\$ 519,142	\$ 288,697	\$ (120,253)
Noncash investing and financing activities:			
Capital expenditures accrued in accounts payable	<u>\$ 8,257</u>	<u>\$ 117,081</u>	<u>\$ 105,625</u>

See accompanying notes to financial statements.

Notes to Financial Statements
Years ended October 31, 2007, 2006 and 2005

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

(a) Description of Business

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

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

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

(b) Cash and Cash Equivalents

The Company maintained its primary cash accounts at two commercial banks during fiscal years 2007 and 2006. Accounts in both banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. As of October 31, 2007 and 2006, the Company had bank deposits in excess of \$100,000 totaling \$3,038,578 and \$454,972, respectively.

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. As of October 31, 2007 the Company had cash equivalents, in the form of an overnight repurchase agreement with Valley Bank, totaling \$3.5 million. As of October 31, 2006, the Company had no cash equivalents.

(c) Trade Accounts Receivable and Allowance for Doubtful Accounts

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

(d) Inventories

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

(e) Capitalized costs of potential acquisitions

The Company capitalizes costs associated with potential acquisitions until such time negotiations are abandoned or successfully completed. As of October 31, 2007, the Company did not have any capitalized costs associated with potential acquisitions. As of October 31, 2006, the Company included capitalized costs of a potential acquisition totaling \$136,376 in other assets, net. All such costs were written off during fiscal year 2007.

(f) Property and Equipment

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

External direct costs of materials and services consumed in developing or obtaining internal use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to an internal use computer software project, to the extent of the time spent directly on the project; and interest costs incurred when developing computer software for internal use are capitalized. Capitalized software development costs were approximately \$263,000 and \$1.2 million as of October 31, 2007 and 2006, respectively.

(g) Revenue Recognition

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

(h) Shipping and Handling Costs

Shipping and handling costs include the costs incurred to physically move finished goods from the Company's warehouse to the customers' designated location and the costs to store, move and prepare the finished goods for shipment. All amounts billed to a customer in a sale transaction related to shipping and handling are classified as sales revenue. Shipping and handling costs of approximately \$1,853,000, \$1,980,000 and \$1,772,000 are included in selling, general and administrative expenses for the years ended October 31, 2007, 2006 and 2005, respectively.

(i) Income Taxes

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

(j) Impairment or Disposal of Long-Lived Assets

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

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

Effective November 1, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share Based Payment*, (“SFAS 123(R)”) and related interpretations, using the modified prospective method. SFAS 123(R) requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant-date fair value of those awards. Using the modified prospective method of adopting SFAS 123(R), the Company began recognizing compensation expense beginning in its fiscal year 2006 for the remaining unvested portions of stock option awards granted prior to November 1, 2005. All such stock option awards were made prior to July 2002.

Prior to November 1, 2005, the Company had adopted the prospective method of transition for a voluntary change to the fair value based method of accounting for share-based employee compensation as allowed under SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*. The prospective method required the Company to apply the recognition provisions to all employee awards granted, modified, or settled after the beginning of the fiscal year in which the recognition provisions were first applied. During fiscal years 2007 and 2006, the Company did not grant, modify or settle any employee stock options.

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

	Year Ended October 31, 2005
Net income as reported	\$1,171,897
Less total share-based employee compensation expense determined under the fair value based method, net of related tax effects	509,735
Pro forma net income	<u>\$ 662,162</u>
Net income per share:	
Basic and diluted:	
As reported	\$ 0.20
Pro forma	<u>\$ 0.11</u>

(l) Net Income Per Share

Basic net income per share excludes dilution and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the net income of the Company. Also see note 13.

(m) Commitments and Contingencies

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

(n) Use of Estimates

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

(2) Allowance for Doubtful Accounts for Trade Accounts Receivable

A summary of changes in the allowance for doubtful accounts for trade accounts receivable for the years ended October 31, 2007, 2006 and 2005 follows:

	Years ended October 31,		
	2007	2006	2005
Balance at beginning of year	\$238,455	\$ 454,550	\$464,963
Bad debt expense (recovery)	28,197	(89,116)	8,728
Losses charged to allowance	(21,850)	(150,240)	(22,229)
Recoveries added to allowance	2,001	23,261	3,088
Balance at end of year	<u>\$ 246,803</u>	<u>\$ 238,455</u>	<u>\$454,550</u>

(3) Inventories

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

	October 31,	
	2007	2006
Finished goods	\$ 2,484,892	\$ 3,604,021
Work in process	1,609,425	1,583,952
Raw materials	3,091,307	3,248,907
Production supplies	154,746	177,991
Total	<u>\$ 7,340,370</u>	<u>\$ 8,614,871</u>

(4) Note Receivable

On April 22, 2005, the Company agreed to extend a loan to a start-up connector company, Applied Optical Systems, Inc. (the "Borrower"), specializing in the design, manufacture and sale of connectors and cable assemblies for certain niche markets. The Borrower offers complementary products to the Company's product offering and was incorporated in December 2003. The Borrower currently has limited revenues and assets and is incurring net losses. As of October 31, 2007 and 2006, total assets of the Borrower, based on audited financial information, was equivalent to approximately 5.2% and 4.5%, respectively, of the Company's total assets. Total revenue of the Borrower, based on audited financial information for the year ended October 31, 2007 and unaudited financial information for the year ended October 31, 2006, was equivalent to approximately 6.7% and 5.0% of the Company's net sales for fiscal years 2007 and 2006, respectively.

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

Through October 31, 2007 and 2006, the Company had advanced a total of \$3,490,677 and \$2,244,182, net (including accrued interest and accounts receivable from product sales), respectively, to the Borrower. The note receivable, which matures July 31, 2008, is collateralized by all of the Borrower's tangible and intangible property and bears interest at six percent (6%) per annum. Two of the founders of the Borrower have also personally guaranteed amounts up to two-thirds of the principal balance outstanding on the note receivable plus two-thirds of any accrued interest related to the note receivable. In connection with the loan, the Company was issued a warrant by the Borrower which, as amended, gives the Company the right to purchase a fifty-six percent (56%) equity interest in the Borrower on a fully diluted, as converted basis, for a purchase price of

\$1,500,000. In addition, the Company was granted the right to purchase all other outstanding equity of the Borrower at various times from 2009 through 2012, at a fixed multiple of trailing earnings before interest and taxes (EBIT), conditioned upon the Company's exercise of the warrant or the Borrower's failure to repay the loan when due. The note receivable is callable by the Company at any time. The Company's rights under the warrant terminate if the warrant is not exercised prior to the expiration date of July 31, 2008. Subsequent to October 31, 2007, the Company made additional advances to the Borrower totaling \$270,000.

The Company sold fiber optic cables to the Borrower totaling \$324,999, \$231,685 and \$43,880 during fiscal years 2007, 2006 and 2005, respectively. The Company has included \$95,275 and \$264,779 related to the sale of product to the Borrower in note receivable in the accompanying balance sheets as of October 31, 2007 and 2006, respectively.

The Company recorded interest income related to the loan totaling \$32,874 and \$13,381 during fiscal years 2006 and 2005, respectively, which is included in note receivable in the accompanying balance sheet as of October 31, 2007. The Company has fully reserved interest income beginning in the third quarter of fiscal year 2006 related to the loan.

(5) Property and Equipment, Net

Property and equipment, net as of October 31, 2007 and 2006 consists of the following:

	October 31,	
	2007	2006
Land	\$ 2,745,327	\$ 2,745,327
Building and improvements	7,079,308	7,056,256
Machinery and equipment	13,523,790	12,309,413
Furniture and fixtures	886,606	886,111
Construction in progress	447,204	1,945,729
Total property and equipment, at cost	24,682,235	24,942,836
Less accumulated amortization and depreciation	(11,785,671)	(11,292,829)
Property and equipment, net	<u>\$ 12,896,564</u>	<u>\$ 13,650,007</u>

(6) Product Warranties

The Company generally warrants its products against certain manufacturing and other defects in material and workmanship. These product warranties are provided for specific periods of time and are applicable assuming the product has not been subjected to misuse, improper installation, negligence or shipping damage. As of October 31, 2007 and 2006, the Company's accrual for estimated product warranty claims totaled \$75,000 and is included in accounts payable and accrued expenses. Warranty claims expense includes the costs to investigate claims and potential claims, and the costs to replace and/or repair product pursuant to claims, which in certain cases can include claims not deemed valid by the Company. The accrued product warranty costs are based primarily on historical experience of actual warranty claims and costs as well as current information with respect to potential warranty claims and costs. Warranty claims expense for the years ended October 31, 2007, 2006 and 2005 totaled \$102,173, \$198,869 and \$241,043, respectively.

The following table summarizes the changes in the Company's accrual for product warranties during the fiscal years ended October 31, 2007 and 2006:

	Years ended October 31,	
	2007	2006
Balance at beginning of year	\$ 75,000	\$ 100,000
Liabilities accrued for warranties issued during the year	119,481	205,868
Warranty claims paid during the period	(102,173)	(223,869)
Changes in liability for pre-existing warranties during the year	(17,308)	(6,999)
Balance at end of year	<u>\$ 75,000</u>	<u>\$ 75,000</u>

(7) Warrants

During fiscal year 2003, the Company issued 250,000 warrants to class members defined in a consolidated class action lawsuit by the claims administrator for the class members in connection with shareholder litigation arising from actions of the Company's former chief executive officer. Each warrant entitled the holder to purchase one share of the Company's common stock at an exercise price of \$4.88 per share. All remaining unexercised warrants expired on October 24, 2007.

Warrant activity for the years ended October 31, 2007, 2006 and 2005 is as follows:

	Number of shares
Balance at October 31, 2004	239,680
Exercised	(4,135)
Balance at October 31, 2005	235,545
Exercised	(1,340)
Balance at October 31, 2006	234,205
Exercised	(57,572)
Forfeited	(176,633)
Balance at October 31, 2007	<u>—</u>

(8) Note Payable to Bank

On September 25, 2006, the Company established revolving credit facilities with Valley Bank. The credit facilities with Valley Bank provide a working capital line of credit (the "Working Capital Facility"), a machinery and equipment line of credit (the "Machinery and Equipment Facility") and a real estate term loan (the "Real Estate Loan"), which together replaced the Company's former credit facility with Wachovia Bank, National Association. The Working Capital Facility, the Machinery and Equipment Facility and the Real Estate Loan together provide the Company with an aggregate maximum of \$13.5 million in available credit, less any borrowings.

As of October 31, 2007, the Company had credit totaling approximately \$13.4 million unused and available, after considering borrowing base calculations. As of October 31, 2007, the Company had no outstanding borrowings under the Working Capital Facility, the Machinery and Equipment Facility or the Real Estate Loan.

The Working Capital Facility provides up to \$5 million for the Company's working capital needs and bears interest at LIBOR plus 2.15%, which equates to a facility rate of 6.87% as of October 31, 2007. The Working Capital Facility provides a lower interest rate option if the Company maintains specified depository limits with

Valley Bank. The Company can borrow up to 85% of the Company's eligible accounts receivable under the Working Capital Facility. As of October 31, 2006, the Company had \$990,724 outstanding under the Working Capital Facility.

The Machinery and Equipment Facility provides up to \$2 million for machinery and equipment purchases and also bears interest at LIBOR plus 2.15%, which equates to a facility rate of 6.87% as of October 31, 2007. Both the Machinery and Equipment Facility and the Working Capital Facility are secured by the Company's accounts receivable, inventory, furniture, fixtures and equipment and proceeds and are payable on demand with 60 days prior written notice, provided that the Company is not in default. If not sooner demanded, the Working Capital Facility and the Machinery and Equipment Facility expire on February 28, 2008, but are expected to be extended.

The Company may also borrow up to \$6.5 million under the terms of the Real Estate Loan. The period of time in which advances under the Real Estate Loan may be made has been extended by Valley Bank until February 28, 2009. Furthermore, to the extent the Company has borrowings under the Real Estate Loan, principal and interest payments will be calculated monthly, based on a 25 year amortization. The unpaid balance, if any, on any advances under the Real Estate Loan will be due October 1, 2011. Payments on the Real Estate Loan will be for interest only for a period of one year. Thereafter, through October 1, 2011 payments of both principal and interest will be due monthly. The Real Estate Loan bears interest at a fixed rate of 7.50% for 5 years and is secured by a first deed of trust on the Company's real property.

In connection with obtaining the Valley Bank credit facilities, the Company incurred various costs. These financing costs, net of amortization, were deferred and were included in prepaid expenses and other assets on the balance sheet. The deferred financing costs associated with the new credit facilities with Valley Bank were amortized to interest expense using the straight-line method, which approximates the effective interest method, over periods not greater than the minimum expected terms of the loan agreements. As of October 31, 2007, these deferred financing costs have been fully amortized.

(9) Employee Benefits

Health Insurance Coverage

The Company contracts for health insurance coverage for employees and their dependents through third-party administrators. During the years ended October 31, 2007, 2006 and 2005, total expense of \$1,550,207, \$1,468,466 and \$1,339,540, respectively, was incurred under the Company's insured health care program.

401(k) Plan

The Company maintains a 401(k) retirement savings plan for the benefit of its eligible employees. Substantially all of the Company's employees who meet certain service and age requirements are eligible to participate in the plan. Effective January 1, 2004, the Company adopted a new plan document which provides that the Company's matching contributions are discretionary. The Company made matching contributions to the plan that were expensed during the Company's fiscal year ended October 31, 2007 totaling \$137,916. The Company made or accrued matching contributions to the plan of \$137,017 and \$761,275 for the years ended October 31, 2006 and 2005, respectively.

Stock Incentives for Key Employees and Non-Employee Directors

Optical Cable Corporation uses stock incentives to increase the personal financial interest key employees have in the future success of the Company, thereby aligning their interests with those of the shareholders and strengthening their desire to remain with the Company.

The Company authorized and reserved 750,000 shares of common stock for issuance pursuant to the Optical Cable Corporation 1996 Stock Incentive Plan (the "1996 Plan"). No further awards will be made under the 1996 Plan as it terminated in accordance with the terms of the plan document on the tenth anniversary of its effective date of March 1, 1996. Options outstanding under the 1996 Plan may continue to be exercised until such time that the options expire or are forfeited under the terms of individual awards. Restricted stock awards granted under the 1996 Plan will continue to vest unless otherwise forfeited under the terms of individual awards.

In March of 2005, the Company adopted and the Company's shareholders approved the Optical Cable Corporation 2005 Stock Incentive Plan (the "2005 Plan"). The 2005 Plan is intended to be the successor of the 1996 Plan. The Company has authorized and reserved 1,000,000 shares of common stock for issuance pursuant to the 2005 Plan. As of October 31, 2007, there were approximately 604,000 remaining shares available for grant under the 2005 Plan.

Share-based compensation expense (including the expense for both stock option awards granted prior to July 2002, and restricted stock awards granted to both employees and non-employee members of the Company's Board of Directors) recognized in the statement of income for the years ended October 31, 2007, 2006 and 2005 is as follows:

	Years Ended October 31,		
	2007	2006	2005
Share-based compensation expense	\$ 831,979	\$ 763,609	507,723
Less shares surrendered for taxes	(99,521)	(30,748)	(30,311)
	732,458	732,861	477,412
Less income tax benefit	263,685	263,830	171,868
Share-based compensation expense, net	<u>\$568,294</u>	<u>\$499,779</u>	<u>335,855</u>

Stock Option Awards

Under the 1996 Plan, employees and outside contractors were issued options to purchase common stock, all of which were issued prior to July 2002. The exercise price equaled the market price of the Company's common stock on the date of grant. Options issued under the 1996 Plan generally vest incrementally over one to five years, and remain exercisable for ten years from the date of grant.

During 2002, non-employee members of the Company's Board of Directors were granted options to purchase a total of 3,123 shares of the Company's common stock at an exercise price of \$7.12 per share, the closing price at the date of grant. These options were not granted pursuant to a plan. Options issued to non-employee directors vested monthly over one year.

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

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

Stock option activity for the years ended October 31, 2007, 2006 and 2005 is as follows:

	Number of options	Weighted- average exercise price	Weighted-average remaining contractual term (in yrs)
Stock options outstanding at October 31, 2004	341,652	\$ 19.54	
Forfeited	(22,169)	16.68	
Stock options outstanding at October 31, 2005	319,483	19.74	
Forfeited	(83,894)	53.61	
Stock options outstanding at October 31, 2006	235,589	7.68	
Forfeited	(31,133)	7.20	
Stock options outstanding at October 31, 2007	204,456	\$ 7.76	4.26

As of October 31, 2007, 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 \$4.55 as of October 31, 2007, and the exercise price multiplied by the number of options outstanding.

As of October 31, 2007, all compensation cost related to equity-based compensation awards in the form of stock options granted to employees prior to July 2002 under the 1996 Plan has been fully recognized as all options outstanding at October 31, 2007 are fully vested and exercisable.

Included in total options outstanding as of October 31, 2007 were 3,751 options to non-employee sales representatives. The Company recorded compensation expense of \$1,220 and \$16,881 related to these options for the fiscal years ended October 31, 2007 and 2005, respectively, and a reduction in compensation expense of \$27,120 for the fiscal year ended October 31, 2006.

The Company recorded compensation expense related to its stock option awards totaling \$27,743 and \$183,568, respectively, during fiscal years 2007 and 2006. As of October 31, 2007, all compensation cost related to stock options previously granted has been recognized.

Restricted Stock Awards

The Company has granted (under the 1996 Plan and the 2005 Plan), and anticipates granting from time to time (under the 2005 Plan), restricted stock awards pursuant to approval by the Compensation Committee of the Board of Directors. A portion of the restricted stock awards granted under the 1996 and the 2005 Plans vest based on the passage of time and the remainder vest over time if certain market condition-based or operational performance-based criteria are met. Failure to meet the criteria required for vesting—whether for the market condition-based shares or for the operational performance-based shares—will result in a portion or all of the shares being forfeited. The Company recognizes expense on the service-based and market condition-based shares each quarter based on the actual number of shares vested during the quarter multiplied by the grant date fair value. The Company recognizes expense on the operational performance-based shares each quarter using an estimate of the shares expected to vest multiplied by the closing price of the Company's common stock on the date of grant. U.S. generally accepted accounting principles requires that any previously recognized compensation cost on the market condition-based shares shall not be reversed if the shares are forfeited as a result of not meeting the market condition.

Restricted Stock Award activity for the years ended October 31, 2007, 2006 and 2005 is as follows:

	Years Ended October 31,		
	2007	2006	2005
<u>1996 and 2005 Plans</u>			
Shares granted	191,071	230,000	191,000
Forfeited or withheld for taxes	38,819	32,298	8,789

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

The Company recorded total compensation expense related to its restricted stock awards granted to employees totaling \$730,755, \$567,561 and \$458,992 during the fiscal years ended October 31, 2007, 2006 and 2005 respectively.

As of October 31, 2007, the maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based, market condition-based, and operational performance-based shares that the Company will have to recognize over a 3.2 year weighted-average period is \$1.8 million.

In March 2004, the Company adopted and the Company's shareholders approved the 2004 Non-employee Directors Stock Plan (the "Non-employee Directors Stock Plan"). In March 2005, the Company adopted and the Company's shareholders approved amendments to the Non-employee Directors Stock Plan. The Non-employee Directors Stock Plan authorizes the Board of Directors to pay all or a part of director fees, in the form of stock grants, to Board members who are not full-time employees of the Company. The Company has reserved 250,000 shares of common stock for issuance pursuant to awards under the Non-employee Directors Stock Plan. As of October 31, 2007, there were approximately 215,000 remaining shares available for grant under the Non-employee Directors Stock Plan.

During the years ended October 31, 2007, 2006 and 2005, restricted stock awards under the Non-employee Directors Stock Plan totaling 13,764, 8,000 and 7,000 shares, respectively, were approved by the Board of Directors of the Company. The shares vested immediately upon grant, but could not be sold, transferred, pledged, or otherwise encumbered or disposed of until six months after the date of the grant. The Company recorded compensation expense equal to the number of shares multiplied by the closing price of the Company's common stock on the date of grant. The Company recorded compensation expense totaling \$72,261, \$39,600 and \$31,850 during the years ended October 31, 2007, 2006 and 2005 respectively.

(10) Business and Credit Concentrations, Major Customers and Geographic Information

The Company has a single reportable segment for purposes of segment reporting. In addition, the Company's fiber optic cable products are similar in nature. Therefore, the Company has disclosed enterprise-wide information about geographic areas and major customers below.

The Company provides credit, in the normal course of business, to various commercial enterprises, governmental entities and not-for-profit organizations. Concentration of credit risk with respect to trade receivables is limited due to the Company's large number of customers. The Company also manages exposure to credit risk through credit approvals, credit limits and monitoring procedures. Management believes that credit risks as of October 31, 2007 and 2006 have been adequately provided for in the financial statements.

For the year ended October 31, 2007, 11.7%, or approximately \$5,331,000 of net sales were attributable to one major domestic distributor. No other single customer or distributor accounted for more than 10% of net sales for the year ended October 31, 2007. As of October 31, 2007, no single customer or distributor had an outstanding balance payable to the Company in excess of 5% of total shareholders' equity.

For the year ended October 31, 2006, 15.7%, or approximately \$7,092,000 of net sales were attributable to one major domestic distributor. No other single customer or distributor accounted for more than 10% of net sales for the year ended October 31, 2006. As of October 31, 2006, no single customer or distributor had an outstanding balance payable to the Company in excess of 5% of total shareholders' equity.

For the year ended October 31, 2005, 15.4%, or approximately \$7,076,000 of net sales were attributable to one major domestic distributor. No other single customer or distributor accounted for more than 10% of net sales for the year ended October 31, 2005. As of October 31, 2005, no single customer or distributor had an outstanding balance payable to the Company in excess of 5% of total shareholders' equity.

For the years ended October 31, 2007, 2006 and 2005, approximately 72%, 77% and 85%, respectively, of net sales were from customers located in the United States, while approximately 28%, 23% and 15%, respectively, were from customers outside of the United States. Net sales attributable to the United States and all other countries in total for the years ended October 31, 2007, 2006 and 2005 were as follows:

	Years ended October 31,		
	2007	2006	2005
United States	\$ 32,583,326	\$ 34,800,563	\$ 38,973,143
Outside the United States	12,919,379	10,529,834	6,925,404
Total net sales	<u>\$ 45,502,705</u>	<u>\$ 45,330,397</u>	<u>\$ 45,898,547</u>

No individual country outside the United States accounted for more than 10% of total net sales in fiscal years 2007, 2006 or 2005. In addition, none of the Company's long-lived assets are located outside the United States.

(11) Income Taxes

Income tax expense for the years ended October 31, 2007, 2006 and 2005 consists of:

Fiscal year ended October 31, 2007	Current	Deferred	Total
U.S. Federal	\$ 351,731	\$ 298,671	\$ 650,402
State	27,085	(12,159)	14,926
Totals	<u>\$ 378,816</u>	<u>\$ 286,512</u>	<u>\$ 665,328</u>

Fiscal year ended October 31, 2006	Current	Deferred	Total
U.S. Federal	\$ 294,079	\$(150,355)	\$ 143,724
State	23,267	(14,818)	8,449
Totals	<u>\$ 317,346</u>	<u>\$(165,173)</u>	<u>\$ 152,173</u>

Fiscal year ended October 31, 2005	Current	Deferred	Total
U.S. Federal	\$ 234,408	\$ 352,285	\$ 586,693
State	31,073	32,518	63,591
Totals	<u>\$ 265,481</u>	<u>\$ 384,803</u>	<u>\$ 650,284</u>

Reported income tax expense for the years ended October 31, 2007, 2006 and 2005 differs from the “expected” tax expense, computed by applying the U.S. Federal statutory income tax rate of 34% to income before income taxes as follows:

	Years ended October 31.		
	2007	2006	2005
“Expected” tax expense	\$ 652,108	\$ 170,954	\$ 619,542
Increase (reduction) in income tax expense resulting from:			
Benefits from extraterritorial income exclusion	(6,800)	(86,620)	(61,200)
State income taxes, net of federal benefit	9,851	5,576	41,970
Other differences, net	10,169	62,263	49,972
Reported income tax expense	<u>\$ 665,328</u>	<u>\$ 152,173</u>	<u>\$ 650,284</u>

The tax effects of temporary differences that give rise to significant portions of the Company’s deferred tax assets and deferred tax liabilities as of October 31, 2007 and 2006 are presented below:

	October 31.	
	2007	2006
Deferred tax assets:		
Accounts receivable, due to allowances for doubtful accounts and sales returns	\$ 126,159	\$ 128,651
Inventories, due to allowance for damaged and slow-moving inventories and additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986	412,876	332,076
Fair value of warrants, deductible for tax purposes when exercised	—	419,613
Liabilities recorded for loss contingencies, deductible for tax purposes when paid	29,136	97,832
Share-based compensation expense	174,593	70,372
Interest receivable	89,563	20,742
Other	1,076	9,171
Total gross deferred tax assets	<u>833,403</u>	<u>1,078,457</u>
Deferred tax liabilities:		
Plant and equipment, due to differences in depreciation and capital gain recognition	(515,769)	(491,581)
Other receivables, due to accrual for financial reporting purposes	(35,434)	(18,164)
Total gross deferred tax liabilities	<u>(551,203)</u>	<u>(509,745)</u>
Net deferred tax asset	<u>\$ 282,200</u>	<u>\$ 568,712</u>

Based on the Company’s historical and projected pretax earnings and other relevant factors, management believes that it is more likely than not that the Company’s deferred tax assets at October 31, 2007 will be realized.

(12) Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash and cash equivalents, trade accounts receivable, other receivables, and accounts payable and accrued expenses, including accrued compensation and payroll taxes, income taxes payable and note payable to bank, approximate fair value because of the short maturity of these instruments.

(13) Net Income Per Share

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

<u>Fiscal year ended October 31, 2007</u>	<u>Net income (numerator)</u>	<u>Shares (denominator)</u>	<u>Per share amount</u>
Basic net income per share	\$ 1,252,638	6,089,486	\$ 0.21
Effect of dilutive stock options and warrants	—	6,043	
Diluted net income per share	<u>\$ 1,252,638</u>	<u>6,095,529</u>	<u>\$ 0.21</u>

<u>Fiscal year ended October 31, 2006</u>	<u>Net income (numerator)</u>	<u>Shares (denominator)</u>	<u>Per share amount</u>
Basic net income per share	\$ 350,630	5,954,397	\$ 0.06
Effect of dilutive stock options and warrants	—	11,292	
Diluted net income per share	<u>\$ 350,630</u>	<u>5,965,689</u>	<u>\$ 0.06</u>

<u>Fiscal year ended October 31, 2005</u>	<u>Net income (numerator)</u>	<u>Shares (denominator)</u>	<u>Per share amount</u>
Basic net income per share	\$ 1,171,897	5,775,814	\$ 0.20
Effect of dilutive stock options and warrants	—	24,316	
Diluted net income per share	<u>\$ 1,171,897</u>	<u>5,800,130</u>	<u>\$ 0.20</u>

Stock options that could potentially dilute net income per share in the future that were not included in the computation of diluted net income per share (because to do so would have been antidilutive for the periods presented) totaled 199,457, 230,589 and 314,483 for the years ended October 31, 2007, 2006 and 2005, respectively.

(14) Shareholders' Equity

On March 26, 2007, the Company's Board of Directors approved a plan to purchase and retire up to 300,100 shares of the Company's common stock, or approximately 5% of the shares then outstanding. The Company anticipates that the purchases will be made over a 12-month period, but there is no definite time period for repurchase. As of October 31, 2007, the Company had repurchased and retired 141,273 shares of its outstanding common stock. The repurchase of these shares and the costs associated with the repurchase, including brokerage and legal fees, totaled \$722,515. As of October 31, 2007, 6,090,331 shares of the Company's common stock were outstanding.

On November 2, 2001, the Board of Directors of the Company adopted a Shareholder Rights Plan (the "Rights Plan") and declared a dividend of one preferred share purchase right (a "Right") on each outstanding share of common stock. Under the terms of the Rights Plan, if a person or group who is deemed an Acquiring Person as defined in the Rights Plan acquires 15% (or other applicable percentage, as provided in the Rights Plan) or more of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of shares of common stock having a market value of twice such price. In addition, if the Company is acquired in a merger or other business transaction after a person or group who is deemed an Acquiring Person has acquired such percentage of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value of twice such price.

Upon the occurrence of certain events, each Right will entitle its holder to buy one one-thousandth of a Series A preferred share (“Preferred Share”), at an exercise price of \$200, subject to adjustment. Each Preferred Share will entitle its holder to 1,000 votes and will have an aggregate dividend rate of 1,000 times the amount, if any, paid to holders of common stock. The Rights will expire on November 2, 2011, unless the date is extended or unless the Rights are earlier redeemed or exchanged at the option of the Board of Directors for \$0.0001 per Right. Generally, each share of common stock issued after November 5, 2001 will have one Right attached. The adoption of the Rights Plan has no impact on the financial position or results of operations of the Company.

The Company has reserved 100,000 of its authorized preferred stock for issuance upon exercise of the Rights.

(15) Contingencies

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

(16) New Accounting Standards

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

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

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

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”). SFAS 159 allows entities to measure

eligible financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Statement will be effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 159.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred to as the purchase method). Companies applying this method will have to identify the acquirer, determine the acquisition date and purchase price and recognize at their acquisition-date fair values the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree. In the case of a bargain purchase the acquirer is required to reevaluate the measurements of the recognized assets and liabilities at the acquisition date and recognize a gain on that date if an excess remains. SFAS 141(R) becomes effective for fiscal periods beginning after December 15, 2008. The Company is currently evaluating the impact of SFAS 141(R).

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51* ("SFAS 160"). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. In addition this statement establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS 160 becomes effective for fiscal periods beginning after December 15, 2008. The Company is currently evaluating the impact of SFAS 160.

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

As of December 31, 2007, there are no other new accounting standards issued, but not yet adopted by the Company, which are expected to be applicable to its financial position, operating results or financial statement disclosures.

(17) Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended October 31, 2007 and 2006:

<u>Fiscal year ended October 31, 2007</u>	<u>Quarter ended</u>			
	<u>January 31</u>	<u>April 30</u>	<u>July 31</u>	<u>October 31</u>
Net sales	\$ 9,276,329	\$ 11,132,925	\$ 11,693,947	\$ 13,399,504
Gross profit	2,975,994	4,069,029	4,701,497	5,423,285
Income (loss) before income taxes	(518,644)	370,462	852,689	1,213,459
Net income (loss)	(331,985)	236,762	537,719	810,142
Basic and diluted net income (loss) per share	(0.06)	0.04	0.09	0.13

<u>Fiscal year ended October 31, 2006</u>	<u>Quarter ended</u>			
	<u>January 31</u>	<u>April 30</u>	<u>July 31</u>	<u>October 31</u>
Net sales	\$ 9,870,320	\$ 11,239,276	\$ 11,579,575	\$ 12,641,226
Gross profit	3,296,375	3,400,665	3,976,499	4,748,606
Income (loss) before income taxes	(342,281)	(482,158)	278,621	1,048,621
Net income (loss)	(219,513)	(309,210)	127,974	751,379
Basic and diluted net income (loss) per share	(0.04)	(0.05)	0.02	0.13

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Optical Cable Corporation:

We have audited the accompanying balance sheets of Optical Cable Corporation as of October 31, 2007 and 2006, and the related statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended October 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Optical Cable Corporation as of October 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, on November 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment".

/s/ KPMG LLP

Roanoke, Virginia
January 28, 2008

Optical Cable Corporation

Management's Statement of Responsibility

Management of the Company is responsible for the preparation and fair presentation of the financial statements and other financial information contained in this report. The accompanying financial statements were prepared in conformity with U.S. generally accepted accounting principles and include, as necessary, best estimates and judgments by management. Other financial information contained in this annual report is presented on a basis consistent with the financial statements unless otherwise indicated.

To ensure the integrity, objectivity and fairness of the information in these financial statements, management of the Company has established and maintains internal controls. The internal controls are designed to provide reasonable assurance that assets are safeguarded and transactions are executed, recorded and reported in accordance with management's intentions and authorizations and to comply with applicable laws and regulations. The internal control system includes an organizational structure that provides appropriate delegation of authority and segregation of duties and management review. To enhance the reliability of internal controls, management recruits and trains highly qualified personnel, and maintains sound risk management practices.

There are inherent limitations in any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

The accompanying financial statements have been audited by KPMG LLP, independent registered public accounting firm, in accordance with the standards of the Public Company Accounting Oversight Board (United States). In planning and performing its financial statement audit, KPMG LLP considered the Company's internal controls in order to determine the nature, timing and extent of its audit procedures for the purpose of expressing an opinion on the financial statements. An audit of the financial statements does not include examining the effectiveness of internal controls and does not provide assurance on internal controls. KPMG LLP reviews the results of its audit with both management and the Audit Committee of the Board of Directors (the "Audit Committee").

The Company's financial reporting and internal controls are under the general oversight of the Board of Directors, acting through the Audit Committee. The Audit Committee meets periodically with management and KPMG LLP, and KPMG LLP has direct and unrestricted access to the Audit Committee at all times. The Audit Committee determines that management is fulfilling its responsibilities and supports actions to identify, measure and control risks and augment internal controls.

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.

President & Chief Executive Officer

January 28, 2008

/s/ Tracy G. Smith

Tracy G. Smith

Vice President & Chief Financial Officer

Corporate Information

Corporate Headquarters

Optical Cable Corporation
5290 Concourse Drive
Roanoke, VA 24019

Legal Counsel

Woods Rogers PLC
10 South Jefferson Street
Suite 1400
Roanoke, VA 24011

and

McGuireWoods LLP
One James Center
901 East Cary Street
Richmond, VA 23219

Independent Registered Public Accounting Firm

KPMG LLP
10 South Jefferson Street
Suite 1710
Roanoke, VA 24011

Transfer Agent

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038

Form 10-K Report

Shareholders may obtain, without charge, a copy of Optical Cable Corporation's Form 10-K, including exhibits, as filed with the Securities and Exchange Commission. Write to Optical Cable Corporation, P.O. Box 11967, Roanoke, VA 24022-1967, attention Ms. Tracy G. Smith, Corporate Secretary. Additionally, our SEC filings are available to the public on the SEC Internet site (<http://www.sec.gov>).

Annual Meeting

The 2008 annual meeting of shareholders will be held at 10:00 a.m. on Tuesday, March 25th, 2008, at the Hotel Roanoke & Conference Center, 110 Shenandoah Avenue, Roanoke, Virginia.

Corporate Information

Common Stock and Dividend Data

Our common stock is traded on the Nasdaq Global Market under the symbol OCCF. As of October 31, 2007 and December 31, 2007, there were approximately 3,700 and 3,600 shareholders of record, respectively. On January 23, 2008, our common stock closed at a price of \$3.70 per share.

The following table sets forth for the fiscal periods indicated the high and low bid prices of our common stock, as reported on the Nasdaq Global Market, during the two most recent fiscal years:

<u>Fiscal year ended October 31, 2007</u>	<u>Range of Bid Prices</u>	
	<u>High</u>	<u>Low</u>
First Quarter	\$ 6.00	\$ 4.25
Second Quarter	\$ 5.97	\$ 4.52
Third Quarter	\$ 5.45	\$ 4.57
Fourth Quarter	\$ 5.20	\$ 4.40

<u>Fiscal year ended October 31, 2006</u>	<u>Range of Bid Prices</u>	
	<u>High</u>	<u>Low</u>
First Quarter	\$ 6.39	\$ 5.10
Second Quarter	\$ 6.48	\$ 4.46
Third Quarter	\$ 5.16	\$ 3.69
Fourth Quarter	\$ 5.83	\$ 3.41

We have not paid or declared any cash dividends on our common stock since our initial public offering in 1996 and do not expect to pay any cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business.

Corporate Information

Executive Officers of Optical Cable Corporation

Neil D. Wilkin, Jr.	Chairman of the Board, President and Chief Executive Officer
Luke J. Huybrechts	Senior Vice President of Operations
Tracy G. Smith	Vice President and Chief Financial Officer

Board of Directors of Optical Cable Corporation

Randall H. Frazier	President and Founder R. Frazier, Incorporated
John M. Holland	Principal and Founder Holland Technical Services
Luke J. Huybrechts	Senior Vice President of Operations Optical Cable Corporation
Craig H. Weber	Managing Partner Hollymeade Group, LLC
Neil D. Wilkin, Jr.	Chairman of the Board, President and Chief Executive Officer Optical Cable Corporation
John B. Williamson, III	Chairman of the Board, President and Chief Executive Officer RGC Resources, Inc.

Optical Cable Corporation

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Optical Cable Corporation:

We consent to the incorporation by reference in Registration Statement No. 333-09433 on Form S-8, Registration Statement No. 333-103108 on Form S-3, Registration Statement No. 333-115575 on Form S-8, and Registration Statement No. 333-128163 on Form S-8 of Optical Cable Corporation of our report dated January 28, 2008, with respect to the balance sheets of Optical Cable Corporation as of October 31, 2007 and 2006, and the related statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended October 31, 2007, which report is incorporated by reference in the October 31, 2007 Annual Report on Form 10-K of Optical Cable Corporation. Our report refers to the Company's adoption of Statement of Financial Accounting Standards No. 123(R) "Share-Based Payment" on November 1, 2005.

/s/ KPMG LLP

Roanoke, Virginia
January 28, 2008

CERTIFICATION

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

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

Date: January 29, 2008

/s/ Neil D. Wilkin, Jr.

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

CERTIFICATION

I, Tracy G. Smith, certify that:

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

Date: January 29, 2008

/s/ Tracy G. Smith

Tracy G. Smith
Vice President and Chief Financial Officer
Optical Cable Corporation

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

In connection with the Annual Report of Optical Cable Corporation (the "Company") on Form 10-K for the year ended October 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of October 31, 2007, and for the period then ended.

/s/ Neil D. Wilkin, Jr.

Neil D. Wilkin, Jr.

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

January 29, 2008

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

In connection with the Annual Report of Optical Cable Corporation (the "Company") on Form 10-K for the year ended October 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company as of October 31, 2007, and for the period then ended.

/s/ Tracy G. Smith

Tracy G. Smith

Vice President and Chief Financial Officer

January 29, 2008